

Commercial and Operational Update on KALiNA's Alberta Program

KALiNA Power Limited ("KALiNA" or the "Company") (ASX:KPO), provides the following commercial and operational update to shareholders on the activities of its wholly owned Canadian subsidiary, KALiNA Distributed Power ("KDP").

KDP has completed a major project development and design optimization for its projects in Alberta and is now positioned to raise \$300 million in funding for ongoing project development and financing of its initial five power plants. KDP's clean energy, distributed power generation strategy has been structured to pursue a financially attractive and large addressable market, projected to generate double-digit, unlevered rates of return.

The Company is targeting to achieve a portfolio of ten 22 MW combined cycle power plants that will provide clean energy at one of the lowest emission levels of its peer group. Each plant will be configured with a 15 MW gas-fired turbine combined with a 7 MW KALiNA Cycle® power island ("KALiNA CCGT").

Drivers for Distributed Clean Energy in Alberta

KDP's distributed generation strategy is well-positioned to benefit from legislation in Alberta requiring 5.7 GW of coal-fired generation to be retired by 2029. There is no universally accepted plan for the replacement of the coal-based power generation plants being retired. While the previous Alberta New Democratic Party government had proposed a capacity market with first auctions in late 2019, this initiative was recently canceled by the incoming Alberta United Conservative Party government.

Legislative uncertainty in the past two years has contributed to a reluctance by large electricity generators to commit to projects in Alberta and this environment of uncertainty is expected to continue. The result has been a near tripling (3x) of Alberta energy prices since 2017. Long-range price forecasts indicate significant increases which are further supported by Alberta's high industrial power demand for large projects in the petrochemical and oil sands sectors. All this is occurring at the same time the federal government has announced a legislative push for significant additional carbon taxes on projects larger than 50 MW.

KDP's strategy is to exploit Alberta's growth in demand for power that is not being met from new, large scale generation due to the ongoing legislative uncertainty in the province. Each KDP project will assist the province in meeting its goals to reduce carbon dioxide emissions. The projects have been designed at an appropriate scale and engineered to be deployed at specific locations rapidly. These benefits enable KDP to take advantage of distribution tariff incentives that provide fixed revenues at attractive prices for small and local power generation units less than 25 MW. These tariffs have been in place for 15 years and have been supported by recent Alberta governments.

KDP Advancing Commercial Projects in Alberta

KDP developed a comprehensive site assessment and evaluation process to review a number of potential sites. This evaluation process and site selection has been reviewed and further developed with several blue-chip consultants and specialist engineering firms based in Alberta. All potential sites have been ranked, based on key criteria, including:

- 1.) Access to gas and electrical interconnect points;
- 2.) Land use, easements and permit assessments;
- 3.) Environmental and or noise restrictions;
- 4.) Potential for off market gas supply direct from local gas producers.

Five sites have been selected and prioritized for development and KDP has recently contracted with the local utility, ATCO Ltd. to confirm industrial load requirements and profiles at each site. ATCO Ltd. is a major power utility headquartered in Calgary, Alberta with over 500 employees. ATCO Ltd. develops, builds, and operates independent power generation facilities primarily in Alberta, British Columbia, Saskatchewan, and Ontario, Canada. Additionally, ATCO Ltd. has a strong reputation for providing industry leading, reliable, responsible and cost-effective and environmentally progressive independent power solutions.

After securing site control for the initial site (announced on 9 April 2019) KDP was able to negotiate with the vendor to swap for a superior site at a nearby location. This site has better interconnection and cost advantages and the settlement of the purchase has been extended until late in Q4 2019. KDP continues to work towards securing site control for the additional four sites in order to establish a strong and sizable portfolio of projects.

Advanced Engineering Supported by Best-in-Class Third Parties

KDP has sourced and prioritized key, major international equipment vendors and can confirm that indicative pricing is in-line with the Company's expectations. Bid packages will be sent out to key vendors which will allow KDP to confirm final cost estimates and contracting arrangements.

To achieve best-in-class cost estimating, KDP set out to receive cost estimates using two different construction methods. KDP received cost estimates using a conventional construction method, provided by Phoenix North Constructors Inc. (an affiliate of Quanta Services (NYSE: PWR, market cap: US\$5 billion). KDP has also received a cost estimate from Allardyce Bower Consulting (private), a leading Alberta based engineering firm, who are specialists in engineering construction projects that utilize modularization and pre-fabrication. Their method involves constructing modules for each plant at a controlled offsite environment after which the completed modules are shipped to the site where they can be assembled efficiently and relatively fast.

These separate cost estimates are within 20% of each other validating the integrity and quality of the project costing and financial modelling assumptions developed by KDP.

KALiNA is very pleased with progress it has made regarding the potential site acquisitions and site development, cost estimation, budgeting, and major component selection processes. This progress has resulted in a well-optimized power plant design package with a solid understanding of costs and schedules including:

- Preliminary engineering, initial design-based memorandum, and cost estimating;
- Evaluation and negotiation with key vendors of major equipment;
- Close engagement with partners for engineering, construction, and deployments;
- A comprehensive work plan has been developed with key regulatory consultants for ongoing site identification, evaluation, and market analysis;
- Identification of financial drivers, merchant energy pricing forecasts sourced from EDC, the pre-eminent Alberta power market forecaster and non-market revenues;
- Development of base case and optimized scenarios for fuel pricing and risk management strategies.

Project Financing Strategy

This comprehensive data and analysis have been used to generate a comprehensive financial model which confirms attractive, double-digit unlevered rates of return, superior to those generally seen in the renewable energy sector.

The top five priority sites represent over CA\$300 million of investment for the KALiNA CCGT projects. Future opportunities identified in the pipeline thus far represent over CA\$600 million of additional projects. The financial returns are believed to be sufficient to provide for ongoing royalty payments to KPO, a development fee, as well as a carried equity interest for KDP in each project.

The project information and detailed materials are being compiled to project finance investor standards. This data sets out the information and opportunity on which funds are to be raised for a specific individual project or a portfolio of projects. Financing may also include investment in KDP, the project development company in Alberta. The portfolio of projects being assembled are ready to be deployed at a rate and time commensurate with the level of funding available resulting from the upcoming funding. KALiNA is looking forward to updating the market on continued developments at the appropriate time.

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