

KALINA POWER LIMITED

ACN 000 090 997

SUPPLEMENTARY PROSPECTUS

IMPORTANT NOTICE

This Supplementary Prospectus is dated 23 August 2016 and is supplementary to the Prospectus issued by Kalina Power Limited (Kalina) dated 2 August 2016 in relation to a non-renounceable pro rata rights issue (**Prospectus**).

This Supplementary Prospectus was lodged with ASIC on 24 August 2016. ASIC takes no responsibility for the content of this Supplementary Prospectus.

This Supplementary Prospectus must be read together with the Prospectus. If there is a conflict between the Prospectus and this Supplementary Prospectus, this Supplementary Prospectus will prevail.

Terms defined in the Prospectus have the same meaning when used in this Supplementary Prospectus.

1. Underwriting Agreement with Harrington Global Limited

Harrington Global Limited entered into an Underwriting Agreement with the Company on 1 August 2016 in relation to the Offer. After discussions with ASIC, it has been agreed that Shareholder approval will be sought for the acquisition by Harrington of any Shortfall Shares in excess of those which Harrington may take up in accordance with item 9 of section 611 of the Corporations Act. (The Corporations Act prohibits a shareholder holding voting power of more than 20% in a listed company from increasing its voting power, except in certain circumstances. Item 9 allows such a Shareholder to increase its voting power by not more than 3% above that which it held 6 months earlier).

Harrington will be able to apply, without shareholder approval, for a maximum of approximately 24,742,600 shares (\$1,237,130) assuming only the minimum subscription is raised, taking its voting power from the 24.7% it held 6 months ago to 27.6%. The actual number of Shares which Harrington will be able to apply for will depend on whether the minimum subscription is satisfied or exceeded, and if the minimum subscription is not satisfied, whether Pan Andean decides to waive the minimum subscription condition. The maximum number of shares for which shareholder approval may subsequently be sought to enable Harrington to satisfy its underwriting obligation is approximately 25,257,380 (\$1,262,869), based on only the minimum subscription being raised by the Offer, and the underwriting by Pan Andean. In the event the Shortfall Shares are placed and the \$1,050,000 placement is completed prior to the date of the Notice of Meeting to seek Shareholder approval, the number of shares for which approval may need to be sought will be reduced.

In no circumstance will Harrington's voting power increase beyond 27.6% without Shareholder approval.

In addition to the approval for the issue of the shares to Harrington, the Company will seek Shareholder approval for the exercise of the Options that will be issued to Harrington under the terms of the Offer.

2. *Proposed Grant of Options to Harrington Global Limited*

The Company will seek Shareholder approval to grant 17,500,000 options exercisable at \$0.05 cents each until 28 April 2017 (the "Options"). Pursuant to the Corporations Act and the ASX Listing Rules, shareholder approval will be sought for the Options at the AGM of the Company to be held in November.

The exercise price of the Options represents the same price as the options to be issued under the Rights Issue and placement, although with a shorter exercise period.

The board proposes to grant these options in consideration of the continued support of the Company demonstrated by Harrington as the Company's largest shareholder. The support provided by Harrington has allowed the Group to progress with its re-alignment of focus and business plans and includes:

- Underwriting the Company's Rights Issue when sufficient external underwriting could not be obtained.
- Providing a \$2,500,000 loan to the Company ahead of this underwriting commitment.
- Extending the time under the loan agreement in which the Rights Issue was to be completed on multiple occasions to allow the Rights Issue to proceed.

3. *Updated Timetable*

The updated timetable to include Shareholder approval for the placement of up to approximately 25,257,380 Shortfall shares with Harrington is:

Closing date for receipt of acceptances and payment	1 September 2016
Shares and Options quoted on ASX on deferred settlement basis	2 September 2016
Shortfall notification date to ASX	6 September 2016
Issue of Offer shares and Options (other than those to Harrington requiring Shareholder approval)	8 September 2016
Deferred settlement trading ends	8 September 2016
Issue of Shortfall shares and Options to Harrington requiring Shareholder approval	28 November 2016
Closing date by which the Shortfall shares remaining after the Offer has completed may be placed by the directors	30 November 2016

The Company reserves the right to extend the Closing Date, in which case subsequent dates will alter accordingly. The ASX Listing Rules require at least 3 Business Days' notice to be given of any extension to the Closing Date.

4. *First Right of Refusal to Place Shortfall*

As announced to the ASX on 1 August 2016, Hartleys Limited (Hartleys) has a first right of refusal to place the first \$1,050,000 of any Shortfall. Hartleys will receive a fee of 6% of the amount raised by any Shortfall placed by it.

5. *Proposed Issue of Options to Key Management, including Directors*

The Company will seek Shareholder approval to grant 45,405,000 options, which will represent 10% of the fully diluted capital of the Company, vesting on grant and exercisable at \$5.5 cents each for a period of 3 years (the “Options”). Pursuant to the Corporations Act and the ASX Listing Rules, Shareholder approval will be sought for the Options at the AGM of the Company to be held in November.

The exercise price of the Options represents a 10% premium to the Rights Issue and placement price of 5c.

The new Options granted will represent 10% of the fully diluted capital of the Company on the basis each of the Rights Issue and placement are completed. In the event the placement is not completed or the Rights Issue, including placement of any Shortfall, raises less than the total amount of \$5.5 million, the number of new Options will be reduced so that the number of new Options will not exceed 10% of the Company's capital. Any such adjusted amount will be reflected in the Notice of Meeting issued in relation the AGM.

Mr Ross MacLachlan, currently an executive director, is proposed to be appointed to the role of CEO upon completion of the fundraisings and is proposed to receive 23,300,000 Options.

Mr Timothy Horgan, an executive director, is proposed to receive 7,800,000 Options.

Mr Jeffry Myers, the proposed non-executive director, is proposed to receive 5,200,000 Options.

Mr John Byrne, the current chairman of the Company, is proposed to receive 2,600,000 Options.

Dr Malcolm Jacques, a non-executive director, is proposed to receive 1,000,000 Options

Other Key Personnel are proposed to receive a total of 5,505,000 Options.

6. *Updates to the Prospectus*

6.1 **Section 1**

Page 6 – Delete the last paragraph of the Letter to Shareholders and replace it with:

“The Offer is currently underwritten to a maximum of \$3,350,000, of which up to \$1,262,869 of the underwriting by Harrington is subject to Shareholder approval. The directors are in discussions with investors to underwrite the balance of the Offer or to participate in the placement of any potential Shortfall. Hartleys has a first right of refusal to place the first \$1,050,000 of any Shortfall.”

6.2 **Section 2**

Loan Agreement - Page 15 - Delete the last paragraph and replace it with:

“The underwriting by Harrington is conditional on at least 18,000,000 Offer shares (\$900,000) being subscribed for, less any amount underwritten by other parties on the same terms as the Offer. This \$900,000 is in addition to the amount of \$850,000 underwritten by Pan Andean Capital. The Harrington underwriting is further subject to Shareholder approval for Harrington to subscribe for more than \$1,237,130 of the Shortfall (See section 4.13).

6.3 Section 2

Key Offer Statistics

The table in section 2 on page 19 of the Prospectus headed “Key Offer Statistics” is updated as follows:

Key Offer Statistics											
Offer price per Share	\$0.05										
Existing Shares	148,335,253 Ordinary Shares										
Existing Options	21,928,767 options exercisable at \$0.10 on or before 30 September 2016 140,000 options exercisable at \$0.075 on or before 15 June 2017 7,500,000 options exercisable at \$0.05 on or before 30 August 2017 21,600,000 options exercisable at \$0.11 on or before 30 June 2018										
Shares and Options offered under this Prospectus	111,251,440 Ordinary Shares with 55,625,720 attaching options										
Total issued Shares at conclusion of the offer	259,586,693 Ordinary Shares										
Market Capitalisation at the offer price	\$12,979,335										
ASX Listed Options on issue*	63,125,720 exercisable at \$0.05 on or before 30 August 2017										
Unlisted Options on issue	21,928,767 @ \$0.10 21,600,000 @ \$0.11 140,000 @ \$0.075 45,405,000 @ \$0.055*										
Funds and Use of Proceeds	<p>The Company intends to use the funds raised from the Offer as follows:</p> <table> <tbody> <tr> <td>Offer expenses including cost of the Prospectus</td> <td style="text-align: right;">\$210,000</td> </tr> <tr> <td>Repayment of Harrington Debt[#]</td> <td style="text-align: right;">\$2,500,000</td> </tr> <tr> <td>Investment in Subsidiary (NEA)</td> <td style="text-align: right;">\$700,000</td> </tr> <tr> <td>Additional Working Capital**</td> <td style="text-align: right;">\$2,152,572</td> </tr> <tr> <td>Total (AUD)</td> <td style="text-align: right;">\$5,562,572</td> </tr> </tbody> </table> <p>[#] Harrington has underwritten \$2,500,000 of the Offer, subject as to part to Shareholder approval. If the Harrington loan, the funds from which were received in January 2016 is not fully offset against its underwriting obligation, or Shareholder approval is not obtained, any amount not offset will be repaid in cash.</p> <p>*This represents the proposed issue of options to Key Personnel, including to directors that is subject to shareholder approval.</p> <p>**The above use of funds assumes full subscription. The directors reserve the right to place any Shortfall and the above is based on the assumption any Shortfall is placed. In addition the directors intend to place a further \$1,050,000 (21,000,000 shares) on the same terms as the Offer. In this event the working capital available to the Company would increase to approximately \$3,800,000 inclusive of the current cash balance in the Company.</p>	Offer expenses including cost of the Prospectus	\$210,000	Repayment of Harrington Debt [#]	\$2,500,000	Investment in Subsidiary (NEA)	\$700,000	Additional Working Capital**	\$2,152,572	Total (AUD)	\$5,562,572
Offer expenses including cost of the Prospectus	\$210,000										
Repayment of Harrington Debt [#]	\$2,500,000										
Investment in Subsidiary (NEA)	\$700,000										
Additional Working Capital**	\$2,152,572										
Total (AUD)	\$5,562,572										

6.4 Section 4

Section 4.13 Underwriting

Section 4.13 on Page 26 is deleted and replaced with the following:

“The Issue is underwritten as to \$ \$3,350,000 (67,000,000 shares). Of this \$2,500,000 (50,000,000 shares) is underwritten by Harrington Global Limited, the investment manager for the largest beneficial shareholder of the Company. A further \$850,000 (17,000,000 shares) is underwritten by Pan Andean Capital Pty Limited, a substantial shareholder in the Company. The Company anticipates further amounts may be underwritten prior to the Closing date.

Conditions

The obligations of the Underwriters is in each case conditional on the Company receiving Applications for not less than 18,000,000 shares or such lesser number as reduced by further underwriting of the Offer secured by the Company by the Shortfall Date.

The Harrington Underwriting agreement provides that should Shareholder approval be required for the issue of any part of the Shortfall shares to Harrington, such issue to Harrington will only be made on receipt of such Shareholder approval. Approval may be required for the issue of up to 25,257,382 Shortfall shares, (based on only the minimum subscription being raised by the Offer, and the underwriting by Pan Andean) at the Company’s AGM to be held in November 2016. The final number of shares for which approval may be sought will depend on the number of shares issued by the Company under the Offer, the Shortfall and any placement by the Company prior to the date of issue of the Notice of Meeting for the Company’s AGM (see section 5.3 below).

Each underwriting agreement otherwise contains standard termination clauses which allow the Underwriters to terminate their agreement in the circumstances specified.

6.5 Section 5

Capital Structure & Effect of the Issue

The table on page 28 is updated to include the line under **Options (unquoted)**

45,405,000 exercisable at 5.5 cents each until 30 November 2019. (The issue of these options is subject to shareholder approval to be sought at the Company’s AGM).

5.2 Effect of the Offer. The first paragraph on page 29 is updated to amend the expenses of the Offer by deleting “\$320,000” and replacing it with “\$210,000”

5.3 Effect of the Offer on control of the Company.

Delete the section and replace it with the following:

As the Offer is being made as a pro-rata rights issue on a 3 for 4 basis, the maximum number of new Ordinary shares which may be issued under the Offer represents 75% of the share capital of the Company currently on issue. Accordingly, the Offer could have a material effect on the control of the Company.

By way of example, the most significant effect which the Offer could have on the control of the Company would occur if Harrington Global Limited was able to participate, with Shareholder approval, to the full extent of its underwriting as discussed below.

Harrington, in its capacity as investment manager of Harrington Global Opportunities Fund S.a.r.l (HGOF), has underwritten the Offer to the extent of \$2,500,000 (50,000,000 shares). (Harrington and HGOF are subsequently in this section collectively referred to as Harrington).

Harrington, currently has, and had 6 months ago, voting power in the Company of 24.7% (This will be reduced to 22.1% as a result of the placement of 15,000,000 Shares announced by the Company on 1 August 2016.)

The number of shares Harrington is permitted to take up without Shareholder approval will vary depending on the number of shares taken up under the Offer, under the Placement and the number of Shortfall shares taken by other persons.

However, in no case will Harrington's voting power in Kalina increase beyond 27.6% without Shareholder approval.

Pan Andean Capital Pty Ltd, (Pan Andean) a company not associated with Harrington, has underwritten the Offer to the extent of \$850,000 (17,000,000 Shares). Pan Andean currently holds 10,958,900 Shares.

Pan Andean will take Shares from any shortfall in priority to Harrington.

The underwriting agreements for both Harrington and Pan Andean are conditional on at least 18,000,000 Shares (\$900,000) being subscribed for (minimum subscription) by Shareholders, or subsequently being placed from the Shortfall.

If the minimum subscription only is achieved, Pan Andean will take 17,000,000 shares of the Shortfall, and Harrington will be able to take up approximately 24,742,600 shares (\$1,237,130).

Harrington's voting power would then increase from 22.1% to 27.6%, while Pan Andean would have voting power of 13.4%.

Harrington would then seek Shareholder approval to take up a further 25,257,380 shortfall shares (\$1,262,869), which, if approved, would give Harrington voting power of 35.5%, which is the maximum voting power Harrington could obtain in accordance with its underwriting commitment.

If Shareholders take up shares under the Offer in excess of the minimum subscription, or if third parties subscribe for Shortfall shares and the Placement is completed before the issue of the Notice of Meeting seeking Shareholder approval for Harrington to take up further shares, the number of shares for which approval is sought will be less than shown above.

6.6 Section 9

The table in section 9 on pages 35 and 36 of the Prospectus headed "Continuous Disclosure Obligations" is amended by adding the following 5 announcements made since the date of the Prospectus to the foot of the table:

Date	Headline
5 August 2016	Cleansing Notice
8 August 2016	Notice of General Meeting/Proxy form
8 August 2016	Letter re Notice of General Meeting
11 August 2016	Posting of Prospectus and Entitlement Form
16 August 2016	Proposed Grant of Options to Key Personnel
23 August 2016	Proposed Grant of Options to Harrington

Expenses of the Offer

The estimated expenses of the Offer (excluding GST) on page 39 are deleted and replaced with the following:

ASIC fees	\$2,320
Printing, mailing and other expenses	\$20,000
ASX fees	\$25,649
Legal fees	\$35,000
Pan Andean Underwriting Fee	\$51,000
Harrington Underwriting fee	\$75,000
Miscellaneous	\$1,031
Total	\$210,000

If additional underwriters are secured, further underwriting fees of 6% of the underwritten amounts will be payable, to a maximum of \$132,755 if the balance of the Shortfall is underwritten.

DIRECTORS' AUTHORISATION

This supplementary Prospectus is issued by Kalina and its issue has been authorised by a resolution of the Directors. In accordance with section 720 of the Corporations Act, each director and the proposed director has consented to the lodgement of this Supplementary Prospectus with ASIC.

Mr Timothy Horgan
For and on behalf of
KALiNA Power Limited