KALINA POWER LIMITED

ACN 000 090 997

NOTICE OF ANNUAL GENERAL MEETING

TIME: 11.30am (AEDST)

DATE: 15 December 2016

PLACE: Level 25, Bourke Place, 600 Bourke Street, Melbourne, VIC, 3000

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Executive Chairman or Company Secretary on (03) 9236 2800.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The Annual General Meeting of the Shareholders of Kalina Power Limited to which this Notice of Meeting relates will be held at 11.30 am (AEDST) on 15 December 2016 at:

Level 25, Bourke Place, 600 Bourke Street, Melbourne, VIC, 3000

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important.

VOTING IN PERSON

To vote in person, attend the Annual General Meeting on the date and at the place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the proxy form enclosed and send the proxy form:

(a) by post to Kalina Power Limited, Level 1, 114-116 Auburn Road, Hawthorn, VIC 3122;

or

(b) by facsimile to the Company on facsimile number +61 3 9818 3656,

so that it is received not later than 11.30 am (AEDST) on 13 December 2016.

Proxy forms received later than this time will be invalid.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders of Kalina Power Limited will be held at Level 25, Bourke Place, 600 Bourke Street, Melbourne, VIC, 3000, at 11.30 am (AEDST) on 15 December 2016.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the proxy form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders of the Company at 11.30am on 13 December 2016.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

BUSINESS

ADOPTION OF THE ANNUAL FINANCIAL REPORT

To receive the Annual Financial Report, including Directors' declarations and accompanying reports of the Directors and auditors for the financial year ended 30 June 2016.

1. RESOLUTION 1 – ADOPTION OF THE REMUNERATION REPORT

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> *"That, for the purposes of Section 250R(2) of the Corporations Act and for all other purposes, approval is given to the adoption of the Remuneration Report as contained in the Company's financial report for the year ended 30 June 2016."*

Short Explanation: The vote on this resolution is advisory only and does not bind the Directors or the Company.

Voting Exclusion:

Resolution 1 is directly connected with the remuneration of members of the key management personnel of the Company. Accordingly, the Company will disregard any votes cast (in any capacity) on Resolution 1 either:

- by or on behalf of any member of the key management personnel whose remuneration details are included in the Remuneration Report;
- by a closely related party of such key management personnel; and
- by any proxy for a member of the key management personnel or a closely related party of the key management personal.

unless the vote is cast as a proxy for a person entitled to vote:

- in accordance with a direction on the proxy form; or
- by the Chairman of the meeting pursuant to an express authorisation in the proxy form to exercise the proxy as the Chairman sees fit, even though Resolution 1 is connected with the remuneration of a member of the key management personnel.

2. RESOLUTION 2 – RE-ELECTION OF A DIRECTOR

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

> *"That Mr John Byrne, a director of the Company who retires by rotation in accordance with clause 75.1 of the Constitution, and being eligible, is re-elected as a director of the Company."*

3. RESOLUTION 3 – ELECTION OF A DIRECTOR – MR JEFFRY MYERS

To consider and, if thought fit, to pass the following resolution as an **ordinary resolution**:

> *"That, Mr Jeffry Myers, a director of the Company who retires in accordance with clause 71.2 of the Constitution and, being eligible, is elected as a Director of the Company."*

4. RESOLUTION 4A – APPROVAL OF ISSUE OF SHARES

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution:**

> *"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a relevant interest in the Company's voting shares arising from the allotment and issue by the Company of 3,588,010 Shares to Harrington Global Opportunities Fund SARL (**Harrington**) on the terms and conditions set out in the Explanatory Statement; and*
>
> *That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a deemed relevant interest in the shares referred to in this resolution 4A above by the associates of Harrington named in the Explanatory Statement."*

5. RESOLUTION 4B – APPROVAL OF ISSUE OF SHARES ON EXERCISE OF OPTIONS

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution:**

> *"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for, subject to Resolution 5 being passed, the acquisition of a relevant interest in the Company's voting shares as a result of the allotment and issue by the Company of 19,294,000 Shares to Harrington upon exercise of the Options issued pursuant to Resolution 5; and*
>
> *That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a deemed relevant interest in the shares referred to in this resolution 4B above by the associates of Harrington named in the Explanatory Statement."*

6. RESOLUTION 4C – APPROVAL OF ISSUE OF SHARES AND ISSUE OF SHARES ON EXERCISE OF OPTIONS

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution:**

> *"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a relevant interest in the Company's voting shares as a result of the allotment and issue by the Company of 24,934,055 Shares to Harrington upon exercise of that number of Options held by Harrington at the date of this Notice; and*
>
> *That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a deemed relevant interest in the shares referred to in this resolution 4C above by the associates of Harrington named in the Explanatory Statement."*

Voting Exclusion:

1. No votes may be cast in favour of Resolutions 4A, 4B or 4C by Harrington and any of its associates.

2. The Company will disregard any votes cast on Resolutions 4A, 4B or 4C by Harrington and any of its associates and by any person who might obtain a benefit from the proposed issue, expect a benefit solely in the capacity of a holder of Ordinary Securities, if the resolution is passed. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. RESOLUTION 5 – ISSUE OF NEW OPTIONS

To consider, and if thought fit, with or without amendment to pass the following resolution as an **ordinary resolution:**

> *"That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the issue by the Company of 19,294,000 Options to Harrington, each Option exercisable into one Share at an exercise price of 5 cents per Option and otherwise on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion:

1. No votes may be cast in favour of Resolution 5 by Harrington and any of its associates.

2. The Company will disregard any votes cast on Resolution 5 by Harrington and any of its associates and by any person who might obtain a benefit from the proposed issue, expect a benefit solely in the capacity of a holder of Ordinary Securities, if the resolution is passed. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

8. RESOLUTION 6 – GRANT OF OPTIONS TO TIMOTHY HORGAN

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That for the purposes of Chapter 2E of the Corporations Act, ASX Listing Rule 10.11, and for all other purposes, approval is given to the grant to Mr Timothy Horgan of 7,800,000 Options exercisable at 5.5 cents per share on or before 30 November 2019, and otherwise on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: A vote must not be cast (in any capacity) on Resolution 6 by or on behalf of:

(a) Timothy Horgan; and

(b) an associate of Timothy Horgan.

However a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution, and if it is not cast on behalf of Timothy Horgan or an associate of Timothy Horgan.

9. RESOLUTION 7 – GRANT OF OPTIONS TO JOHN BYRNE

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That for the purposes of Chapter 2E of the Corporations Act, ASX Listing Rule 10.11, and for all other purposes, approval is given to the grant to Mr John Byrne of 2,600,000 Options exercisable at 5.5 cents per share on or before 30 November 2019, and otherwise on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: A vote must not be cast (in any capacity) on Resolution 7 by or on behalf of:

(a) John Byrne; and

(b) an associate of John Byrne.

However a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution, and if it is not cast on behalf of John Byrne or an associate of John Byrne

10. RESOLUTION 8 – GRANT OF OPTIONS TO (JOHN) ROSS MACLACHLAN

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That for the purposes of Chapter 2E of the Corporations Act, ASX Listing Rule 10.11, and for all other purposes, approval is given to the grant to Mr John Ross MacLachlan of 23,300,000 Options exercisable at 5.5 cents per share on or before 30 November 2019, and otherwise on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: A vote must not be cast (in any capacity) on Resolution 8 by or on behalf of:

(a) Ross MacLachlan; and

(b) an associate of Ross MacLachlan.

However a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution, and if it is not cast on behalf of Ross MacLachlan or an associate of Ross MacLachlan.

11. RESOLUTION 9 – GRANT OF OPTIONS TO MALCOLM JACQUES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That for the purposes of Chapter 2E of the Corporations Act, ASX Listing Rule 10.11, and for all other purposes, approval is given to the grant to Dr Malcolm Jacques of 1,000,000 Options exercisable at 5.5 cents per share on or before 30 November 2019, and otherwise on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: A vote must not be cast (in any capacity) on Resolution 9 by or on behalf of:

(a) Malcolm Jacques; and

(b) an associate of Malcolm Jacques.

However a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution, and if it is not cast on behalf of Malcolm Jacques or an associate of Malcolm Jacques.

12. RESOLUTION 10 – GRANT OF OPTIONS TO JEFFRY MYERS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That for the purposes of Chapter 2E of the Corporations Act, ASX Listing Rule 10.11, and for all other purposes, approval is given to the grant to Mr Jeffry Myers of 5,200,000 Options exercisable at 5.5 cents per share on or before 30 November 2019, and otherwise on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: A vote must not be cast (in any capacity) on Resolution 10 by or on behalf of:

(a) Jeffry Myers; and

(b) an associate of Jeffry Myers.

However a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution, and if it is not cast on behalf of Jeffry Myers or an associate of Jeffry Myers.

13. RESOLUTION 11 – APPROVAL TO ISSUE SECURITIES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

> *"That for the purposes of Listing Rule 7.1, the Directors are authorised to issue up to 5,550,000 options exercisable on or before 30 November 2019 at an exercise price of 5.5 cents per share and otherwise on the terms and conditions set out in the Explanatory Statement to employees and consultants of the Company."*

Voting Exclusion: Resolutions 1, 6, 7, 8, 9, 10 and 11 are indirectly connected with the remuneration of members of the key management personnel of the Company. Accordingly, a vote on resolutions 1, 6, 7, 8, 9, 10 and 11 must not be cast (in any capacity) by or on behalf of any member of the key management personnel and by a closely related party of such a member, other than where the member is the Chairman and he/she has been expressly authorised to exercise a proxy in favour of resolutions 1, 6, 7, 8, 9, 10 and 11.

If you appoint the Chairman as your proxy, and you do not direct him/her how to vote on Resolutions 1, 6, 7, 8, 9, 10 and 11, the Chairman may only vote in favour of Resolutions 1, 6, 7, 8, 9, 10 if you expressly authorise him/her to do so by marking the relevant box in the attached proxy form and lodging your proxy form in accordance with the instructions set out in the proxy form.

14. RESOLUTION 12 – ADDITIONAL PLACEMENT CAPACITY

To consider, and if thought fit, to pass the following resolution as a **special resolution:**

> *"That for the purposes of listing rule 7.1a, the directors are authorised to issue up to 28,229,018 shares at an issue price, or for non-cash consideration, that is at least 75% of the volume weighted price for the Company's shares calculated over the period prescribed under listing rule 7.1a.3, and otherwise on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: The Company will disregard any votes cast on resolution 12 by a person (and any associates of such a person) who may participate in the issue of shares and a person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder if resolution 11 is passed. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

15. RESOLUTION 13 – ISSUE OF SHARES

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

> *"That for the purposes of Chapter 2E of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, approval is given to grant up to 9,000,000 Ordinary Shares in the Company for no consideration to Mr Ross MacLachlan or his nominee on the terms and conditions set out in the Explanatory Statement."*

Voting Exclusion: A vote must not be cast (in any capacity) on Resolution 13 by or on behalf of:

(a) Ross MacLachlan; and

(b) an associate of Ross MacLachlan.

However a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution, and if it is not cast on behalf of Ross MacLachlan or an associate of Ross MacLachlan.

16. RESOLUTION 14 – EMPLOYEE INCENTIVE SCHEME

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution:**

> *"That for the purposes of Exception 9 to ASX Listing Rule 7.1, approval is given to the issue of securities under the Employee Incentive Scheme, a summary of which is included in the Explanatory Statement."*

Voting Exclusion: The Company will disregard any votes cast on resolution 14 by a person (and any associates of such a person) who may participate in the issue of shares and a person who might obtain a benefit, except a benefit solely in the capacity of a Shareholder if resolution 12 is passed. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides

Important notes to the resolutions

1. For further information and explanation on the Resolutions to be put to the Meeting, please refer to the Explanatory Statement which is **enclosed** and forms part of this Notice of Annual General Meeting.

2. Shareholders should also carefully consider the **enclosed** Independent Expert's Report prepared by RSM for the purposes of the Shareholders' consideration of Resolutions 4A to 4C. The Independent Expert concludes that the proposed transaction is not fair but it is reasonable to the shareholders.

Directors' recommendation

It is the unanimous recommendation of the Directors that, in the absence of a superior proposal, the Shareholders vote in favour of resolutions 4A to 4C and 5. Each Director intends to vote all Shares they own, or control the right to vote, in favour of Resolutions 4A to 4C and 5 in the absence of a superior proposal.

DATED: 14 November 2016
BY ORDER OF THE BOARD
KALINA POWER LIMITED
ALWYN DAVEY
COMPANY SECRETARY

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders of the Company in connection with the business to be conducted at the Annual General Meeting to be held at Level 25, Bourke Place, 600 Bourke Street, Melbourne, VIC, 3000 on 15 December 2016 at 11.30 am (AEDST).

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

1. FINANCIAL STATEMENTS AND DIRECTORS' REPORTS

In accordance with the Company's Constitution, the business of the meeting will include receipt and consideration of the Company's Financial Report and reports of Directors and Auditors for the year ended 30 June 2016.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

At a listed company's annual general meeting, a resolution that the Remuneration Report be adopted must be put to the Shareholders.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The vote on this Resolution is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote into consideration when reviewing remuneration practices and policies.

3. RESOLUTION 2 – RE-ELECTION OF DIRECTOR

Clause 75.1 of the Constitution requires that one third of the Company's Directors must retire at each annual general meeting. Clause 75.4 of the Constitution provides that a retiring Director is eligible for re-election.

Mr John Byrne will retire by rotation in accordance with the Constitution, and seeks re-election.

4. RESOLUTION 3 – ELECTION OF DIRECTOR

Mr Jeff Myers was appointed as an additional Director to the Board on 19 October 2016. The Company's Constitution provides that a Director appointed as an additional Director to the Board must not hold office (without re-election) past the next annual general meeting. Mr Myers will therefore retire, and seek election at the Meeting.

Mr Myers is a Senior Operating Partner with Stonepeak Infrastructure and is responsible for investments in the power generation sector. Jeff has over 30 years of experience in all aspects of the downstream energy sector with focus on mid to large infrastructure project development, financing, execution and operations. Jeff was a co-founder, Chairman, President and Chief Executive Officer of Pristine Power from its founding in 2002, public listing in 2008 and successful sale to Veresen in late 2010. From 1994 to 2002, Jeff was involved in leadership roles in the development of several major natural gas pipeline projects and the development, execution and operations of 3 gigawatts of independent power projects in 4 countries. He continues to be involved in the development of independent power projects and is involved as an investor and Board member of companies in the clean tech space.

5. BACKGROUND TO RESOLUTIONS 4A to 4C AND 5

On 6 January of this year, the Company announced that it had secured additional financial support from Harrington, its major shareholder, in the form of a loan of $2.5 million to enable the Company to continue to implement its business strategy, which the Company would have been unable to pursue as effectively without that support. The loan was made on the basis the Company would undertake a capital raising.

Accordingly, the Company also announced its intention to undertake a pro rata, non-renounceable rights issue, which Harrington had agreed to underwrite to the extent of $2.5 million, with the repayment of the loan to be offset against Harrington's obligations under its underwriting agreement.

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. One such exception allows a shareholder to increase its voting power by not more than 3% above that which it held 6 months earlier.

Six months ago, Harrington held voting power in the Company of 24.61%. As a result of the increase in the Company's capital following the placement of 15 million shares in August and 43,500,000 shares in September , and the issue of shares under the 3 for 4 rights issue completed on 12 September, Harrington's voting power was reduced to 13.14%. Harrington was therefore permitted, in satisfaction of its underwriting obligations, to take up 49,868,110 shares, thereby increasing its voting power to 27.09% (being an increase of less than 3% above that which it held 6 months ago) without shareholder approval. The issue price for that number of shares was offset against the loan from Harrington, leaving $179,401, including accrued interest, outstanding. Harrington was obligated under its underwriting to apply for such shares as would offset the total amount of the loan, subject to shareholder approval as necessary. As the Shares were issued to Harrington as part of its underwriting of the rights issue, Harrington also acquired 24,934,055 Options issued on the same one for two basis, and on the same terms as the Options issued under the rights issue.

Resolution 4A to Resolution 4C seeks shareholder approval to the conversion of the $179,401 into Shares and Options, on the same terms as the Shares and Options offered under the rights issue. If approved, it will result in the issue of 3,588,010 Shares and 1,794,005 Options to Harrington. The issue of those Shares requires shareholder approval. The exercise of the 24,934,055 Options issued as part of the underwriting of the rights issue by Harrington, and those for which approval is sought under Resolution 5, will also require Shareholder approval for the purposes of Item 7 of section 611 of the Corporations Act.

Since the completion of the rights issue, the Company's Shares have traded on ASX at prices ranging from $0.051 to $0.155, with the recent closing price before the date of this Notice of Meeting being $0.12. Those prices to an extent reflect the confidence the rights issue has given the market as to the Company's future, and its financial capacity to implement its new business plan. The rights issue would not have been possible without the support of Harrington, especially by Harrington making the loan in advance of the rights issue. At the above Share prices, the Shares to be issued to Harrington would have a value considerably higher than the outstanding loan balance of $179,401. However, the Loan Agreement with Harrington provided that the Company would repay the loan by Harrington underwriting the rights issue to the extent of the loan. Harrington has applied for the 3,588,010 Shares under its underwriting commitment, subject to Shareholder approval. The issue of the Shares is to satisfy the Company's contractual obligations under its underwriting agreement with Harrington. If the approval is not granted, the Company would be required to repay the loan balance on 30 January 2017.

6. RESOLUTIONs 4A to 4C – Issue of Shares and exercise of New Options

6.1 General

Resolutions 4A to 4C seeks shareholder approval for the purposes of Item 7 of section 611 of the Corporations Act to permit the Company to allot and issue to Harrington:

(a) 3,588,010 Shares;

(b) in the event that all of the Options (including those referred to in Resolution 5) held by Harrington are exercised, an additional 44,228,060 Shares on exercise of those Options, and to allow Harrington to acquire a relevant interest in those securities (as well as permitting its associates named in the Explanatory Statement to acquire any deemed relevant interest arising as a result of the issue of the securities to Harrington).

The issue of the 3,588,010 Shares, when aggregated with the existing Shares held by Harrington, will result in Harrington's voting power increasing from 27.6% to 27.93%.

Since the rights issue the market price of the Company's Shares, as disclosed above, has exceeded the exercise price of the Options. The Options held by, and to be issued to, Harrington are at those prices "in the money" and therefore may have an immediate impact on the relevant interest held by Harrington (and its associates) if they are exercised.

6.2 Reasons for the Proposed Issue

The proposed conversion of the balance of the outstanding loan will reduce the Company's current debt liabilities in accordance with the terms of the underwriting agreement with Harrington. The issue of the Shares is to satisfy the Company's contractual obligations under its underwriting agreement with Harrington. As set out in the Supplemental Prospectus dated 23 August 2016 in relation to the rights issues, the application amount subject to shareholder approval was estimated to range from $1,262,869 to nil depending on the participation of shareholders and other investors in the Rights issue.

The Shares to be issued to Harrington, and the Shares issued on exercise of the Options, will each have an issue price of $0.05, which is the same as the recent pro-rata rights issue.

6.3 Why are resolutions 4A to 4C required

Part 6.1 of the Corporations Act contains provisions known as the takeover provisions. These takeover provisions prohibit the acquisition of voting shares or a relevant interest in voting shares of a publicly listed entity, if that acquisition results in a person's voting power in the company increasing to more than 20%, or from increasing its voting power beyond 20% except in certain circumstances (**Takeover Prohibition**).

Item 7 of section 611 of the Corporations Act provides an exception to the Takeover Prohibition in circumstances where the shareholders of the company whose shares are being acquired (in this case, Kalina), approve of the acquisition by resolution in general meeting (**Takeover Approval**).

Under Resolution 4A, the proposed issue of the 3,588,010 Shares to Harrington will result in it having 27.93% of the voting power in the Company.

If all of the Options that will be issued pursuant to Resolution 5 as well as the existing options held by Harrington are subsequently exercised by Harrington, Harrington will acquire a total voting power in Kalina of 36.96% (assuming that there is no other change in the issued share capital of Kalina).

Upon the issue of the Shares, and assuming that there is no other change in the issued capital of Kalina, Harrington will retain the ability to block a special resolution of the shareholders (requiring 75% approval).

Voting power is the total number of votes attached to all the voting shares in which a person or its associates have a relevant interest as a percentage of the total number of votes attached to all voting shares in the company.

A person has a relevant interest in voting shares if they are the holder of the shares, or have power to exercise, or control the exercise of, votes attaching to the shares, or have power to dispose of, or control the exercise of a power to dispose of, the shares.

The associates of Harrington named in paragraph 11.4 will, for the reasons set out in that section, also acquire a relevant interest in any Shares issued to Harrington.

Resolution 4A - Takeover Approval for the issue of the New Shares

As the issue of the Shares will result in Harrington and its associates, each increasing their relevant interest by more than the allowed amount in the voting power in Kalina, Takeover Approval is required for the acquisition of those Shares by Harrington.

This is the purpose of Resolution 4A.

Shareholder approval under ASX Listing Rule 7.1 is not required for the proposed issue of the Shares to Harrington in reliance on Exception 16 to ASX Listing Rule 7.2, as the Company is seeking shareholder approval for the transaction for the purposes of item 7 of section 611 of the Corporations Act.

For a more detailed discussion of the disclosure requirements pursuant to item 7 of section 611 of the Corporations Act, please see paragraph 11.4 below.

Resolution 4B - Takeover Approval for the issue of further Shares on exercise of Options

In addition, if Harrington exercises the Options for which approval is sought under Resolution 4B, its voting power could increase to between 27.6% and 31.8% which would exceed the maximum permitted increase of 3% under the Takeover Provisions. Section 6 of this Explanatory Statement provides details on the proposed issue of Options.

Accordingly, Takeover Approval is also required for the issue of further Shares upon exercise by Harrington of the Options to be issued to Harrington if Resolution 5, is approved. This is the purpose of Resolution 4B.

Resolution 4C - Takeover Approval for the issue of further Shares on exercise of the existing Options

In addition, if Harrington exercises the existing Options which it acquired when it took up the 49,868,100 shares referred to in the Background to this Section 5, its voting power could increase to between 27.6% and 33.67% which would exceed the maximum permitted increase of 3% under the Takeover Provisions.

Accordingly, Takeover Approval is also required for the issue of further Shares upon exercise by Harrington of those Options. This is the purpose of Resolution 4C.

6.4 Corporations Act Disclosure Requirements

Pursuant to item 7 of section 611 of the *Corporations Act* and ASIC Regulatory Guide 74, in addition to the information set out elsewhere in this Explanatory Statement, Shareholders are advised of the following information with regard to the proposed issue of the Shares to Harrington and the corresponding acquisition by its associates of a relevant interest in the Shares.

(a) Identity of the person proposing to make the acquisition and their associates

The acquisition for which Shareholder approval is sought is the acquisition of by Harrington Global Opportunities Fund SARL of the Shares and the resulting relevant interest in Shares held by Harrington Global Opportunities Fund SARL by its associates named below.

Harrington Global Opportunities Fund Limited

Harrington Global Opportunities Fund Limited is the holding company of Harrington Global Opportunities SARL and will have a deemed relevant interest by virtue of having voting power of more than 20% in Harrington Global Opportunity SARL.

Harrington Global Limited

Harrington Global Limited is the investment manager for Harrington Global Opportunities Fund SARL pursuant to an Investment Management Agreement dated 20 April 2011 (**IMIA**)

Clause 5.2 of the IMA confers on Harrington Global Limited complete discretion, among other things, to sell investments held by Harrington Global Opportunities SARL, giving Harrington Global Limited a relevant interest under section 608(1)(c) of the Act by virtue of its power to dispose of the shares in Kalina.

Harrington Global Holdings Limited

Harrington Global Holdings Limited holds all the shares in Harrington Global Limited, and will have a relevant interest by virtue of its control of Harrington Global Limited under section 608(3)(b) of the Act.

Harrington Global Management Limited

Harrington Global Management Limited holds all the shares in Harrington Global Holdings Limited, and will have a relevant interest by virtue of its control of Harrington Global Holdings Limited under section 608(3)(b) of the Act.

Daniel Guy

Daniel Guy holds all the shares in Harrington Management Limited, and will have a relevant interest by virtue of his control of Harrington Global Management Limited under section 608(3)(b).

(b) Maximum extent of the increases in Harrington's voting power as a result of the acquisition

(i) **Issue of the new Shares**

Harrington's voting power in Kalina will, as a result of the issue of 3,588,010 new Shares, increase from 27.6% to approximately 27.93% if there are no other changes in the issued share capital structure of Kalina.

In this event, Harrington would continue to have the ability to block a special resolution of the Shareholders (requiring 75% approval).

(ii) **Issue of further Shares upon exercise of the new Options and existing Options**

If all of the new Options to be issued under Resolution 5 and the existing Options held by Harrington are exercised by Harrington, Harrington will, as a result of the acquisition of the new Shares and the further issue of Shares upon exercise of the new Options and existing Options, have a total of approximately 36.96% of the voting power in Kalina if there are no other changes in the issued share capital structure of Kalina.

In this event, Harrington would retain the ability to block a special resolution of the Shareholders (requiring 75% approval).

(c) Voting power of Harrington's Associates as a result of the acquisition

As none of Harrington's associates currently hold any Shares in Kalina, the voting power which each associate will have as a result of the acquisition of the new Shares and the exercise of the new Options and existing Options is the same as that of Harrington as set out in paragraph 11.4(b) above.

(d) Maximum extent of the increase in the voting power of each of Harrington's associates that would result from the acquisition

For the reasons stated in paragraph 11.3 above, Harrington's associates are deemed to have a relevant interest in the Shares in which Harrington has a relevant interest. Accordingly, as none of the associates hold any Shares, the maximum extent of the increase in an associate's voting power in Kalina that would result from the issue of the new Shares and exercise of the new Options and existing Options by Harrington is the same as Harrington's as outlined above.

Accordingly the voting power of each of Harrington's associates will increase from 27.6% to approximately 27.93% after the issue of the new Shares and to approximately 36.96% if Harrington exercises all of the new Options and its existing Options.

(e) Voting power that each of the Harrington's associates will have as a result of the Proposed Conversion

Similarly, each of Harrington's associates voting power in Kalina that will result from the issue of new Shares and exercise of Options is the same as Harrington's voting power in Kalina referred to above. Accordingly each associate will have voting power of approximately 27.93% after the issue of the new Shares and approximately 36.96% if Harrington exercises the new Options and its existing Options.

(f) Reasons for the Share Issue

As set out in paragraph 11 of this Explanatory Statement, the reasons for the issue of the Shares to Harrington is to satisfy the balance of the loan in accordance with the underwriting agreement with Harrington.

(g) When will the Proposed Issue occur?

The issue of the Shares and Options will occur immediately following the granting of Shareholder approval.

(h) The material terms of the Proposed Issue

The material terms of the proposed issue are set out in this Section 5 of the Explanatory Statement.

(i) Other contracts or proposed contracts between Harrington and Kalina or any of their associates which are conditional or dependent on shareholders' agreement to the issue of the New Shares and New Options

Other than the loan and underwriting agreement, there is no other agreement or proposed agreement between Harrington and Kalina or any of their associates which is conditional upon, or directly or indirectly dependent on, Shareholders' agreement to the issue of the Shares and Options to Harrington.

(j) Intentions of Harrington in relation to Kalina

Harrington has disclosed to Kalina that the current intentions of Harrington are as follows:

(i) Harrington is fully committed to a strategic relationship with Kalina to support it in its development activities by:

(A) providing strategic feedback to the directors on proposed business opportunities; and

(B) providing introductions to potential future projects through its network of contacts;

(ii) other than the issue of the Shares and Options, and possible exercise of the Options into Shares, Harrington does not currently intend to invest further capital into Kalina;

(iii) not to change the business of Kalina and in that regard, Harrington intends for Kalina to continue to seek to deliver value to shareholders through the deployment of Kalina Cycle® power systems and associated engineering services;

(iv) other than the acquisition of the Shares, Options and the possible exercise of the Options into Shares, Kalina does not propose to transfer any property between Kalina and Harrington or any person associated with it;

(v) not to redeploy, sell or assign any of Kalina's fixed assets;

(vi) not to change the employment of the present employees of Kalina; and

(vii) not to change the existing financial or dividend policies of Kalina.

(k) The interests of Kalina's directors in the resolution

Other than as holders of securities of Kalina, Kalina's directors do not have any interests in Resolution 4A to Resolution 4C.

(l) The identity of the directors who approved or voted against the proposal to put the resolution to shareholders and this Explanatory Statement

Subject to receipt of a superior proposal, Kalina's directors unanimously approved the proposal to put Resolutions 4A to 4C to Shareholders and this Explanatory Statement.

(m) Persons who will become directors of Kalina if shareholders agree to the issuance of the New Shares and New Options

There are no proposed changes to the board of Kalina as a result of the issue of the Shares and Options to Harrington.

6.5 Reasons to vote in favour of Resolution 4A to 4C

(a) Reduction in debt liabilities

The Directors intend to further develop and grow Kalina's existing activities. The reduction in Kalina's debt liabilities will enable Kalina to apply its current cash reserves to fund these activities rather than repay the balance of the loan, and will assist in any other future capital raisings of Kalina.

The issue of the Shares to Harrington will reduce Kalina's debt liabilities by $179,401 and settle its contractual obligation to Harrington with respect to the loan and underwriting agreement. Furthermore Kalina will also receive a further $2,211,403 if all the Options are exercised by Harrington.

(b) Independent Expert's Report (IER)

The IER prepared by RSM has concluded that the issue of the Shares and the issue of the additional Options to Harrington is not fair but it is reasonable. A full copy of the IER is in the Annexure to this Explanatory Statement. A brief summary of the Independent Expert's Report is set out in paragraph 11.7 below.

(c) Director's unanimous recommendation

It is the unanimous recommendation of the directors of Kalina that, in the absence of a superior proposal, Shareholders vote in favour of Resolution 4A to 4C. Each Director intends to vote all Shares they own or control the right to vote in favour of resolution 4A to 4C in the absence of a superior proposal.

(d) If Resolution 4A, 4B or 4C is not approved

If Resolution 4A is not approved by the shareholders, the issue of the Shares to Harrington will not proceed. Shareholders' current interest in Kalina will not be diluted by the issue of the Shares. Kalina will repay the balance of the loan to Harrington $179,401 in cash.

The Options for which approval is sought under Resolution 5 may still be issued, if Shareholders approve Resolution 5, but Harrington will be unable to exercise those Options if Resolution 4B or 4C is not approved, unless Shareholders subsequently approve their exercise or unless Harrington is otherwise able to exercise some or all of those Options in accordance with the Takeover Provisions. If Harrington is not granted the Options, or is unable to exercise its Options, the shareholders will not be diluted and the Company will not receive the $2,211,403.

The Shares to be issued to Harrington under Resolution 4A, and the issue of Shares upon the exercise of any of the Options referred to in Resolution 4B are Shares and Options issued, or to be issued, to Harrington pursuant to its underwriting of the recent pro rata rights issue, in which Shareholders had the right to participate. Nevertheless, the issue of the further Shares to Harrington will dilute existing Shareholders interests.

6.6 Reasons to vote against Resolution 4A to 4C

If Shareholders vote in favour of Resolution 4A to 4C, Kalina will be subject to the following factors which will affect the interests of Shareholders:

(a) Effect on Control

Kalina will issue 3,588,010 Shares to Harrington. This will increase the Shares on issue in Kalina from 305,205,591 to 308,793,601. Harrington will have voting power of 27.93%, and, if all of the Options held by Harrington are exercised, 36.96% and therefore the ability to block a special resolution of the shareholders (requiring 75% approval). This may discourage a potential bidder from proposing a merger by scheme of arrangement or making a takeover bid for Kalina.

While Harrington will not control Kalina or have the capacity to determine the composition of Kalina's board, there is also a risk that Harrington could seek to use its voting power to pursue interests which differ from other Shareholders, although the Board of Kalina, as of the date of this Explanatory Statement, has no reason to believe that Harrington's interests differ from the interests of the other Shareholders.

(b) Governance

Kalina currently has a board of five directors. Harrington has not requested and Kalina has not agreed to grant Harrington a right to nominate a director to the Board.

Further, if the New Shares are issued to Harrington, Harrington does not intend to appoint or remove any non-executive Director to the Board of Kalina. Accordingly, Harrington will have no undue influence on Kalina's Board.

(c) Shareholder dilution

Shareholders have not been given the opportunity to participate in the issue of the 17,500,000 Options to Harrington for which approval is sought under Resolution 5. The exercise of those Options will further dilute Shareholder interests.

6.7 Independent Expert's Report

The Directors commissioned RSM to prepare an Independent Expert Report (**IER**) in connection with the proposed acquisition of Shares by Harrington. A copy of the IER is set out in Schedule 1 of this Explanatory Statement.

The purpose of the IER is for an appropriately qualified, independent third party to express an opinion as to whether or not the proposed acquisition of new Shares and the acquisition of Shares on the exercise of the new Options and the existing Options are "*fair*" and "*reasonable*" to non-associated Shareholders and to enable those Shareholders to assess whether they are better off if the acquisition proceeds than if it does not.

RSM has concluded that the proposed issue of Shares to, and the exercise of the Options by, Harrington is **not fair but it is reasonable** in each of Resolutions 4A, 4B and 4C.

RSM's principal reason for determining that the proposed issue of Shares and Options is not fair is that as the Fair Value of a Kalina share immediately after Resolutions 4A, 4B and 4C on standalone basis is less than the Fair Value of a Kalina share prior to the Proposed Transactions, and in the absence of any other relevant information, in RSM's opinion, Resolutions 4A, 4B and 4C are not fair to the Non-Associated Shareholders of Kalina.

Valuation Summary	Low $	High $	Preferred $
Fair Value per share prior to the Proposed Transactions (on a controlling basis)	$0.0341	$0.0341	$0.0341
Fair Value per share immediately after Resolution 4A (on a non-controlling basis)	$0.0263	$0.0274	$0.0268
Fair Value per share immediately after Resolution 4B (on a non-controlling basis and assuming all options issued to Harrington are exercised)	$0.0269	$0.0280	$0.0275
Fair Value per share immediately after Resolution 4C (on a non-controlling basis and assuming all options held by Harrington are exercised)	$0.0271	$0.0282	$0.0277
Fair Value per share immediately after all Resolutions have been approved (on a non-controlling basis and assuming all options held by Harrington are exercised)	$0.0278	$0.0290	$0.0284

RSM consider the proposed issue of Shares and Options is **reasonable,** in the absence of any other relevant information and/or superior offer due to:

The key advantages of Resolution 4A are:

- the Loan amount of $179,401 due to Harrington will be fully extinguished if Resolution 4A is approved, and the funds that would be required to repay the Loan can be used for operating purposes; and
- whilst RSM has applied a discount for lack of control in accordance with RG 111 in their assessment of the Fair Value of a Kalina share immediately after the approval of Resolution 4A, RSM note that Harrington will increase its shareholding from 27.1% to 27.9%. As such, Harrington will not obtain control of the Company if Resolution 4A is approved. As set out in Table 16 of the Report, the value of a Kalina share immediately after the approval of Resolution 4A, but before applying a minority interest discount, of $0.0342, exceeds RSM's assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

The key advantages of Resolution 4B are:

- the issue of shares and options to Harrington under Resolution 4B will be undertaken at the same price as the recent Rights Issue undertaken by Kalina;
- notwithstanding dilution in Non-Associated Shareholders' interest in the event Resolution 4B is approved, the cash position of the Company would be further improved if Harrington chooses to exercise any of its options issued under Resolution 4B; and
- whilst RSM has applied a discount for lack of control in accordance with RG 111 in their assessment of the Fair Value of a Kalina share immediately after the approval of Resolution 4B, RSM note that Harrington will increase its shareholding from 27.1% to 31.4% on a fully diluted basis. As such, Harrington will not obtain control of the Company if Resolution 4B is approved. As set out in Table 17 of the Report, the value of a Kalina share immediately after the approval of Resolution 4B, but before applying a minority interest discount, of $0.0350 on a fully diluted basis, exceeds RSM's assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341

The key advantages of Resolution 4C are:

- the issue of shares to Harrington under Resolution 4C will be undertaken at the same price as the recent Rights Issue undertaken by Kalina;
- notwithstanding dilution in Non-Associated Shareholders' interest in the event Resolution 4C is approved, the cash position of the Company would be further improved if Harrington chooses to exercise any of its options held if Resolution 4C was approved; and
- whilst RSM has applied a discount for lack of control in accordance with RG 111 in their assessment of the Fair Value of a Kalina share immediately after the approval of Resolution 4C, RSM note that Harrington will increase its shareholding from 27.1% to 32.6% on a fully diluted basis. As such, Harrington will not obtain control of the Company if Resolution 4C is approved. As set out in Table 18 of the Report, the value of a Kalina share immediately after the approval of Resolution 4C, but before applying a minority interest discount, $0.0353 on a fully diluted basis, exceeds RSM's assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

The key disadvantages of Resolution 4A are:

- Resolution 4A is not fair;
- Non-Associated Shareholders' interest in Kalina will be diluted from 72.9% to 72.1% if Resolution 4A is approved; and
- The dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

The key disadvantages of Resolution 4B are:

- Resolution 4B is not fair;
- Non-Associated Shareholders' interest in Kalina will be diluted from 72.9% to 68.6% if Resolution 4B is approved and Harrington exercises all of the options issued under Resolution 4B; and

- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

The key disadvantages of Resolution 4C are:

- Resolution 4C is not fair;

- Non-Associated Shareholders' interest in Kalina will be diluted from 72.9% to 67.4% if Resolution 4C is approved and Harrington exercises all of its current options held in accordance with the approval obtained under Resolution 4C; and

- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

7. RESOLUTION 5 – ISSUE OF NEW OPTIONS

7.1 General

Resolution 5 seeks Shareholder approval for the purposes of Listing Rule 7.1 to permit the Company to allot and issue 19,494,005 Options to Harrington.

Of those Options, 1,794,005 are to be issued to Harrington as part of the conversion of the outstanding balance of the loan to Shares and Options on the same terms as the recent rights issue.

The remaining 17,500,000 Options, as disclosed to the market on 23 August 2016, are proposed to be granted in consideration of the continued support demonstrated by Harrington as the Company's largest shareholder. This support has enabled the Company to progress with its re-alignment of focus and its business plans, and includes:

- underwriting the recent rights issue when sufficient external underwriting could not be secured;

- providing its underwriting commitment by way of loan in advance of the rights issue; and

- extending on multiple occasions the time specified in the loan agreement for the rights issue to be completed to allow it to be undertaken.

The indicative value of the 17,500,000 options is:

Effective Date of Calculation	Indicative Value
As at 23 August 2016	$479,325
As at 25 October 2016	$1,389,304

This is based on a Black and Scholes valuation of the options as at 23 August and 25 October 2016 based on the following inputs:

- Underlying Share Price: $0.055 and $0.12 per share (being the closing price of Kalina on 23 August and 25 October 2016 respectively).

- Exercise Price: $0.05 per share (the same price as the options issued under the Rights Issue)

- Risk free rate: 1.57% (Australian Government 2 year bond yield)
- Volatility: 152% (Kalina historic volatility since 14 October 2015)
- Indicative Grant Date: 23 August and 25 October 2016
- Expiry: 28 April 2017

Although Takeover Approval is not required for the issue of the Options (as they are not voting shares), they are 'equity securities' which require Shareholder approval under ASX Listing Rule 7.1 if they exceed Kalina's 15% placing capacity to issue securities without Shareholder approval under that Listing Rule.

To preserve Kalina's full 15% placing capacity to make future Share or option issues, Shareholder approval is sought for resolution 5. This will preserve Kalina's flexibility to raise capital in the future.

7.2 Listing Rule Disclosure Requirements

The following information is provided for the purposes of Listing Rule 7.3:

- the maximum number of Options that may be issued pursuant to Resolution 5 is 19,294,005, which if exercised will result in the issue of an additional 19,294,005 Shares;
- the Options will be issued within 3 months after the date of the Meeting and will all be issued on the same date in accordance with ASX Listing Rule 7.3.2;
- 1,794,005 of the Options will be issued in partial satisfaction of the Company's obligations under its underwriting agreement with Harrington;
- each Option entitles the holder to subscribe for one Share at an exercise price per New Option of 5 cents;
- the Options will be issued to Harrington;
- 1,794,005 Options granted pursuant to the Resolution will entitle the holder to subscribe for and be allotted Ordinary Shares on the following terms and conditions:

    (i) each Option entitles the holder to subscribe for one Ordinary Share at an exercise price per Option of 5 cents;

    (ii) the Options are exercisable, at any time prior to 5.00pm Melbourne time on 30 August 2017 (Expiry Date). Options not exercised on or before the Expiry Date will automatically lapse;

    (iii) the Options may be exercised wholly or in part by completing an application form for Shares (Notice of Exercise) delivered to the Company's share registry and received by it any time prior to the Expiry Date;

    (iv) upon the exercise of the Options and receipt of all relevant documents and payment, Ordinary Shares will be issued ranking pari passu with the then issued Ordinary Shares;

    (v) The Company will apply to ASX to have the Ordinary Shares issued pursuant to the exercise of Options granted official quotation;

    (vi) a summary of the terms and conditions of the Options including the Notice of Exercise will be sent to all holders of Options when the initial holding statement is sent;

(vii) any Notice of Exercise received by the Company's share registry on or prior to the Expiry Date will be deemed to be a Notice of Exercise as at the last Business Day of the month in which such notice is received;

(viii) there are no participating entitlements inherent in the Options to participate in new issues of capital which may be offered to Shareholders during the currency of the Options. Prior to any new pro rata issue of securities to Shareholders, holders of Options will be notified by the Company and will be afforded 10 Business Days before the record date (to determine entitlements to the issue), to exercise Options;

(ix) in the event of any reorganisation of the issued capital of the Company prior to the Expiry Date, the rights of an option holder will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation;

(x) Subject to the Corporations Law, the ASX Listing Rules and the Company's Constitution, the Options may be transferred at any time prior to the Expiry Date;

(xi) Ordinary Shares issued pursuant to the exercise of an Option will be issued not more than 14 days after the date of Notice of Exercise.

(xii) Option holder will be entitled to nominate the Ordinary Share issued pursuant to the exercise of an Option to be issued by way of a Depository Interest to them.

- the 17,500,000 Options granted pursuant to Resolution 5 will entitle the holder to subscribe for and be allotted Ordinary Shares on the same terms and conditions as the 1,794,005 Options referred to above, except that the Options are exercisable at any time prior to 5.00pm Melbourne time on 28 April 2017 (Expiry Date). Options not exercised on or before the Expiry Date will automatically lapse. No funds will be received by the Company from the issue of the Options. However, if an Option is converted into a Share the Company will receive 5 cents. Any funds received upon the exercise of the Options will be used for general working capital.

8. RESOLUTION 6, 7, 8, 9 and 10 – GRANT OF OPTIONS TO DIRECTORS

The Company proposes to grant options to each of its Directors as part of their remuneration package.

The ASX Listing Rules prohibit the issue of securities to directors without shareholder approval (except in certain circumstances, none of which apply here). In addition, if approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1.

The following information is given to shareholders as required by the Listing Rules:

(a) The related parties to whom the options will be issued and the maximum number of options to be granted are: to Timothy Horgan - 7,800,000; to John Byrne - 2,600,000; to Ross MacLachlan - 23,300,000; to Malcolm Jacques - 1,000,000 and to Jeffry Myers - 5,200,000. There is no issue price for the options.

(b) No funds will be raised by the issue of the options. If all of the options are exercised, $2,194,500 will be received by the Company which will to be used as working capital.

(c) Terms of the Options:

a. Each Option entitles the holder to subscribe for one (1) fully paid Ordinary Share in the capital of the Company.

b. The Options are exercisable before 5.00pm (EST) on 30 November 2019 (Expiry Date).

c. The Options are exercisable at a price of $0.055 each.

d. If the Option holder is no longer a director of the Company for any reason, the Options must be exercised by the holder within 3 months of the date on which they ceased to be a director, after which time the Options will automatically lapse.

e. All shares issued upon exercise of the Options will rank pari passu in all respects with the Company's then issued shares. The Options will be unlisted. No quotation will be sought from ASX for the Options.

f. The Options are not transferable

g. There will be no participation rights inherent in the Options to participate in the new issues of capital by the Company offered to Shareholders during the currency of the Options.

h. In the event of a reorganisation of the capital of the Company the rights of the Option Holder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

The Options will be issued within 1 month of approval by shareholders.

Other Information

The Executive directors have been remunerated at a level commensurate with the stage and financial capacity of the Company up to the end of August 2016. Following the successful financings of the Company, the base annual cash remuneration for Mr Ross MacLachlan has been set at $280,000 and for Mr Timothy Horgan at $200,000.

The Chairman, Mr John Byrne is paid $144,000 and non-executive directors are each paid an annual cash remuneration of $25,000.

The Company believes it is appropriate to grant equity options to non-executive directors and key management personnel, including executive directors. Smaller entities often elect to use equity instruments to remunerate key personnel in order to attract and retain high calibre individuals while minimizing the cash cost of engaging those people. In addition, the options also help to create alignment between directors and shareholders. In particular, the Company wishes to grant the Options to the relevant Directors under the proposed Resolutions 6, 7, 8, 9 and 10 instead of other alternatives considered by the Company including increasing Directors' fees or providing other forms of cash based remuneration at a time when the Company is still in the early stages of implementing of new business strategy. The Company considers the issue of the Options to be favourable to other available alternatives because it provides a means of appropriately remunerating and incentivising Directors in a manner that preserves cash resources and also aligns the interests of the Directors with the interests of shareholders.

The Remuneration Committee has approved the grant of the Options to Key Management Personnel including each of the directors. In particular the grant to Mr Ross MacLachlan and Mr Timothy Horgan was approved to secure their tenure with the Company as part of their remuneration as Chief Executive Officer and Executive Director respectively, having regard to their roles and the current stage of the Company's development, and to provide an incentive to improve the financial performance of the Company and, in turn, shareholder value. The Board, with each director abstaining in respect of the resolution relevant to them, recommends that Shareholders vote in favour of Resolutions 6, 7, 8, 9 and 10.

The Options, if their issue is approved by shareholders, will be valued at the grant date. However an indicative valuation of each tranche of Options as at 16 August 2016 (being the date the Company entered into an agreement to issue the options, subject to shareholder approval) is detailed below:

Option Holder	Number of Options	Exercise Price	Indicative value of Options
Ross MacLachlan	23,300,000	$0.055	$785,974
Timothy Horgan	7,800,000	$0.055	$263,116
Jeffry Myers	5,200,000	$0.055	$175,410
John Byrne	2,600,000	$0.055	$ 87,705
Malcolm Jacques	1,000,000	$0.055	$33,733
Total	*39,900,000*		*$1,345,939*

The indicative value of the options is based on a Black and Scholes valuation of the options as at 16 August 2016 based on the following inputs:

- Underlying Share Price: $0.06 per share (closing price of Kalina on 15 August 2016)
- Exercise Price: $0.055 per share (10% premium to the Placement and Rights Issue price announced on 1 August and 3 August respectively)
- Risk free rate: 1.57% (Australian Government 2 year bond yield)
- Volatility: 152% (Kalina historic volatility since 14 October 2015)
- Indicative Grant Date: 16 August 2016
- Expiry: 30 November 2019

Since 16 August 2016, the share price of the Company as quoted on ASX has appreciated significantly, which may impact on the potential value of the Options when they are granted, if shareholders approve. Although the Options, must ultimately be valued at the grant date, an updated indicative valuation of each tranche of Options as at 25 October 2016 is detailed below:

Option Holder	Number of Options	Exercise Price	Indicative value of Options
Ross MacLachlan	23,300,000	$0.055	$1,854,987
Timothy Horgan	7,800,000	$0.055	$620,983
Jeffry Myers	5,200,000	$0.055	$413,988
John Byrne	2,600,000	$0.055	$206,994
Malcolm Jacques	1,000,000	$0.055	$79,613
Total	*39,900,000*		*$3,176,567*

The indicative value of the options is based on a Black and Scholes valuation of the options as at 25 October 2016 based on the following inputs:

- Underlying Share Price: $0.12 per share (closing price of Kalina on 25 October 2016)

- Exercise Price: $0.055 per share (10% premium to the Placement and Rights Issue price announced on 1 August and 3 August respectively)
- Risk free rate: 1.57% (Australian Government 2 year bond yield)
- Volatility: 152% (Kalina historic volatility since 14 October 2015)
- Indicative Grant Date: 25 October 2016
- Expiry: 30 November 2019

In accordance with AASB 2, the value of options granted to directors will be calculated on the issue date using the Black and Scholes method and expensed in the Statement of Profit & Loss in the year ended 30 June 2017. However, based on the latest indicative valuation set out above the charge to profit and loss for the year ended 30 June 2017, would be approximately $3,176,567.

The total number of Options to be issued to Directors if Resolutions 6, 7, 8, 9 and 10 are approved is 39,900,000 which represents, on a fully diluted basis, 9.4% of the Company's issued capital as at the date of this Notice.

If all the Option are exercised, existing Shareholders' interests will be diluted by 11.5% (assuming no other changes in the Company's capital as at the date of this Notice).

Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

(a) obtain the approval of the public company's members in the manner set out in sections 217 to 227 of the Corporations Act; and

(b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

The proposed grants of the Options constitutes giving a financial benefit and Messrs Ross MacLachlan, Timothy Horgan, Jeffry Myers, John Byrne and Malcom Jacques are related parties of the Company by virtue of being Directors.

Shareholder approval is sought for Resolutions 6, 7, 8, 9 and 10 in accordance with Chapter 2E of the Corporations Act. Pursuant to and in accordance with the requirements of section 219 of the Corporations Act, information is set out above and throughout this Explanatory Statement in relation to the proposed issues of Options to the Directors. In addition and in accordance with ASIC guidance, the Directors state the following regarding their recommendations about the proposed Resolutions.

Resolutions 6, 7, 8, 9 and 10

The following Directors are to receive Options under the relevant Resolutions and accordingly make no recommendation and abstain from making a recommendation because of their material personal interest in the following Resolutions:

- in the case of Resolution 6, Mr Timothy Horgan;
- in the case of Resolution 7, Mr John Byrne;
- in the case of Resolution 8, Mr Ross MacLachlan;
- in the case of Resolution 9, Dr Malcolm Jacques; and
- in the case of Resolution 10, Mr Jeffry Myers.

The Directors also consider that it is a matter of good practice to avoid making a recommendation about other Directors' remuneration in these circumstances as there may be a conflict of interest if such a recommendation was made. Accordingly, no Director makes any recommendation on the issue of Options to other Directors under Resolutions 6, 7, 8, 9 and 10, as applicable.

The Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 6 to 10. The full terms of the Options to be issued to the directors are set out in Section 7 (c) above of this Explanatory Statement.

9. RESOLUTION 11 – APPROVAL TO ISSUE SECURITIES

The Directors are seeking shareholder approval to Resolution 11 in order to provide flexibility to the Directors to grant options to employees and consultants of the Company.

Listing Rule 7.1 limits a company's ability to issue securities in excess of 15% of its ordinary issued capital in a 12 month period. While the Company has the placing capacity to issue the options the Company has decided to seek approval from shareholders for the issuing of options, so that the issue will not limit the Company's placing capacity.

A maximum of 5,550,000 options will be issued under Resolution 11 and the options will be issued no later than 3 months after the date of the meeting. The issue will occur progressively as determined by the Directors to current and future employees and consultants of the Company in relation to long term incentives.

The options will be issued for no consideration.

If all of the options are exercised $305,250 would be received by the Company for use as working capital.

Terms of the Options:

a. Each Option entitles the holder to subscribe for one (1) fully paid ordinary share in the capital of the Company.

b. The Options are exercisable before 5.00pm (EST) on 30 November 2019 (Expiry Date).

c. The Options are exercisable at a price of $0.055 each.

d. If the Option holder is no longer an employee or consultant of the Company for any reason, the Options must be exercised by them within 3 months of the date on which they ceased to be an employee, after which time they will automatically lapse.

e. All shares issued upon exercise of the Options will rank pari passu in all respects with the Company's then issued shares. The Options will be unlisted. No quotation will be sought from ASX for the Options.

f. The Options are not transferable

g. There will be no participation rights inherent in the Options to participate in the new issues of capital by the Company offered to Shareholders during the currency of the Options.

h. In the event of a reorganisation of the capital of the Company the rights of the Option Holder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

A vote will not be cast (in any capacity) on Resolution 11 by or on behalf of:

(a) Current employees of the Company or anticipated recipients of the options if known; or

(b) an associate of current employees of the Company or anticipated recipients of the options if known.

However a vote may be cast by a person as a proxy appointed by writing that specifies how the proxy is to vote on the proposed resolution, and if it is not cast on behalf of current employees of the Company or anticipated recipients of the options if known or their associates.

10. RESOLUTION 12 – ADDITIONAL PLACEMENT CAPACITY

Listing Rule 7.1A provides eligible companies (which includes Kalina Power) the ability to raise an additional 10% of issued capital by way of placements over a 12 month period. This is in addition to a company's ability to issue up to 15% of its issued capital in a 12 month period without Shareholder approval. The number of shares which may be issued by a company under Listing Rule 7.1A is calculated in accordance with the following formula:

$$(A \times D) - E$$

where

A is the number of shares on issue 12 months before the date of issue or agreement:

- plus the number of fully paid shares issued in the 12 months under an exception in Listing Rule 7.2;
- plus the number of partly paid shares that became fully paid in the 12 months;
- plus the number of fully paid shares issued in the 12 months with the approval of Shareholders under Listing Rule 7.1 or Listing Rule 7.4;
- less the number of fully paid ordinary shares cancelled in the 12 months.

D is 10%.

E is the number of shares issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of Shareholders under Listing Rule 7.1 or Listing Rule 7.4.

The Directors are seeking approval to issue a number of shares representing 10% of the issued share capital of the Company pursuant to Listing Rule 7.1A.

The primary purpose for which shares may be issued pursuant to resolution 12 is to pursue possible further investment opportunities which may arise, for working capital to utilise within the Group for operations and project development, or for further investment opportunities for non-cash consideration.

The shares must be issued at an issue price that is at least 75% of the Volume Weighted Average Price for the Company's Equity Securities over the 15 Trading Days immediately before:

a. The date of which the price at which the Equity Securities are to be issued is agreed; or

b. If the Equity Securities are not issued within 5 Trading Days of the date in paragraph (a) above, the date on which the Equity Securities are issued.

The Company may issue some of the shares for non-cash consideration, for example, as part of the consideration for an acquisition of assets but the issue price attributable to the shares shall be at least 75% of the volume weighted price as referred to above.

In the event that shares are issued for non-cash consideration, the Company will announce to the market the valuation of the non-cash consideration as required by Listing Rule 7.1A.3.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any shares.

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issued pursuant to the 10% placement facility under Listing Rule 7.1A. The identity of the allottees of shares will be determined on a case by case basis having regard to factors including but not limited to the following:

(i) The methods of raising funds that are available to the Company, including rights issue or other issues in which existing Shareholders can participate;

(ii) The effect of the issue the shares on the control of the Company;

(iii) The financial situation of the Company;

(iv) Advice from corporate, financial and broking advisors; and

(v) The potential benefits an allottee could provide to the Company as a strategic investor (if applicable).

The allottees under the 10% placement facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

Provided that Shareholder approval is granted for resolution 12, then there is a risk that the share price may be lower on the issue date than on the date on which approval is given to this resolution 12, and the shares may be issued at a discount to the market price for those equity securities. The table below is provided to illustrate the potential dilution of existing Shareholders on the basis of the current market price of shares and the current number of shares for variable "A" calculated in accordance with the formula in Listing Rule 7.1A.2 as at 7 October 2016.

Variable "A" in Listing Rule 7.1A.2		**Dilution**		
		$0.045 **50% decrease in Issue Price**	$0.09 **Issue Price**	$0.18 **100% increase in Issue Price**
Current Variable A 282,290,182 shares	**10% Voting dilution**	28,229,018	28,229,018	28,229,018
	Funds raised	$1,270,305.81	$2,540,611.62	$5,081,223.24
50% increase in current Variable A 423,435,273	**10% Voting dilution**	42,343,527	42,343,527	42,343,527
	Funds raised	$1,905,458.71	$3,810,917.43	$7,621,834.86
100% increase In current Variable A 564,580,364	**10% Voting dilution**	56,458,036	56,458,036	56,458,036
	Funds raised	$2,540,611.62	$5,081,223.24	$10,162,446.48

The table is prepared on the following assumptions:

(i) The Company issues the maximum number of shares available under Listing Rule 7.1A;

(ii) No shares are issued on the conversion of options before the date of issue of the shares;

(iii) The table shows only the effect of shares issues under Listing Rule 7.1A and does not factor in the Company's ability to issue up to 15% of its issued capital under Listing Rule 7.1;

(iv) The issue price is $0.09

The table shows:

(i) two examples where variable "A" has increased, by 50% and 100%. Variable "A" is based on the number of shares the Company has on issue. The number of shares on issue may increase as a result of issues of shares that do not require approval (for example, a pro rata entitlements issue) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and

(ii) two examples of where the issue price of shares has decreased by 50% and increased by 100% as against the current market price.

If Shareholder approval is granted for resolution 12, then that approval will expire on the earlier of:

(i) 30 November 2017 being 12 months from the date of the Meeting; or

(ii) the date Shareholder approval is granted to a transaction under Listing Rule 11.1.2 (proposed change to nature and scale of activities) or Listing Rule 11.2 (change involving main undertaking).

The Company has previously obtained Shareholder approval under Listing Rule 7.1A on 30 November 2015.

In the 12 months prior to the date of this notice, the Company issued 172,369,406 ordinary shares which represents 130% of the issued capital of the Company at the commencement of the 12 month period. In addition the Company issued 97,575,207 warrants and options, which if converted represents 73% of the issued capital of the Company at the commencement of the 12 month period.

Issue of Securities in previous 12 Months:

Date of Issue	3 December 2015
Number Issued	219,069
Class/Type of Security	Ordinary Shares
Summary of Terms	Fully Paid
Name of persons who received securities or basis on which those persons was determined	Option Holders
Price	10c
Discount to market price (if any)	nil
Total consideration received	$21,906.90
Amount of cash consideration spent	$21,906.90
Use of cash consideration	Working capital for the Company general operations
Intended use for remaining amount of cash (if any)	n/a

Date of Issue	12 May 2016
Number Issued	140,000
Class/Type of Security	Options
Summary of Terms	Converts to fully paid ordinary shares at 7.5c per share up to 15 June 2017
Name of persons who received securities or basis on which those persons was determined	Jonathan Malins
Valuation*	$6,963
Discount to market price (if any)	nil
Total consideration received	nil
Amount of cash consideration spent	nil
Use of cash consideration	n/a
Intended use for remaining amount of cash (if any)	Future working capital of the Company

*Black–Scholes Valuation

Date of Issue	12 May 2016
Number Issued	280,000
Class/Type of Security	Ordinary Shares
Summary of Terms	Fully paid
Name of persons who received securities or basis on which those persons was determined	Jonathan Malins
Price	7.5c
Discount to market price (if any)	nil
Total consideration received	$21,000
Amount of cash consideration spent	$21,000
Use of cash consideration	Working capital
Intended use for remaining amount of cash (if any)	N/a

Date of Issue	5 August 2016
Number Issued	15,000,000
Class/Type of Security	Ordinary Shares
Summary of Terms	Fully paid
Name of persons who received securities or basis on which those persons was determined	Professional and Sophisticated Investors
Price	5c
Discount to market price (if any)	6%
Total consideration received	$750,000
Amount of cash consideration spent	$250,000
Use of cash consideration	Working capital
Intended use for remaining amount of cash (if any)	Working Capital, costs of the issue, investment in Subsidiaries

Date of Issue	5 August 2016
Number Issued	7,500,000
Class/Type of Security	Options
Summary of Terms	Converts to fully paid ordinary shares at 5c per share up to 30 August 2017
Name of persons who received securities or basis on which those persons was determined	Participants in the issue of share referred to above.
Valuation*	$275,052
Discount to market price (if any)	nil
Total consideration received	nil
Amount of cash consideration spent	nil
Use of cash consideration	n/a
Intended use for remaining amount of cash (if any)	Future working capital of the Company

*Black-Scholes valuation

Date of Issue	12 September 2016
Number Issued	107,663,430
Class/Type of Security	Ordinary Shares
Summary of Terms	Fully Paid
Name of persons who received securities or basis on which those persons was determined	Shareholders and Underwriters of the Rights Issue
Price	5c
Discount to market price (if any)	nil
Total consideration received	$5,383,171.50
Amount of Cash consideration spent	nil
Non-Cash consideration paid	Repayment for Loan and Interest outstanding to Harrington Global Limited
Current Value of that non-cash consideration	$2,493,405
Use of cash consideration	Costs of the Issue, Investment in subsidiary, working capital
Intended use for remaining amount of cash (if any)	Costs of the Issue, Investment in subsidiary, working capital

Date of Issue	12 September 2016
Number Issued	53,831,753
Class/Type of Security	Options
Summary of Terms	Converts to fully paid ordinary shares at 5c per share up to 30 August 2017
Name of persons who received securities or basis on which those persons was determined	Shareholders and Underwriters of the Rights Issue
Valuation*	$1,775,097
Discount to market price (if any)	nil
Total consideration received	nil
Amount of cash consideration spent	nil
Use of cash consideration	n/a
Intended use for remaining amount of cash (if any)	Future working capital of the Company

*Black-Scholes valuation

Date of Issue	12 September 2016
Number Issued	43,566,907
Class/Type of Security	Ordinary Shares
Summary of Terms	Fully Paid
Name of persons who received securities or basis on which those persons was determined	Placement to professional and sophisticated investors
Price	5c
Discount to market price (if any)	n/a
Total consideration received	$2,178,435.35
Amount of cash consideration spent	nil
Use of cash consideration	Costs of the Issue, Investment in subsidiary, working capital
Intended use for remaining amount of cash (if any)	Costs of the Issue, Investment in subsidiary, working capital

Date of Issue	12 September 2016
Number Issued	21,783,454
Class/Type of Security	Options
Summary of Terms	Converts to fully paid ordinary shares at 5c per share up to 30 August 2017
Name of persons who received securities or basis on which those persons was determined	Participants in the issue set out above
Valuation*	$718,307
Discount to market price (if any)	nil
Total consideration received	nil
Amount of cash consideration spent	nil
Use of cash consideration	n/a
Intended use for remaining amount of cash (if any)	Future working capital of the Company

*Black-Scholes valuation

Date of Issue	15 September 2016
Number Issued	5,640,000
Class/Type of Security	Ordinary Shares
Summary of Terms	Fully Paid
Name of persons who received securities or basis on which those persons was determined	Placement to professional and sophisticated investors
Price	5c
Discount to market price (if any)	n/a
Total consideration received	$282,000
Amount of cash consideration spent	nil
Use of cash consideration	Costs of the Issue, Investment in subsidiary, working capital
Intended use for remaining amount of cash (if any)	Costs of the Issue, Investment in subsidiary, working capital

Date of Issue	12 September 2016
Number Issued	14,320,000
Class/Type of Security	Options
Summary of Terms	Converts to fully paid ordinary shares at 5c per share up to 30 August 2017
Name of persons who received securities or basis on which those persons was determined	2,820,000 to Participants in the issue set out above, 11,500,000 to Hartleys Limited and sophisticated investors
Valuation*	$472,200
Discount to market price (if any)	nil
Total consideration received	nil
Amount of cash consideration spent	nil
Use of cash consideration	n/a
Intended use for remaining amount of cash (if any)	Future working capital of the Company

*Black-Scholes valuation

11. RESOLUTION 13 – ISSUE OF SHARES TO R. MACLACHLAN

The Company believes it is appropriate to grant equity to the CEO, Mr MacLachlan. Smaller entities often elect to use equity instruments to remunerate key personnel in order to attract and retain high calibre individuals while minimizing the cash cost of engaging those people. In addition, the equity also help to create alignment between directors and shareholders. In particular, the Company wishes to grant the 9,000,000 Shares to Mr Ross MacLachlan under the proposed Resolution 13 instead of other alternatives considered by the Company including increasing Directors' fees or providing other forms of cash based remuneration at a time when the Company is still in the early stages of implementing of new business strategy. The Board negotiated Mr MacLachlan's share based compensation to be in alignment with the recent financing of the Company completed at a price of $0.05 per share. Since the completion of the financing the Share price of the Company has increased significantly from $0.05 to a high of $0.145 with a closing price of $0.12 on 25 October 2016. The Company considers the issue of the Shares to be favourable to other available alternatives because it provides a means of appropriately remunerating and incentivising Mr MacLachlan in a manner that preserves cash resources and also aligns the interests of Mr MacLachlan with the interests of shareholders.

The 9,000,000 Shares proposed to be issued under Resolution 13 will be subject to a Voluntary Escrow agreement entered into between Mr MacLachlan and the Company. The key terms of the Voluntary Escrow agreement are:

a. 3,000,000 Shares will be under escrow until the earlier of 15 November 2017 or the date the Company's ordinary shares have traded at a 30 day volume weighted average price (VWAP) of 10c on the ASX;

b. 3,000,000 Shares will be escrowed and not eligible for early release until 15 July 2017, and then upon the earlier of 15 January 2018 or the date the Company's ordinary shares traded at a 30 day VWAP of 10c on the ASX; and

c. 3,000,000 shares will be escrowed and not eligible for early release until 15 January 2018, and then upon the earlier of 15 July 2018 or the date the Company's ordinary shares traded at a 30 day VWAP of 10c on the ASX.

While the shares are subject to escrow, Mr MacLachlan will not be able to trade or otherwise deal in the Shares. Mr MacLachlan will be entitled to cast a vote in respect of the Shares from their date of issue.

The Board of the Company may agree to an earlier release of all or some of the Shares from escrow in certain circumstances, including but not limited to an acquisition by the Company or an investment in the Company by a strategic investor. The Shares will automatically be released from Escrow in the event of the death of Mr MacLachlan, the Company terminating the employment of Mr MacLachlan without cause or in the event of a takeover of the Company such that the Shares are entitled to participate in such takeover.

In the event Mr MacLachlan chooses to leave the Company, or is terminated for cause, any Shares still subject to Escrow at that time will be cancelled, subject to shareholder approval.

The Shares will be issued on terms that if they are not released from escrow, they will be forfeited and cancelled by resolution at a general meeting in accordance with section 258D of the Corporations Act.

The Company has assessed the value of the 9,000,000 Shares using firstly $0.05, being the recent fundraising price of the Company and the price at which the board determined the number of Shares to be issued and then by using the Volume weighted average price (VWAP) of the shares traded on the ASX for 30 and 60 days prior to the date of announcement of the proposed issue of the Shares on 7 October 2016 and finally using the closing price of the shares as at 25 October 2016. The value of the 9,000,000 shares to be issued to Mr MacLachlan is:

$0.05 (recent fundraising price)	30 Day VWAP of $0.0692	60 Day VWAP of $0.0676	Closing price on 25 October 2016 of $0.12
$450,000	$622,800	$608,400	$1,080,000

The total Remuneration for Mr MacLachlan, assuming Resolutions 8 and 13 are passed is estimated to be:

Base Remuneration	Options at the date of announcement on 16 August 2016 (Resolution 8)	Shares at $0.05 (Resolution 13)	Total Remuneration
A$280,000	A$785,974	A$450,000	A$1,515,974

The Company undertook a benchmarking review of the remuneration for Mr MacLachlan on an annualized basis taking into account the Escrow periods of the Shares and length of the Options.

As Mr MacLachlan is Canadian based, and the operations of the Company are global, Mr MacLachlan's remuneration was compared to the remuneration of matched positions from two peer groups chosen from ASX-listed and Canadian listed companies. Both peer groups were chosen based on the nature of their operations and size.

Canadian remuneration is shown in Canadian dollars (CAD) and Australian remuneration is shown in Australian dollars (AUD). (The current exchange rate (1.0030) is near to parity).

Maximum remuneration includes the maximum Short Term Incentives (STI) and the maximum fair value of the most recent Long Term Incentives (LTI) grant, assuming full vesting.

Table 1 shows the comparison of the Kalina Power CEO maximum proposed remuneration to benchmark medians.

	Kalina Power (AUD)	Australian Peers (AUD)	Difference +/-	Canadian Peers (CAD)	Difference +/-
Fixed Remuneration	$285,000	$349,859	-19%	$292,772	-3%
Fixed plus Maximum STI	$285,000	$390,680	-27%	$351,412	-19%
Maximum Total Remuneration	$532,325	$569,200	-6%	$613,853	-13%

Actual remuneration includes the actual STI paid and the maximum fair value of the most recent LTI grant, assuming full vesting. Table 2 shows the comparison of the Kalina Power CEO actual proposed remuneration to benchmark medians.

Table 2: Kalina Power CEO proposed remuneration relative to the median of actual peer CEO remuneration

	Kalina Power (AUD)	Australian Peers (AUD)	Difference +/-	Canadian Peers (CAD)	Difference +/-
Fixed Remuneration	$285,000	$349,859	-19%	$292,772	-3%
Fixed plus Maximum STI	$285,000	$375,000	-24%	$292,772	-3%
Maximum Total Remuneration	$532,325	$550,700	-3%	$546,207	-3%

The results of the benchmarking process can be summarised as follows:

- Based on the current financial metrics, fixed remuneration is consistent with the Canadian benchmark, but below the Australian Benchmark.
- The equity-based award quantum, instrument and performance are consistent with other companies at the same development stage as the Company.
- Total remuneration is close to, but below benchmark levels.
- If growth expectations are realised, total remuneration will be below benchmark levels.

The annualised value of equity grants to Mr McLachlan were estimated based on:

- One third of the 2016 options grant fair value (23.3m x $0.0087 x 33.3%)
- Half of the proposed grant of shares vesting 15/7/17 or achievement of $0.10 30-day VWAP (3m x $0.06 x 50%)
- Half of the proposed grant of shares vesting 15/1/18 or achievement of $0.10 30-day VWAP (3m x $0.06 x 50%)

The proposed grant of 3,000,000 of the 9,000,000 shares is in recognition of past service and was excluded from the estimate. It is the intention of the Company that no further options grants are anticipated in the medium term and that the staggered vesting of the two share grant tranches, reflect the lack of historical equity grants.

In accordance with AASB 2, the shares issued will be calculated based on market value on the date of issue. However the value of the first 3,000,000 shares (an indicative amount of $150,000 at $0.05c per share) will be expensed in the Statement of Profit & Loss in the year ended 30 June 2017 and the remainder of the value for the 6,000,000 shares issued (an indicative amount of $300,000 at $0.05c per share) will be expensed in the Statement of Profit & Loss over a period from the date of issue to 30 June 2018.

The issue of the 9,000,000 will dilute existing Shareholders interests, assuming Shares are issued under Resolution 4, by 2.9%.

The following information is given to shareholders as required by the Listing Rules:

(a) The related party to whom the Shares will be issued is Mr Ross MacLachlan and the maximum number of Shares to be issued is 9,000,000. There is no issue price for the Shares.

(b) No funds will be raised by the issue of the Shares.

(c) The Shares will be issued within 1 month of the date of the meeting.

12. RESOLUTION 14 – EMPLOYEE INCENTIVE SCHEME

The Company proposes to implement an Employee Share Option Plan (ESOP) to enable the Company to grant options and/or performance rights to employees and consultants to retain, and attract, the personnel necessary to implement the Company's strategic objectives. The granting of securities to employees and consultants will also align their interests with those of shareholders.

Approval of the ESOP by shareholders will allow the Company to issue securities under the ESOP over the next 3 years without reducing the Company's placing capacity.

The terms of the ESOP are summarised below:

1. The Board in its absolute discretion may offer options or performance rights to eligible participants from time to time, having regard to some or all of the following:

    (a) the length of service by the eligible participants;

    (b) the contribution or potential contribution by the eligible participant to the Company; and

    (c) any other matter the Board considers relevant.

    subject to the terms of the securities being consistent with the Listing Rules.

2. Persons eligible to participate in the ESOP are:

    (a) full-time or part-time employees;

    (b) directors (subject to shareholder approval);

    (c) contractors;

    (d) casual employees (being someone engaged to work the equivalent of 40% or more of a comparable full-time employee;

    (e) prospective participants.

3. No securities may be offered, issued, converted or exercised if to do so would contravene any applicable law or the Listing Rules.

4. The number of Options and/or performance rights to be offered to a participant will be determined by the Board in its absolute discretion and in accordance with the ESOP and applicable law.

5. The Board will also determine:

    (a) the issue price (if any) of the securities being offered;

    (b) any vesting conditions applicable to the securities;

    (c) the expiry date of the securities; and

    (d) the exercise price of options offered under ESOP.

6. An eligible participant may nominate an immediate family member, a corporate trustee of a self-managed superannuation fund of which the eligible participant is a director, or a company whose members comprise no persons other than the eligible participant or their immediate family members as the party to whom securities offered under ESOP should be issued.

7. Options or performance rights issued under the ESOP must not be dealt with by the holder except with the prior consent of the Board, or by force of law upon the death of the holder to the holder's legal personal representative. Unless the Board otherwise decides, any dealing with an option or performance right other than as permitted above will result in the option or performance right immediately lapsing.

8. Unless otherwise specified in their terms of issue, securities issued under ESOP will lapse if:

   (a) the vesting conditions have not been satisfied;

   (b) they have not been exercised by their expiry date;

   (c) the holder ceases to be an eligible participant due to:

      (i) resignation; or

      (ii) dismissal for cause or bad performance.

9. Holders of options or performance rights issued under the ESOP are not entitled to participate in any new issues of securities to existing holders unless:

   (a) they have become entitled to exercise their options and do so before the record date for the new issue; and

   (b) the holder of performance rights receives shares upon the vesting of those rights.

10. If a takeover offer for the Shares in the Company becomes unconditional, or a scheme of arrangement is approved by the court, or another change of control event occurs, the Board may in its sole discretion (subject to the Listing Rules) determine how unvested options or performance rights will be treated.

11. The ESOP is administered by the Board, or a sub-committee of the Board.

A copy of the ESOP is available for inspection on the Company's website.

13. ENQUIRIES

Shareholders are required to contact the Chairman or Company Secretary on +61 (3) 9236 2800 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

$ means Australian dollars.

ASX means ASX Limited (ACN 008 624 691).

Board means the board of directors of the Company.

Company or Kalina means Kalina Power Limited (ACN 000 090 997).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors mean the current directors of the Company.

Explanatory Statement means the explanatory statement which accompanies, and forms part of, the Notice of Meeting.

Key management personnel means those persons having authority or responsibility for planning directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise).

Listing Rules means the Listing Rules of ASX.

Meeting means the meeting convened by the Notice.

Notice means the notice of general meeting accompanying this Explanatory Statement.

Resolution means the resolutions set out in the Notice, or any one of them, as the context requires.

Share means a fully paid ordinary share in the Company.

Shareholder means a holder of a Share.

AEDST means Australian Eastern Daylight Savings Time.

KALINA POWER LIMITED

Financial Services Guide and Independent Expert's Report

November 2016

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

FINANCIAL SERVICES GUIDE

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 AFSL 255 847 (“RSM” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of an independent expert’s report to be provided to you.

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (“FSG”). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we will provide

For the purpose of our report and this FSG, the financial service which we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge various fees for providing various different financial services. However in respect of the financial services being provided to you by us, fees will be agreed with, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All of our employees who provide or provided services in relation to the financial services being provided to you receive a salary. However, other employees of RSM Corporate Australia Pty Ltd may be remunerated in other ways, such as salaries with the entitlement to earn a bonus, depending on meeting revenue, compliance and marketing targets throughout any given financial year. Such other remuneration structures are not relevant to the financial services being provided to you.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

RSM Corporate Australia Pty Ltd is wholly owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints Resolution

Internal complaints resolution process
As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, RSM Corporate Australia Pty Ltd, PO Box R1253, Perth, WA, 6844, +61 (0) 8 9261 9100.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme
A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service (“FOS”). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

Toll Free:	1300 78 08 08
Facsimile:	(03) 9613 6399
Email:	info@fos.org.au

Contact Details

You may contact us using the details set out at the top of our letterhead on page 3 of the Independent Expert’s Report.

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RSM

2 November 2016

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Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of Meeting and Explanatory Statement ("NOM") to shareholders for the Annual General Meeting of Kalina Power Limited ("KPO" or "the Company") to be held in December 2016 at which shareholder approval will be sought for resolutions relating to the issue of shares and options to Harrington Global Opportunities Fund SARL ("Harrington") as follows:

Resolution 4A – Approval of Issue of Shares

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a relevant interest in the Company's voting shares arising from the allotment and issue of by the Company of 3,588,010 Shares to Harrington Global Opportunities Fund SARL (Harrington) on the terms and conditions set out in the Explanatory Statement; and

That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a deemed relevant interest in the shares referred to in this Resolution 4A above by the associates of Harrington named in the Explanatory Statement."

Resolution 4B – Approval of Issue of Shares on Exercise of Options

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for, subject to Resolution 5 being passed, the acquisition of a relevant interest in the Company's voting shares as a result of the allotment and issue of by the Company of 19,294,005 Shares to Harrington upon exercise of the Options issued pursuant to Resolution 5; and

That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a deemed relevant interest in the shares referred to in this Resolution 4B above by the associates of Harrington named in the Explanatory Statement."

Resolution 4C – Approval of Issue of Shares and Issue of Shares on Exercise of Options

To consider, and if thought fit, to pass the following resolution as an ordinary resolution:

"That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a relevant interest in the Company's voting shares as a result of the allotment and issue by the Company of 24,934,055 Shares to Harrington upon exercise of that number of Options held by Harrington at the date of this Notice; and

1. Introduction (Cont.)

That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition of a deemed relevant interest in the shares referred to in this Resolution 4C above by the associates of Harrington named in the Explanatory Statement.”

Resolution 5 – Issue of New Options

To consider, and if thought fit, with or without amendment to pass the following resolution as an ordinary resolution:

“That, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the issue by the Company of 19,294,005 Options to Harrington, each Option exercisable into one Share at an exercise price of 5 cents per Option and otherwise on the terms and conditions set out in the Explanatory Statement.”

1.2 The Directors of KPO have requested RSM Corporate Australia Pty Ltd ("RSM"), being independent and qualified for the purpose, to express an opinion as to whether Resolutions 4A, 4B and 4C (collectively, “the Proposed Transactions" or “the Resolutions”), are fair and reasonable to KPO shareholders not associated with the Proposed Transactions ("the Non-Associated Shareholders" or "Shareholders"). We have had regard to Regulatory Guide 111 Content of Expert Reports (“RG 111”), in our assessment of the fairness and reasonableness of the Proposed Transactions.

1.3 As the approval of the issue of 19,294,005 new ordinary shares to Harrington contemplated in Resolution 4B is subject to the approval of Resolution 5, we have assumed that both Resolutions 4B and 5 are approved when evaluating whether Resolution 4B is, as a whole, fair and reasonable to Non-Associated Shareholders.

1.4 The ultimate decision whether to approve each of the Resolutions should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Proposed Transactions, or matters dealt with in this Report, Shareholders should seek independent professional advice.

2. Summary and Conclusion

2.1 In our opinion, and for the reasons set out in Sections 8 and 9 of this Report, for the purposes of Section 611, Item 7 of the Corporations Act 2001, the Proposed Transactions are **not fair but reasonable** for the Non-Associated Shareholders of KPO.

Fairness

2.2 In assessing the fairness of the Proposed Transactions, we have valued a share in KPO prior to each Resolution, and immediately after Resolutions 4A, 4B and 4C on a standalone basis. We have also valued a share in KPO immediately after the Proposed Transactions, assuming that Resolutions 4A, 4B and 4C are all approved, as set out in the table below.

Valuation Summary	Low $	High $	Preferred $
Fair Value per share prior to the Proposed Transactions (on a controlling basis)	$0.0341	$0.0341	$0.0341
Fair Value per share immediately after Resolution 4A (on a non-controlling basis)	$0.0263	$0.0274	$0.0268
Fair Value per share immediately after Resolution 4B (on a non-controlling basis and assuming all options issued to Harrington are exercised)	$0.0269	$0.0280	$0.0275
Fair Value per share immediately after Resolution 4C (on a non-controlling basis and assuming all options held by Harrington are exercised)	$0.0271	$0.0282	$0.0277
Fair Value per share immediately after all Resolutions have been approved (on a non-controlling basis and assuming all options held by Harrington are exercised)	$0.0278	$0.0290	$0.0284

Table 1 – Valuation Summary

2.3 We have assessed the value of a share in KPO on a controlling basis prior to the Proposed Transactions and then on a minority interest basis immediately after each Resolution, to account for the expected dilution of Non-Associated Shareholders’ interest in KPO.

2. Summary and Conclusion (Cont.)

2.4 The above comparison is depicted graphically below.

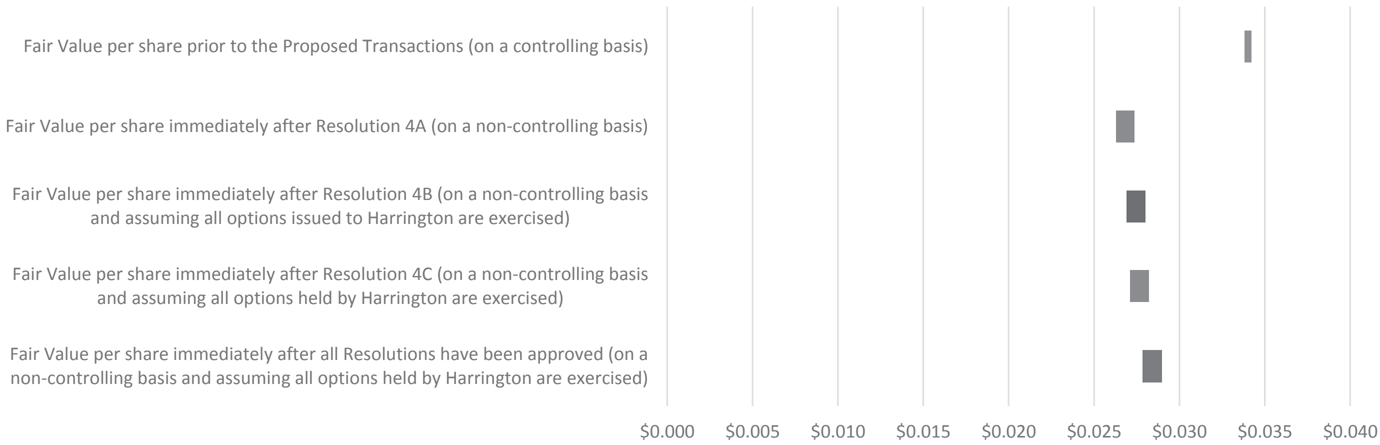

Chart 1 – Valuation Summary

2.5 As the Fair Value of a KPO share immediately after Resolutions 4A, 4B and 4C on standalone basis is less than the Fair Value of a KPO share prior to the Proposed Transactions, and in the absence of any other relevant information, in our opinion, Resolutions 4A, 4B and 4C are not fair to the Non-Associated Shareholders of KPO.

Reasonableness

2.6 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for the security holders to accept the offer.

2.7 In our assessment of whether the Proposed Transactions are reasonable, we have given consideration, in Section 9 of the Report, to the future operations of KPO if the Resolutions do not proceed, and other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Resolutions proceeding.

Future prospects of KPO if Resolution 4A does not proceed

2.8 If Resolution 4A is not successful, the issue of the 3,588,010 new ordinary shares to Harrington will not proceed. The Loan outstanding of $179,401 at the date of this Report will continue to accrue interest and will remain payable by the Company.

2.9 At 30 June 2016, the Company disclosed a cash position of $756,000, and has a cash balance of circa $5.3 million as at the date of this Report. At the date of this Report, the Company's share price was circa $0.125. Whilst the conversion of the Loan outstanding at $0.05 per share contemplated by Resolution 4A is more dilutive than if the conversion were to take place at KPO's current share price, we note that the Loan Agreement with Harrington provided that the Company would repay the Loan by Harrington underwriting the Rights Issue to the extent of the Loan. The issue of shares under Resolution 4A is to satisfy KPO's contractual obligations under its underwriting agreement with Harrington. If approval is not obtained, the Loan outstanding will continue to accrue interest and will need to be repaid on 30 January 2017.

2.10 KPO has yet to generate operating revenue and continues to incur significant costs. Whilst KPO currently has the capacity to repay the Loan outstanding, the conversion of the Loan will allow the Company to extinguish the Loan and utilise the funds for operating purposes.

Future prospects of KPO if Resolution 4B does not proceed

2.11 The issue of 19,294,005 options may still occur if Shareholders approve Resolution 5 (but not Resolution 4B). However, Harrington will be unable to exercise those options unless Shareholders subsequently approve their exercise or unless Harrington is otherwise able to exercise some or all of those options in accordance with Item 9, Section 611 of the Corporations Act.

2.12 As set out above, at 30 June 2016, the Company disclosed a cash position of $756,000, and has a cash balance of circa $5.3 million as at the date of this Report.

2. Summary and Conclusion (Cont.)

2.13 KPO has yet to generate operating profits. The Company's audited financial statements for the year ended 30 June 2016 included an emphasis of matter in the independent auditor's report that stated that KPO's ability to continue as a going concern was based on certain assumptions including:

- cashflow forecasts for the year to 30 June 2018 that included operating cash inflows and outflows in relation to ongoing projects;
- a forecast reduction in future operating expenses as the Board of Directors' focus will be to control future expenditure; and
- the successful raising of funds from its recent rights issue and private placements, as well as the conversion of the remainder of its Loan to Harrington.

2.14 At the date of this Report, KPO has achieved a successful capital raising through its recent Rights Issue. However, KPO's ability to continue as a going concern assumes that the Company will continue to raise sufficient capital to fund its ongoing projects whilst effectively controlling future expenditure. In the event that KPO is not able achieve all the key milestones set out above, the Company may not be able to continue as a going concern in the longer term.

Future prospects of KPO if Resolution 4C does not proceed

2.15 If Resolution 4C is not approved, Harrington will be unable to exercise the 24,934,055 options it currently holds unless Shareholders subsequently approve their exercise or unless Harrington is otherwise able to exercise some or all of those options in accordance with Item 9, Section 611 of the Corporations Act.

2.16 As set out above, KPO has yet to generate operating profits. The Company's audited financial statements for the year ended 30 June 2016 included an emphasis of matter in the independent auditor's report that stated that KPO's ability to continue as a going concern was based on certain assumptions including:

- cashflow forecasts for the year to 30 June 2018 that included operating cash inflows and outflows in relation to ongoing projects;
- a forecast reduction in future operating expenses as the Board of Directors' focus will be to control future expenditure; and
- the successful raising of funds from its recent rights issue and private placements, as well as the conversion of the remainder of its Loan to Harrington.

2.17 In the event the Company is unsuccessful in achieving all the key milestones as set out above, including further capital raisings, the Company may not be able to continue as a going concern in the longer term.

2.18 In our opinion, the key advantages of Resolution 4A are:

- the Loan amount of $179,401 due to Harrington will be fully extinguished if Resolution 4A is approved, and the funds that would be required to repay the Loan can be used for operating purposes; and
- whilst we have applied a discount for lack of control in accordance with RG 111 in our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4A, we note that Harrington will increase its shareholding from 27.1% to 27.9%. As such, Harrington will not obtain control of the Company if Resolution 4A is approved. As set out in Table 16 of this Report, the value of a KPO share immediately after the approval of Resolution 4A, but before applying a minority interest discount, of $0.0342, exceeds our assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

2.19 In our opinion, the key advantages of Resolution 4B are:

- the issue of shares and options to Harrington under Resolution 4B will be undertaken at the same price as the recent Rights Issue undertaken by KPO;
- notwithstanding dilution in Non-Associated Shareholders' interest in the event Resolution 4B is approved, the cash position of the Company would be further improved if Harrington chooses to exercise any of its options issued under Resolution 4B; and

2. Summary and Conclusion (Cont.)

- whilst we have applied a discount for lack of control in accordance with RG 111 in our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4B, we note that Harrington will increase its shareholding from 27.1% to 31.4% on a fully diluted basis. As such, Harrington will not obtain control of the Company if Resolution 4B is approved. As set out in Table 17 of this Report, the value of a KPO share immediately after the approval of Resolution 4B, but before applying a minority interest discount, of $0.0350 on a fully diluted basis, exceeds our assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

2.20 In our opinion, the key advantages of Resolution 4C are:

- the issue of shares to Harrington under Resolution 4C will be undertaken at the same price as the recent Rights Issue undertaken by KPO;
- notwithstanding dilution in Non-Associated Shareholders' interest in the event Resolution 4C is approved, the cash position of the Company would be further improved if Harrington chooses to exercise any of its options held if Resolution 4C was approved; and
- whilst we have applied a discount for lack of control in accordance with RG 111 in our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4C, we note that Harrington will increase its shareholding from 27.1% to 32.6% on a fully diluted basis. As such, Harrington will not obtain control of the Company if Resolution 4C is approved. As set out in Table 18 of this Report, the value of a KPO share immediately after the approval of Resolution 4C, but before applying a minority interest discount, $0.0353 on a fully diluted basis, exceeds our assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

2.21 In our opinion, the key disadvantages of Resolution 4A are:

- Resolution 4A is not fair;
- Non-Associated Shareholders' interest in KPO will be diluted from 72.9% to 72.1% if Resolution 4A is approved; and
- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

2.22 In our opinion, the key disadvantages of Resolution 4B are:

- Resolution 4B is not fair;
- Non-Associated Shareholders' interest in KPO will be diluted from 72.9% to 68.6% if Resolution 4B is approved and Harrington exercises all of the options issued under Resolution 4B; and
- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

2.23 In our opinion, the key disadvantages of Resolution 4C are:

- Resolution 4C is not fair;
- Non-Associated Shareholders' interest in KPO will be diluted from 72.9% to 67.4% if Resolution 4C is approved and Harrington exercises all of its current options held in accordance with the approval obtained under Resolution 4C; and
- the dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

2.24 We are not aware of any alternative proposals, which may provide a greater benefit to the Non-Associated Shareholders of KPO at the date of this Report.

2.25 We have also considered the Volume Weighted Unit Price ("VWAP") of KPO's share price and volumes traded in the period prior to, and after the announcement of the Proposed Transactions on 6 January 2016 in our assessment of the market's response to the announcement.

2. Summary and Conclusion (Cont.)

2.26 The VWAP of $0.0991, in the period after the announcement to 2 November 2016, is 25.9% and 97.0% higher than the VWAP of $0.0787 and $0.0503 disclosed for the 60 days and 10 days prior to the announcement of the Proposed Transactions, respectively.

2.27 Volumes traded have increased to 65.2% for the period after the announcement of the Proposed Transactions to 2 November 2016. We note, however, that volumes traded since the Company's shares recommenced trading on the ASX may be distorted by the capital raising activities of the Company.

2.28 Notwithstanding the volatility and historically low liquidity of KPO's shares, we consider that the market has reacted favourably to the announcement of the Proposed Transactions.

2.29 In the absence of any other relevant information and/or a superior offer, for the purposes of Section 611, Item 7 of the Corporations Act, we consider that Resolution 4A is reasonable for the Non-Associated Shareholders of KPO.

2.30 In the absence of any other relevant information and/or a superior offer, for the purposes of Section 611, Item 7 of the Corporations Act, we consider that Resolution 4B is reasonable for the Non-Associated Shareholders of KPO.

2.31 In the absence of any other relevant information and/or a superior offer, for the purposes of Section 611, Item 7 of the Corporations Act, we consider that Resolution 4C is reasonable for the Non-Associated Shareholders of KPO.

3. Summary of the Proposed Transactions

Background

3.1 On 6 January 2016, KPO entered into a loan agreement for $2,500,000 ("Loan") with Harrington Global Limited, the investment manager of Harrington Opportunities Fund SARL (collectively, "Harrington"). The Company received the $2,500,000 funding on 7 January 2016.

3.2 Harrington provided the Loan to the Company ahead of its obligations to underwrite a non-renounceable rights issue of KPO.

3.3 The Loan accrues interest on a daily basis at 10% per annum and is repayable on 30 January 2017 unless converted to shares, pursuant to Harrington's underwriting obligations as set out in further detail below.

3.4 On 12 May 2016, KPO announced it had resolved to raise up to $5 million through a non-renounceable rights issue to all eligible shareholders, at an issue price of 7.5 cents per share ("the Initial Rights Issue"), and issued a prospectus pursuant to the Initial Rights Issue on the same day.

3.5 The terms of the Initial Rights Issue comprised a non-renounceable rights issue at a price of 7.5 cents per ordinary share on the basis of 1 ordinary share for every 2 shares held, with, for 2 new ordinary shares issued, an option to acquire a further ordinary share exercisable at 7.5 cents, on or before 15 June 2017.

3.6 On 20 June 2016, the Company announced it had resolved to amend the Initial Rights Issue, such that the Company was offering eligible shareholders to subscribe for new fully paid ordinary shares on the basis of 3 new ordinary shares at an issue price of 5 cents per share for each 4 fully paid ordinary shares held, with an accompanying option exercisable at 5 cents on or before 15 July 2017, for every 2 ordinary shares issued. On the same day, the Company also issued an announcement stating that, in order to effect the changed terms of the rights offer, the Initial Rights Issue was withdrawn, and the application funds received from shareholders would be returned.

3.7 On 1 August 2016, KPO announced that the Company had resolved to undertake a non-renounceable rights issue to raise $5,500,000 ("the Rights Issue") (to replace the Initial Rights Issue), as well as to undertake a placement ("Placement") to raise up to $1,800,000, with the Placement to be conducted alongside the Rights Issue.

3. **Summary of the Proposed Transactions (Cont.)**

3.8 The Company completed an initial placement to raise $750,000 utilising the Company's permitted placing capacity, through the issue of 15,000,000 shares to Hartleys Limited ("Hartleys") at 5 cents per share, with an attaching option for every 2 shares issued (7,500,000 options), exercisable at 5 cents per share until 30 August 2017. KPO sought and received shareholder approval at a general meeting held on 8 September 2016, to raise a further $1,050,000 as part of the Placement and to provide further capacity, through the issue 30,000,000 additional shares and 20,000,000 options, if required, on the same terms as the Rights Issue.

3.9 On 3 August 2016, the Company issued a prospectus in relation to the Rights Issue to raise up to approximately $5.5 million on the following key terms:

- invitation to eligible shareholders to subscribe for new fully paid ordinary shares at an issue price of 5 cents per share, on the basis of 3 new ordinary shares for each 4 fully paid ordinary shares held, with an accompanying option exercisable at 5 cents, on or before 30 August 2017 for every 2 ordinary shares issued;
- at the date of the prospectus, the Company disclosed 148,335,253 ordinary shares on issue, including the 15,000,000 shares issued to Hartleys for the $750,000 initial placement as set out above. If fully subscribed, the Rights Offer would raise a total of $5,562,572 (gross, before the costs of the Rights Issue), through the issue of 111,251,440 shares, and the issue of 55,625,720 attaching options. In the event all the options were fully exercised, a further $2,781,286 would be raised;
- the Rights Issue was underwritten to $3,350,000, of which $2,500,000 was underwritten by Harrington (50,000,000 shares), and $850,000 (17,000,000 share) was underwritten by Pan Andean Capital Pty Limited ("Pan Andean"), a substantial shareholder in the Company;
- the obligations of the underwriters was, in each case, conditional on the Company receiving applications for not less than 18,000,000 shares ($900,000), or such lesser number as reduced by further underwriting secured by KPO by the shortfall date (2 September 2016); and
- Pan Andean would take shares from any shortfall in priority of Harrington.

3.10 On 23 August 2016, KPO announced that it proposed to seek Shareholder approval for the issue of 17,500,000 additional unlisted options to Harrington, exercisable at 5 cents each and expiring on 28 April 2017, in addition to the proposed issue of 1,794,005 options to Harrington as set out in paragraph 3.22 below (Resolution 5). The Company also announced that after discussions with ASIC, further to the $2,500,000 underwriting agreement with Harrington for the Rights Issue as set out above, it had been agreed that Shareholder approval would also be sought for the acquisition of any shortfall shares, by Harrington, in excess of those which Harrington may take up in accordance with section 611, item 9 of the Corporations Act.

3.11 The Corporations Act prohibits a shareholder holding voting power of more than 20% of 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.

3.12 The announcement on 23 August clarified that, assuming only the minimum subscription was raised under the Rights Issue, Harrington would be able to apply, without shareholder approval, for a maximum of approximately 24,742,600 shares ($1,237,130). The maximum number of shares for which shareholder approval would subsequently be sought to enable Harrington to satisfy its underwriting obligation was approximately 25,247,130 ($1,262,869), based on the minimum subscription of $900,000 raised under the Rights Issue, and the $850,000 underwriting by Pan Andean.

3.13 On 24 August, the Company issued a supplementary prospectus in relation to the proposed issue of the 17,500,000 options to Harrington, and clarification regarding the shares to be issued to Harrington under its underwriting obligations as set out above, as well as the proposed issue of 45,405,000 options to key management (announced on 16 August 2016), subject to shareholder approval. Further to the supplementary prospectus issued, the Company extended the closing date for the Rights Issue from 30 August 2016 to 1 September 2016.

3.14 On 5 September 2016, KPO announced that due to the strong demand from investors, the Company expected to raise a total of $8.48 million (compared to the initial estimate of $7.3 million comprising the Rights Issue and Placement of $5.5 million and $1.8 million, respectively).

3. **Summary of the Proposed Transactions (Cont.)**

3.15 The $8.48 million raising was expected to comprise the following (subject to shareholder approval on 8 September 2016):

- $835,209 (16,704,175) from eligible shareholders taking up their allotment as part of the Rights Issue;
- $4,727,363 (94,547,265 shares) from the shortfall under the Rights Issue which was being placed with underwriters and to sophisticated and professional investors, predominantly clients of Hartleys;
- the $1,800,000 Placement; and
- an additional placement of $1,125,000.

3.16 On 8 September 2016 (refer paragraph 3.8), the Company's shareholders approved the resolutions necessary to effect the $8.48 million raising. On the same day, KPO issued a prospectus for the placement of the shortfall shares, the remaining $1,050,000 of the Placement, as well as the additional placement of $1,125,000, on the same terms as the Rights Issue.

3.17 A total of $8.31 million (before raising costs) has been raised through the issue of 166,230,338 new ordinary shares under the Rights Issue and private placements to date. The remaining amount of circa $179,401 to be placed is subject to Shareholders approving the conversion of the remaining Loan amount due to Harrington as set out below.

3.18 On 15 September 2016, the Company issued 5,640,000 ordinary shares, together with 2,820,000 attaching options on similar terms to the Rights Issue, to convert amounts due to creditors totalling $282,000. The Company also issued a further 11,500,000 options exercisable at 5 cents per option and expiring on 30 August 2017.

3.19 On 25 October 2016, KPO also issued 25,068 additional shares from the exercise of listed options.

3.20 On 28 September 2016, KPO announced that the Company had completed the $8.48 million raising through the Rights Issue and private placements. At the completion of the Rights Issue, $2,493,406 of the Loan was offset against Harrington's underwriting obligations under the Rights Issue. As a result, Harrington was issued 49,868,110 shares and 24,934,055 options. The exercise of the options by Harrington are subject to Non-Associated Shareholders approving Resolution 4C.

3.21 As set out in paragraph 3.3 above, the Loan accrues interest at a daily rate of 10% per annum and is repayable on 30 January 2017, unless converted to equity pursuant to Non-Associated Shareholders approving Resolution 4A. At the date of this Report, the amount owing by KPO to Harrington is $179,401 (comprising principal amount outstanding of $6,594 plus interest accrued of $172,807). The conversion of $179,401 will result in the proposed issue of 3,588,010 shares.

3.22 As set out in paragraph 3.10 above, the Company is also seeking approval for the issue of 19,294,005 options to Harrington, and the subsequent conversion to shares in KPO under Resolution 4B. The terms of the options are as follows:

- 17,500,000 unlisted options, exercisable at $0.05 per option and expiring on 28 April 2017; and
- 1,794,005 listed options, issued on the same terms as the Rights Issue options, exercisable at $0.05 per option and expiring 30 August 2017.

3. Summary of the Proposed Transactions (Cont.)

Capital Structure Prior to the Proposed Transactions

3.23 At 30 June 2016, the Company disclosed 133,335,253 ordinary shares and 43,668,767 options on issue. At the date of this Report, KPO has completed an $8.31 million raising (of the $8.48 million), through the Rights Issue and private placements, with the remaining $179,401 placement subject to Shareholder approval. The table below summarises the capital structure of KPO prior to the Proposed Transactions.

	Number of shares	%	Number of options	%
Prior to Rights Issue and private placements				
Shares and options held by Non-Associated Shareholders at 30 June 2016	100,528,532	75.4%	23,340,000	53.4%
Shares and options held by Harrington at 30 June 2016	32,806,721	24.6%	20,328,767	46.6%
Shares and options of KPO at 30 June 2016	**133,335,253**	**100.0%**	**43,668,767**	**100.0%**
Effect of Rights Issue and private placements				
Shares and options of KPO at 30 June 2016	133,335,253	43.7%	43,668,767	36.7%
Less expired unlisted options exercisable at $0.10 not exercised on or before 30 September 2016	-	0.0%	(21,928,767)	-18.4%
Shares and options issued under the Rights Issue	107,730,338	35.3%	53,865,206	45.2%
Shares and options issued under the Placement to raise an initial amount of $750,000	15,000,000	4.9%	7,500,000	6.3%
Shares and options issued under the Placement to raise at the additional amount of $1,050,000	21,000,000	6.9%	10,500,000	8.8%
Shares and options issued under the additional placement to raise $1,125,000	22,500,000	7.4%	11,250,000	9.4%
Issue of 5,640,000 shares and 2,820,000 attaching options on 15 September 2016 to settle creditor amounts amounting to $282,000. KPO also issued 11,500,000 additional options on the same date	5,640,000	1.8%	14,320,000	12.0%
Shares issued upon of exercise of options on 25 October 2016	25,068	0.01%	(25,068)	-0.02%
Shares and options on issue prior to the Proposed Transactions	**305,230,659**	**100.0%**	**119,150,138**	**100.0%**
Prior to Proposed Transactions				
Shares and options currently held by Harrington (after $2,493,406 of the Loan was offset against Harrington's underwriting obligations under the Rights Issue)	82,674,831	27.1%	24,934,055	20.9%
Total shares and options on issue held by Non-Associated Shareholders	222,555,828	72.9%	94,216,083	79.1%
Total shares and options on issue prior to Proposed Transactions	**305,230,659**	**100.0%**	**119,150,138**	**100.0%**

Table 2 – Capital structure prior to the Proposed Transactions

3.24 As set out in the table above, prior to the Rights Issue and private placements, Harrington held 32,806,721 ordinary shares (24.6% interest) in the Company, together with 20,328,767 options, exercisable at $0.10 each and expiring 30 September 2016. These options held by Harrington formed part of the 21,928,767 options that expired on 30 September 2016, as set out above.

3.25 Immediately after the Rights Issue and private placements, KPO disclosed 305,230,659 shares and 119,150,138 options on issue. Prior to the Proposed Transactions, Harrington's interest increased to 82,674,831 shares (as a result of the offset of $2,493,406 of the Loan against Harrington's underwriting obligations), together with the issue of 24,934,055 listed options in accordance with the Rights Issue. The increase in Harrington's interest in the Company from 24.6% to 27.1% is less than 3%, and therefore, in accordance with section 611, Item 9 of the Corporations Act, is not subject to Non-Associated Shareholder approval.

3. Summary of the Proposed Transactions (Cont.)

Effect of Resolution 4A on the capital structure

3.26 The table below sets out a summary of KPO's capital structure prior to and immediately following the approval of Resolution 4A.

	Number of shares	%	Number of options	%
Prior to Resolution 4A				
Shares and options currently held by Harrington (after $2,493,406 of the Loan was offset against Harrington's underwriting obligations under the Rights Issue)	82,674,831	27.1%	24,934,055	20.9%
Total shares and options on issue held by Non-Associated Shareholders	222,555,828	72.9%	94,216,083	79.1%
Total shares and options on issue prior to Resolution 4A	**305,230,659**	**100.0%**	**119,150,138**	**100.0%**
Immediately after Resolution 4A				
3,588,010 shares issued to Harrington if Resolution 4A is approved	3,588,010	1.2%	-	0.0%
Shares and options held by Harrington prior to the Proposed Transactions	82,674,831	26.8%	24,934,055	20.9%
Shares and options held by Non-Associated Shareholders	222,555,828	72.1%	94,216,083	79.1%
Total shares and options on issue immediately after Resolution 4A	**308,818,669**	**100.0%**	**119,150,138**	**100.0%**

Table 3 – Capital structure prior to and immediately after Resolution 4A

3.27 The approval of Resolution 4A will result in the dilution of Non-Associated Shareholders' interest in KPO from 72.9% to 72.1%.

Effect of Resolution 4B on the capital structure

3.28 The table below sets out a summary of KPO's capital structure prior to and immediately after the approval of Resolution 4B.

	Number of shares	%	Number of options	%
Prior to Resolution 4B				
Shares and options currently held by Harrington (after $2,493,406 of the Loan was offset against Harrington's underwriting obligations under the Rights Issue)	82,674,831	27.1%	24,934,055	20.9%
Total shares and options on issue held by Non-Associated Shareholders	222,555,828	72.9%	94,216,083	79.1%
Total shares and options on issue prior to Resolution 4B	**305,230,659**	**100.0%**	**119,150,138**	**100.0%**
Immediately after Resolution 4B				
19,294,000 shares issued to Harrington if Resolution 4B is approved	19,294,005	5.9%	-	0.0%
Shares and options held by Harrington prior to the Proposed Transactions	82,674,831	25.5%	24,934,055	20.9%
Shares and options held by Non-Associated Shareholders	222,555,828	68.6%	94,216,083	79.1%
Total shares and options on issue immediately after Resolution 4B	**324,524,664**	**100.0%**	**119,150,138**	**100.0%**

Table 4 – Capital structure prior to and immediately after Resolution 4B

3.29 The approval of Resolution 4B is conditional upon the approval of Resolution 5. If Resolution 5 is approved, Harrington will hold an additional 19,294,005 options in the Company, comprising an additional 1,794,005 listed options and 17,500,000 unlisted options, exercisable at $0.05 per option and expiring on 30 August 2017 and 28 April 2017, respectively. In the event that Non-Associated Shareholders approve Resolution 4B and Harrington exercises all its options, Non-Associated Shareholders' interest in the Company will be diluted from 72.9% to 68.6%.

3.30 As the options are currently in the money at the date of this Report, we have considered the impact of Harrington exercising the options issued in the event that Resolution 4B is approved.

3. Summary of the Proposed Transactions (Cont.)

Effect of Resolution 4C on the capital structure

3.31 The table below sets out a summary of KPO's capital structure prior to and immediately after the approval of Resolution 4C.

	Number of shares	%	Number of options	%
Prior to Resolution 4C				
Shares and options currently held by Harrington (after $2,493,406 of the Loan was offset against Harrington's underwriting obligations under the Rights Issue)	82,674,831	27.1%	24,934,055	20.9%
Total shares and options on issue held by Non-Associated Shareholders	222,555,828	72.9%	94,216,083	79.1%
Total shares and options on issue prior to Resolution 4C	**305,230,659**	**100.0%**	**119,150,138**	**100.0%**
Immediately after Resolution 4C				
24,934,055 shares issued to Harrington if Resolution 4C is approved	24,934,055	7.6%	-	0.0%
Shares held by Harrington prior to the Proposed Transactions	82,674,831	25.0%	-	0.0%
Shares and options held by Non-Associated Shareholders	222,555,828	67.4%	94,216,083	100.0%
Total shares and options on issue immediately after Resolution 4C	**330,164,714**	**100.0%**	**94,216,083**	**100.0%**

Table 5 – Capital structure prior to and immediately after Resolution 4C

3.32 In the event that Non-Associated Shareholders approve Resolution 4C and Harrington exercises all of the options it currently holds, Non-Associated Shareholders' interest in the Company will be diluted from 72.9% to 67.4%.

3.33 As the options are currently in the money at the date of this Report, we have considered the impact of Harrington exercising all of its options held in the event that Resolution 4C is approved.

3.34 As set out in Tables 2 to 5 above, inclusive of the options held by Harrington, KPO currently has 119,150,138 listed and unlisted options on issue on the following terms:

- 21,600,000 unlisted options issued to Directors and officers of the Company exercisable at $0.11 per option, expiring 30 June 2018;
- 140,000 unlisted options exercisable at $0.075 per option, expiring 15 June 2017; and
- 97,410,138 listed options exercisable at $0.05 per option, expiring on 30 August 2017.

3.35 Whilst the listed options held by Non-Associated Shareholders are also in the money at the date of this Report, the effect of the Non-Associated Shareholders exercising their options has no impact on our assessment of the fairness and reasonableness of Resolutions 4B and 4C. We have therefore excluded the options held by Non-Associated Shareholders from our analysis.

3. Summary of the Proposed Transactions (Cont.)

Effect on the capital structure if all the Resolutions are approved

3.36 The table below sets out a summary of KPO's capital structure prior to the Resolutions, and assuming all the Resolutions are approved.

	Number of shares	%	Number of options	%
Prior to Proposed Transactions				
Shares and options currently held by Harrington (after $2,493,406 of the Loan was offset against Harrington's underwriting obligations under the Rights Issue)	82,674,831	27.1%	24,934,055	20.9%
Total shares and options on issue held by Non-Associated Shareholders	222,555,828	72.9%	94,216,083	79.1%
Total shares and options on issue prior to Proposed Transactions	**305,230,659**	**100.0%**	**119,150,138**	**100.0%**
Immediately after the Proposed Transactions (undiluted)				
Shares issued to Harrington if Resolution 4A is approved	3,588,010	1.2%	-	0.0%
Options issued to Harrington if Resolution 5 is approved	-	0.0%	19,294,005	13.9%
Shares and options held by Harrington prior to the Proposed Transactions	82,674,831	26.8%	24,934,055	18.0%
Shares and options held by Non-Associated Shareholders	222,555,828	72.1%	94,216,083	68.1%
Total shares and options on issue immediately after the Proposed Transactions	**308,818,669**	**100.0%**	**138,444,143**	**100.0%**
Immediately after the Proposed Transactions (diluted)				
Shares held by Harrington if Resolutions 4A, 4B and 4C are approved and all options held by Harrington are exercised	130,490,901	37.0%	-	0.0%
Shares and options held by Non-Associated Shareholders	222,555,828	63.0%	94,216,083	100.0%
Total shares and options on issue immediately after the Proposed Transactions (diluted)	**353,046,729**	**100.0%**	**94,216,083**	**100.0%**

Table 6 – Capital structure prior to the Resolutions and assuming all Resolutions are approved

3.37 The approval of Resolution 4A will result in the dilution of Non-Associated Shareholders' interest in KPO from 72.9% to 72.1%. In the event that Resolutions 4B (and Resolution 5) and 4C are also approved, and Harrington exercises all of its options, Non-Associated Shareholders' interest in the Company will be diluted to 63.0%.

4. Purpose of this Report

Corporations Act

4.1 Section 606(1) of the Corporations Act provides that, subject to limited specified exemptions, a person must not acquire a "relevant interest" in issued voting shares in a public company, if as a result of the acquisition, any person's voting power in the company would increase from 20% or below to more than 20%, or, from a starting point that is above 20% and below 90%. In broad terms, a person has a "relevant interest" if that person holds shares or has the power to control the right to vote or dispose of shares. A person's voting power in a company is the number of voting shares in which the person (and its associates) holds, compared with the total number of voting shares in the company.

4.2 Completion of Resolution 4A will result in Harrington increasing its relevant interest in the Company from 27.1% to 27.9%. Completion of Resolutions 4B and 4C may result in Harrington increasing its relevant interest in the Company to 31.4% and 32.6% on a diluted basis, respectively, if Harrington exercises all its options.

4.3 Therefore, the Company will be in breach of Section 606(1) of the Corporations Act in the absence of an applicable exemption.

4.4 Section 611, Item 7 of the Corporations Act provides an exemption to the rule noted in paragraph 4.1 above as it allows a party (and its affiliates) to acquire a relevant interest in shares that would otherwise be prohibited under Section 606(1) if the proposed acquisition is approved in advance by a resolution passed at a general meeting of the Company and:

1. no votes are cast in favour of the resolution by the proposed acquirers or respective associates; and
2. there was full disclosure of all information that was known to the persons proposed to make the acquisition or their associates or known to the Company that was material to a decision on how to vote on the resolution.

4. Purpose of this Report (Cont.)

4.5 Section 611 states shareholders must be given all information that is material to the decision on how to vote at the meeting. RG 111 advises the commissioning of an IER and provides guidance on the content.

Basis of Evaluation

4.6 In determining whether each of the Resolutions are "fair and reasonable", we have given regard to the views expressed by ASIC in RG 111.

4.7 RG 111 provides ASIC's views on how an expert can help security holders make informed decisions about transactions. Specifically it gives guidance to experts on how to evaluate whether or not a proposed transaction is fair and reasonable.

4.8 RG 111 states that the expert report should focus on:

- the issues facing the security holders for whom the report is being prepared; and
- the substance of the transaction rather than the legal mechanism used to achieve it.

4.9 Where an issue of shares by a company otherwise prohibited under section 606 is approved under item 7 of section 611 and the effect on the company's shareholding is comparable to a takeover bid, RG 111 states that the transaction should be analysed as if it was a takeover bid.

4.10 RG 111 applies the "fair and reasonable" test as two distinct criteria in the circumstance of a takeover bid, stating:

- a takeover offer is considered "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer; and
- a takeover offer is considered "reasonable" if it is fair or, where the offer is "not fair", it may still be "reasonable" if the expert believes that there are sufficient reasons for security holders to accept the offer.

4.11 Consistent with the guidelines in RG 111, in determining whether the Resolutions are "fair and reasonable" to the Non-Associated Shareholders, the analysis undertaken is as follows:

- a comparison of the Fair Value of an ordinary share in KPO prior to, and immediately following each Resolution on a standalone basis, being the 'consideration' for Non-Associated Shareholders in the assessment of fairness; and
- a review of other significant factors which Non-Associated Shareholders might consider prior to approving each Resolution in the assessment of reasonableness.

4.12 In particular, we have considered the advantages and disadvantages of each of the Resolutions in the event that each Resolution proceeds or does not proceed including:

- the future prospects of the Company if each Resolution does not proceed; and
- any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of each of the Resolutions proceeding.

4.13 Our assessment of the Resolutions are based on economic, market and other conditions prevailing at the date of this Report.

5. Profile of KPO

5.1 The Company (formerly known as Enhanced Systems Technologies Limited and Wasabi Energy Limited), is currently focused on commercialising its proprietary energy generating technology called the Kalina Cycle®.

5.2 The Kalina Cycle Technology ("KCT") is used to generate electricity from natural and industrial heat sources, and offers an efficient power production cycle especially at lower temperatures of less than circa 550 degrees Celsius. Key markets for the KCT include the petrochemical, cement, steel and geothermal sectors.

5.3 A series of pilot-scale and demonstration plants utilising the Kalina Cycle were constructed from 1992 to 2001 including in the US, Japan, Iceland and Germany. Subsequent to the installation of the first generation Kalina Cycle plants, further research and development has been undertaken. The Company has commissioned feasibility studies involving the proposed utilisation of the Kalina Cycle for a range of projects, with the intention of commercialising the KCT.

5.4 During the second half of 2013, the Company focused on a plan to become an independent power producer and purchased a 50% interest in the Tuzla geothermal project in Turkey as well as the development of its then subsidiary, Wasabi New Energy Asia Limited. The Tuzla geothermal project comprised a project to develop a waste heat and geothermal business utilising the KCT.

5.5 To facilitate the business plan, the Company undertook a rights issue in late November 2013 to raise up to $14 million, which was required to complete the purchase of the equity stake in the Tuzla geothermal project and to repay secured lenders to the Company. The Company was unsuccessful in this raise and the Directors placed the Company into voluntary administration with the appointment of Ferrier Hodgson on 30 December 2013.

5.6 Following negotiations with the creditors of the Company, an agreement was reached to settle the debts through the issue of 2 new shares for each $1 of debt owed to creditors. A Deed of Company Arrangement ("DOCA") was executed on 20 February 2014, and the shareholders passed the resolutions necessary for the implementation of the DOCA with regard to the consolidation of shares and issue of new shares to creditors on 16 May 2014. The Company also changed its name from Wasabi Energy Limited to Enhanced Systems Technologies Limited.

5.7 The Company issued 31,783,337 shares at $0.50 each to various creditors to settle outstanding debts at 30 December 2013 totalling $15,891,669. Ferrier Hodgson ended its role as administrators under the DOCA on 23 June 2014. The Company announced the completion of the DOCA on 9 July 2014.

5.8 On 7 November 2014, the Company announced a 1 for 1 rights issue to raise up to $4.4 million at $0.10 per share for every share on issue as at 7 November 2014. The rights issue included an attaching listed option for every share issued, exercisable at $0.10 per option and expiring on 30 November 2015. The rights issue was completed on 25 February 2015, with a total of 43,795,695 shares issued together with the attaching options.

5.9 In addition to the above rights issue, the Company has entered into a number of share placements during the period November 2014 to July 2015, also at $0.10 per share (together with attaching options on the same terms as the rights issue). Share placements were undertaken primarily to settle interest due on loans and issuing equity in exchange for services.

5.10 On 26 June 2015, the Company changed its name from Enhanced Systems Technologies Limited to Kalina Power Limited. In October 2015, KPO raised $2,000,000 from Harrington and recommenced trading on the ASX on 14 October 2015.

5.11 In China (including Hong Kong, Macau and Taiwan), the Company has operated through its Chinese licensee, Shanghai Shenghe New Energy Resources Science Technology Limited ("SSNE"). KPO's subsidiary New Energy Asia Limited ("NEA"), formerly Wasabi New Energy Asia Limited ("WNEA"), owns the 50.5% interest in SSNE.

5.12 Kalina held a 49.27% equity interest in NEA from 10 December 2014 to 31 July 2015. Prior to 10 December 2014, KPO held a 61.5% interest in NEA. On 10 December 2014, the Company lost control of NEA and another 100% owned subsidiary, Recurrent Engineering LLC ("RE") on 2 December 2014 as a result of selling 7.5 million shares in WNEA for a total consideration of $3,525,000, and selling the 100% interest in RE for $1.

5.13 The Company held its 49.27% interest in NEA (comprising 32.5 million shares in NEA) until 31 July 2015 when a controlling interest was reacquired. Whilst holding a non-controlling interest in NEA, the Company continued to have significant influence over NEA and, accordingly, the 49.27% interest was accounted for as an investment in an associate in the Company's financial statements for the year ended 30 June 2015.

5. **Profile of KPO (Cont.)**

5.14 KPO held a 49.27% interest in NEA until 31 July 2015, when a controlling 75.62% interest in NEA was acquired as part of the Company's restructuring activities.

5.15 KPO also reacquired a 100% interest in RE on 30 April 2016 for total cash consideration of $135,000.

5.16 NEA currently holds the Kalina Cycle Licence for Asia (excluding China), whilst SSNE held the licence for China until April 2016 before the licence for China was transferred to a new entity as set out below.

5.17 SSNE is in the process of facilitating the building of refineries utilising the Kalina Cycle with Sinopec and its subsidiary, Sinopec Nanjing Engineering and Construction ("Sinopec"). SSNE has been working with Sinopec towards the completion of the Sinopec Hainan 4MWe Kalina Cycle® plant ("Hainan Project"). SSNE failed to execute the Hainan Project in a timely manner or to provide KPO with the design and details of the Hainan Project for review as required under its license agreement.

5.18 As part of the Company's restructuring, in April 2016, NEA formed a new Chinese entity, A&W (Shanghai) New Energy Technology Development Co., Ltd ("A&W"), to replace SSNE as the Kalina Cycle Licensee in China, with a primary focus on completing the Hainan Project.

5.19 A tri-partite agreement with KPO, SSNE and Sinopec was signed in August 2016 for the completion of the Hainan Project, with an estimated date of completion for late 2016. Upon completion of the Hainan Project, the Directors of KPO consider that there will be further opportunities to contract with Sinopec and other industrial firms to construct other Kalina Cycle® plants.

5.20 Prior to entering into voluntary administration in December 2013, the Company intended to generate revenue through the following operations:

- building, operating and owning power plants, and selling power plants to third parties where the Company would derive revenue from engineering, procurement and construction ("EPC") services; and
- equipment sales.

5.21 Subsequent to the completion of the DOCA, the Company no longer employs a capital-intensive model providing bespoke installations in disparate locations. KPO's operations are currently focused on achieving the industrial scale roll out of plants in China, and worldwide in conjunction with major EPC companies.

5.22 In Asia, the Company is focused on obtaining strategic partners with expertise in engineering and project management to assist with construction and roll out of modular units.

5.23 For the rest of the world, the Company intends to adopt a licensing model working closely with strategic partners. These partners will build KCT units under license with KPO's specialist engineering support.

5.24 The current Directors of the Company are set out below:

- Mr John Byrne (Chairman);
- Mr Tim Horgan (Executive Director);
- Mr Ross MacLachlan (Executive Director);
- Dr Malcolm Jacques (Non-Executive Director); and
- Mr Jeffry Myers (Non-Executive Director).

5. Profile of KPO (Cont.)

Financial Performance

5.25 The table below sets out the financial performance of KPO for the three years ended 30 June 2016.

Kalina Power Limited Consoliated statement of profit or loss and other comprehensive income	Ref	Year ended 30-Jun-16 *Audited* $	Year ended 30-Jun-15 *Audited* $	Year ended 30-Jun-14 *Audited* $
Revenue	5.26, 5.27	**524,130**	**1,005,979**	**485,424**
Cost of sales		-	(542,592)	(435,203)
Gross profit/(loss)		**524,130**	**463,387**	**50,221**
Other revenue/(expenditure)		402,937	(1,539,360)	191,597
Finance income		186,908	1,029,567	8,413
Employee benefits expenses		(1,691,631)	(1,214,701)	(2,981,249)
Administration expenses		(417,401)	(323,452)	(1,175,817)
Depreciation and amortisation expenses		(501,515)	(151,643)	(219,762)
Bad debts		(4,726)	(8,570)	(306,484)
Travel expenses		(257,294)	(350,067)	(479,990)
Gain/(loss) on revaluation of financial assets fair valued through profit and loss		-	(1,824,261)	(1,812,245)
Gain recognised on disposal of subsidiaries	5.28	-	24,441,584	-
Share of loss of associate	5.28	-	(9,457,588)	-
Gain on revaluation of associate	5.29	2,280,340	-	-
Impairment of intangibles	5.30	(3,290,935)	(104,655)	(757,923)
Impairment of investments classified as available for sale		(81)	(80,141)	(8,084,832)
Legal and professional fees		(229,586)	(595,536)	(1,962,483)
Impairment of other assets		-	39,877	-
Patent costs		(79,876)	(97,640)	(43,774)
Foreign exchange gain/(loss)		114,120	791,816	(445,254)
Loss on conversion of debt to equity	5.29	(13,594,560)	-	-
Fair value gain/(loss) on options		-	-	(21,519)
Finance costs		(292,724)	(1,508,563)	(10,637,787)
Impairment of Tuzla project asset		-	-	(9,273,838)
Profit/(loss) before tax		**(16,851,894)**	**9,510,054**	**(37,952,726)**
Income tax benefit/(expense)		-	146,165	-
Profit/(loss) for the year	5.31, 5.32	**(16,851,894)**	**9,656,219**	**(37,952,726)**
Attributed to:				
Owners of the parent		(16,618,520)	10,359,443	(31,322,974)
Non-controlling interest		(233,374)	(703,224)	(6,629,752)
		(16,851,894)	**9,656,219**	**(37,952,726)**
Other comprehensive income				
Exchange reserve arising on translation of foreign operations		(16,250)	(957,946)	1,378,539
Gain/(loss) on available-for-sale investments taken to equity		-	-	(519,316)
Other comprehensive income for the period net of tax		(16,250)	(957,946)	859,223
Total comprehensive income/(loss) for the period	5.33	**(16,868,144)**	**8,698,273**	**(37,093,503)**
Total comprehensive income/(loss) attributable to:				
Owners of the parent		(16,634,770)	9,401,497	(30,404,503)
Non-controlling interest		(233,374)	(703,224)	(6,689,000)
		(16,868,144)	**8,698,273**	**(37,093,503)**

Table 7 – KPO Financial Performance

5. **Profile of KPO (Cont.)**

5.26 The Company generated revenue of $524,000 for the year ended 30 June 2016, compared to revenue of $1.0 million and $485,000 for the years ended 30 June 2015 and 2014, respectively.

5.27 Revenue for the 2016 financial year comprised project fees, while revenue for the 2014 financial year comprised service fees and sale of goods in relation to the power business of $481,000 and equity investment income of $4,000. Revenue for the 2015 financial year was due primarily to equity investment income in relation to the sale of a licence for $1.0 million as set out below:

- Aqua Guardian Group Limited ("AGG") is a 79.2% owned subsidiary of KPO. AGG is an unlisted public company founded in 2006 to provide large-scale water efficiency solutions servicing the urban water, mining, resources and agribusiness sectors. AGG has developed a patented product known as AquaArmour™, a floating modular cover designed for large scale, exposed open water storages which reduces water evaporation loss by 88% and inhibits algal growth;
- AGG licensed the technology in October 2014 to Venture Services Limited ("Venture"), a plastics manufacturer primarily for the automotive industry. The license covers Australia and New Zealand, Southern Africa and Chile; and
- AGG will receive a royalty from each module sold by Venture and retains a right to purchase 50% of Venture to thereby create a joint venture until 31 May 2017.

5.28 As set out in paragraphs 5.12 and 5.13, the Company deconsolidated two subsidiaries, NEA and RE during the year ended 30 June 2015, which resulted in a gain on deconsolidation recognised in the statement of profit or loss and other comprehensive income of $24.4 million. The share of the loss in associate of $9.5 million comprised the Company's share of the loss in NEA for the period.

5.29 As set out in paragraphs 5.14 and 5.15, the Company acquired a 75.62% interest in NEA and a 100% interest in RE during the year ended 30 June 2016. The acquisition of a 75.62% interest in NEA at 31 July 2015 comprised the following:

- on 31 July 2015, KPO converted a receivable of $14.8 million owing from an associate of NEA to equity in NEA. The conversion of debt to equity resulted in the increase in KPO's interest in NEA from 49.27% to 75.62%, and consolidation of NEA in the consolidated financial statements of KPO;
- the Fair Value assessment of KPO's existing interest in a 49.27% interest in NEA resulted in a gain recognised in the profit and loss of $2.3 million. The Fair Value of the consideration in relation to the acquisition of a 75.62% interest in NEA was based on the Fair Value of NEA's rights to use the Kalina License across the Asia region (excluding China); and
- the conversion of debt to equity between KPO and NEA resulted in a write down of book value of the debt being, $14.8 million, to Fair Value of $1.2 million, which resulted in a loss of conversion, recognised in profit and loss of $13.6 million.

5.30 During the year ended 30 June 2016, KPO recognised $3.3 million in impairment expenses in relation to intangible assets that comprised the following:

- KPO acquired a 100% interest in RE for cash consideration of $135,000, with assessed Fair Value of net liabilities acquired of $1.3 million plus effects of currency translation of $38,000. The Company recognised impairment expenses of $1.5 million in relation to its acquisition of RE;
- KPO acquired a 75.62% interest with assessed consideration of $4.3 million and Fair Value of net assets acquired of $3.2 million. The Company recognised impairment expenses of $1.1 million, comprising the intangible assets arising on the acquisition of a controlling interest in NEA; and
- on 26 April 2016, NEA gained control of Pacific Dynasty Limited ("Pacific Dynasty"), along with its wholly owned subsidiary, A&W for $1 in consideration. At acquisition date, Pacific Dynasty disclosed net liabilities of $666,000. The Company recognised impairment expenses of $666,000 in relation to its acquisition of Pacific Dynasty and A&W.

5.31 KPO disclosed profits of $9.7 million for the year ended 30 June 2015 compared to losses of $16.9 million and $38.0 million for the years ended 30 June 2016 and 2014, respectively, due primarily to the gain recognised on the deconsolidation of NEA and RE.

5. **Profile of KPO (Cont.)**

5.32 KPO disclosed losses for the year ended 30 June 2016 of $16.9 million due primarily to the loss of $13.6 million recognised in relation to the conversion of debt to equity as part of the Company's restructure of NEA, as well as impairment of intangible assets of $3.3 million as set out above.

5.33 The Company disclosed total comprehensive losses of $16.9 million for the year ended 30 June 2016, net of foreign exchange losses.

Financial Position

5.34 The table below sets out the financial position of KPO as at 30 June 2016 and 30 June 2015.

Kalina Power Limited Statement of Financial Position	Ref	As at 30-Jun-16 *Audited* $	As at 30-Jun-15 *Audited* $
Current assets			
Cash and cash equivalents		755,861	39,099
Trade and other receivables		1,235,057	364,816
Other financial assets		71	152
Total current assets	5.36	1,990,989	404,067
Non-current assets			
Trade and other receivables	5.38	932,334	16,079,659
Investments acccounted for using the equity method		9,200	9,200
Property, plant and equipment		14,658	88,118
Intangible assets		4,204,008	-
Total non-current assets	5.37	5,160,200	16,176,977
Total assets		**7,151,189**	**16,581,044**
Current liabilities			
Trade and other payables		986,646	917,240
Borrowings	5.39	2,620,548	-
Provisions		110,329	95,940
Total current liabilities		3,717,523	1,013,180
Non-current liabilities			
Trade and other payables		1,301,263	-
Provisions		70,255	56,598
Total non-current liabilities	5.40	1,371,518	56,598
Total liabilities		**5,089,041**	**1,069,778**
NET ASSETS	5.35	**2,062,148**	**15,511,266**
EQUITY			
Issued capital		91,632,654	89,672,984
Reserves		809,990	129,074
Accumulated losses		(90,761,712)	(74,143,192)
Total equity attributable to equity holders of the company		**1,680,932**	**15,658,866**
Non controlling interest		381,216	(147,600)
TOTAL EQUITY	5.35	**2,062,148**	**15,511,266**

Table 8 – KPO Financial Position

5.35 KPO disclosed net assets of $2.1 million at 30 June 2016 compared to net assets of $15.5 million at 30 June 2015.

5. Profile of KPO (Cont.)

5.36 At 30 June 2016, KPO disclosed total current assets of $2.0 million, primarily comprising trade and other receivables and cash and cash equivalents of $1.2 million and $756,000, respectively.

5.37 At 30 June 2016, KPO disclosed total non-current assets of $5.2 million, primarily comprising intangible assets of $4.2 million and non-current trade and other receivables of $932,000. The intangible assets comprised the assessed Fair Value of the Kalina License held by NEA.

5.38 Non-current trade and other receivables of $932,000 comprised amounts due in relation to the sale of 7.5 million shares in NEA in December 2014. The amount is expected to be received by 1 December 2017. The decrease in trade and other receivables from $16.1 million at 30 June 2015 to $932,000 at 30 June 2016 was due primarily to the conversion of $14.8 million to equity in NEA as set out in paragraph 5.29 above.

5.39 At 30 June 2016, the Company disclosed total current liabilities of $3.7 million, primarily comprising borrowings of $2.6 million and trade and other payables of $987,000. The borrowings of $2.6 million comprised the Loan from Harrington of $2,500,000, plus interest accrued of $120,548 to 30 June 2016. As set out in paragraphs 3.18 and 3.21, at the completion of the Rights Issue, $2,493,406 of the Loan was converted to shares. The outstanding amount payable at the date of this Report is $179,401, comprising the principal amount outstanding of $6,594 and interest accrued of $172,807. We have adjusted this amount in the pro forma balance sheet at 30 June 2016 in our assessment of the value of a KPO share as set out in section 7 of this Report.

5.40 KPO completed the Rights Issue and private placements to raise $8.31 million as of the date of this Report. We have also adjusted for the capital raisings in the pro forma balance sheet at 30 June 2016 in our assessment of the value of a KPO share as set out in section 7 of this Report.

5.41 At 30 June 2016, the Company disclosed total non-current liabilities of $1.4 million, comprising non-current trade and other payables and provisions of $1.3 million and $70,000, respectively. Non-current trade and other payables comprised amounts due to management personnel of NEA, payable when NEA has adequate funds to meet one year's working capital requirement and funds to repay the amount owing to directors. Interest is payable at 10% per annum. Provisions comprised provision for employee benefits.

Capital Structure

5.42 As at the date of this Report, KPO has 305,230,659 shares on issue, of which approximately 59.3%% were held by the top 20 shareholders. The top 20 shareholders as at the date of this Report are set out in the table below.

Shareholder	Number of shares	%
Harrington Global Opportunities Fund SARL (Citicorp Nominees Pty Limited)	82,674,831	27.1%
Pan Andean Capital Pty Ltd	20,958,900	6.9%
Twenty Second Yeneb Pty Ltd	10,587,796	3.5%
Niyazi Onen	10,239,900	3.4%
Mr John Joseph Byrne & Mrs Marzita Ivonne Byrne <John Byrne Private Pension Fund>	8,534,509	2.8%
Arcourt Resources NL	8,280,538	2.7%
Mr Yu Jianmeng	5,308,134	1.7%
Computershare Clearing Pty Ltd <CCNL DI A/C>	4,592,567	1.5%
Keo Projects Pty Ltd <Superannuation Fund A/C>	4,402,290	1.4%
Vision Worldwide Holdings Limited	4,109,330	1.3%
National Nominees Limited	3,305,480	1.1%
John Bertrund Maguire	3,000,000	1.0%
Rhodes Mining Limited	2,208,767	0.7%
Mr Duncan Craib	2,000,000	0.7%
Dead Knick Pty Ltd	2,000,000	0.7%
Kenneth Everett Productions Ltd	2,000,000	0.7%
Sassey Pty Ltd	2,000,000	0.7%
Metis Pty Ltd	1,700,000	0.6%
Dr Rajagunalan Rasiah & Mrs Devaki Janaki Rasiah	1,582,877	0.5%
Mecca Forte Pty Ltd	1,500,000	0.5%
	180,985,919	**59.3%**
Other shareholders	124,244,740	40.7%
Total	**305,230,659**	**100.0%**

Table 9 – KPO Shareholder Summary

5. **Profile of KPO (Cont.)**

5.43 Mr John Byrne disclosed direct and indirect interest in the shares of KPO as set out in the table above and as follows:

- Twenty Second Yeneb Pty Ltd (beneficial owner) – 14,703,548 shares;
- John Byrne Private Pension Fund (beneficiary) – 4,796,531 shares;
- Arcourt Resources NL (director and shareholder) – 8,280,538 shares;
- Tiodi Pty Ltd (beneficial owner) – 188,666 shares;
- Mining & Rural Investments Limited (director and shareholder) – 166,888 shares; and
- Camtan Pty Ltd (beneficial owner) – 8,872 shares.

5.44 Other Directors and senior management of the Company disclosed total direct and indirect interest in the Company totalling 1,737,517 shares.

5.45 As set out in paragraph 3.34, at the date of this Report, KPO has 119,150,138 options on issue on the following terms:

- 21,600,000 unlisted options issued to Directors and officers of the Company exercisable at $0.11 per option, expiring 30 June 2018;
- 140,000 unlisted options exercisable at $0.075 per option, expiring 15 June 2017; and
- 97,410,138 listed options exercisable at $0.05 per option, expiring on 30 August 2017.

5.46 The top 20 listed option holders in KPO as at the date of this Report are set out below.

Option holder	Number of listed options	%
Harrington Global Opportunities Fund SARL (Citicorp Nominees Pty Limited)	24,934,055	25.6%
Pan Andean Capital Pty Ltd	5,000,000	5.1%
Keo Projects Pty Ltd <Superannuation Fund A/C>	1,097,470	1.1%
Mr Duncan Craib	1,000,000	1.0%
Dead Knick Pty Ltd	1,000,000	1.0%
Kenneth Everett Productions Ltd	1,000,000	1.0%
Sassey Pty Ltd	1,000,000	1.0%
Top Class Holdings Pty Ltd	700,000	0.7%
Mr Dale Allan Bryan & Mrs Tracy Tzu-Lei Bryan	650,000	0.7%
Metis Pty Ltd	600,000	0.6%
Kingsreef Pty Ltd	600,000	0.6%
Tropical Harvest Pty Ltd	600,000	0.6%
Mecca Forte Pty Ltd	500,000	0.5%
Flue Holdings Pty Limited	500,000	0.5%
Alltime Nominees Pty Ltd	500,000	0.5%
Mr Craig Chappelle	500,000	0.5%
Mr David John Edwards & Mrs Lily Chivelle Edwards	500,000	0.5%
Mr David Richard Hainsworth	500,000	0.5%
Hirsch Financial Pty Ltd	500,000	0.5%
HSBC Custody Nominees (Australia) Limited	500,000	0.5%
Jindabyne Capital Pty Ltd	500,000	0.5%
Kavel Pty Ltd	500,000	0.5%
Kobia Holdings Pty Ltd	500,000	0.5%
Mr Francis Joseph Maher & Mrs Sharon Jane Maher	500,000	0.5%
Mr Anthony Michael Malyniak	500,000	0.5%
Nicholup Pty Ltd	500,000	0.5%
Ocean View WA Pty Ltd	500,000	0.5%
Mr Ian Michael Paterson Parker & Mrs Catriona Sylvia Parker	500,000	0.5%
Mrs Josephine Kathleen Patoir	500,000	0.5%
Mr Gavin Rezos	500,000	0.5%
Mr John Henry Toll	500,000	0.5%
	47,681,525	**48.9%**
Other listed option holders	49,728,613	51.1%
Total	**97,410,138**	**100.0%**

Table 10 – KPO Listed Option holder Summary

5. Profile of KPO (Cont.)

5.47 As set out above KPO also has 21,600,000 unlisted options issued to Directors and employees, exercisable at $0.11 per option and expiring 30 June 2018. The number of these unlisted options issued to Directors is as follows:

- John Byrne – 2,000,000 options;
- Tim Horgan – 5,000,000 options; and
- Ross MacLachlan – 10,000,000 options.

5.48 The remaining unlisted options were issued to five other key employees of the Company.

5.49 As set out in the table above, Harrington currently holds 24,934,055 listed options. If Shareholders approve Resolution 4C, Harrington may convert these options to shares at $0.05 per option, expiring 30 August 2017.

5.50 If Resolutions 5 and 4B are approved, Harrington will be issued a further 19,294,005 options, comprising 1,794,005 listed options and 17,500,000 unlisted options, both exercisable at $0.05 per option, with the listed options expiring 30 August 2017, and the unlisted options expiring 28 April 2017.

5.51 As these options are in the money as at the date of this Report, we have considered the impact of Harrington exercising all of its options held in our assessment of the fairness of Resolution 4B and Resolution 4C.

5.52 Whilst the options held by the Non-Associated Shareholders are also in the money at the date of this Report, the effect of the Non-Associated Shareholders exercising their options has no impact on our assessment of the fairness and reasonableness of the Proposed Transactions. We have therefore excluded the options held by Non-Associated Shareholders from our analysis.

5. Profile of KPO (Cont.)

Share Price and Performance

5.53 The daily closing share price and traded volumes on the ASX from 14 October 2015 (the date the Company recommenced trading on the ASX), to 2 November 2016 are set out in the chart below.

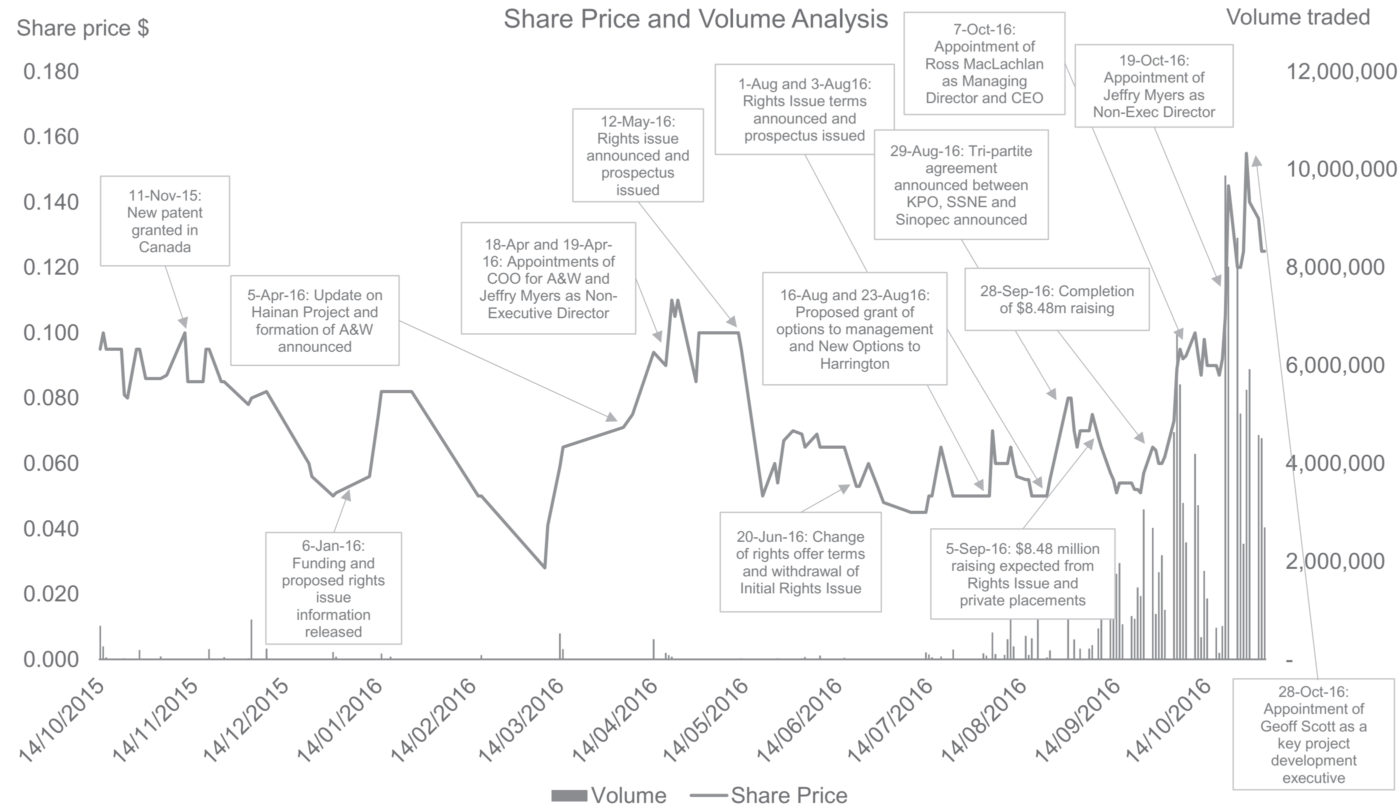

Chart 2 – KPO Daily Closing Price and Traded Volumes
(Source: Capital IQ, ASX announcements and RSM analysis)

5.54 On 6 January 2016, the Company announced that it had secured funding through the Loan with Harrington and a proposed non-renounceable rights issue whereby Harrington would underwrite $2.5 million of the rights issue.

5.55 On 5 April 2016, KPO announced the formation of A&W with the primary focus of completing the Hainan Project, and to replace SSNE as the Kalina Cycle Licensee for China.

5.56 On 12 May 2016, KPO announced the Initial Rights Issue to raise up to $5 million through a non-renounceable rights issue, and issued a prospectus pursuant to the Initial Rights Issue on the same day. On 20 June 2016, the Company announced that it had resolved to amend the Initial Rights Issue.

5.57 On 1 August 2016, the Company announced the terms of the Rights Issue to raise $5.5 million and the Placement of $1.8 million to be conducted alongside the Rights Issue, and issued the prospectus in relation to the Rights Issue on 3 August 2016.

5.58 On 16 and 23 August 2016, the Company announced the proposed grant of 45,405,000 options to key management and 17,500,000 options to Harrington, respectively, subject to shareholder approval.

5.59 On 5 September 2016, KPO announced that it expected to raise $8.48 million (before raising costs) from the Rights Issue and private placements. The Company also received shareholder approval on 8 September 2016 to effect the $8.48 million raising. On 28 September 2016, the Company announced that it had completed the $8.48 million raising.

5.60 During the month of October 2016, the Company announced the appointment of a number of key management roles. Share prices rose from circa $0.06 at 28 September 2016 to a high of $0.155 on 27 October 2016, before falling slightly to circa $0.125 as at 2 November 2016.

5. **Profile of KPO (Cont.)**

5.61 During the period 14 October 2015 to 2 November 2016, shares traded reached a high of $0.155 on 27 October 2016 as set out above, and a low of $0.028 on 9 March 2016.

6. **Valuation Methodologies**

6.1 In assessing the value of KPO share prior to and immediately following the Proposed Transactions, we have considered a range of valuation methodologies. RG 111 proposes that it is generally appropriate for an expert to consider using the following methodologies:

- the discounted cash flow (“DCF”) method and the estimated realisable value of any surplus assets;
- the application of earnings multiples to the estimated future maintainable earnings or cash flows added to the estimated realisable value of any surplus assets;
- the amount which would be available for distribution on an orderly realisation of assets;
- the quoted price for listed securities; and
- any recent genuine offers received.

6.2 We consider that the valuation methodologies proposed by RG 111 can be split into three valuation methodology categories, as follows:

- Market Based Methods;
- Income Based Methods; and
- Asset Based Methods.

Market Based Methods

6.3 Market based methods estimate the fair market value by considering the market value of a company’s securities or the market value of comparable companies. Market based methods include:

- the quoted price for listed securities;
- recent capital raisings; and
- industry specific methods.

6.4 The recent quoted price for listed securities method provides evidence of the Fair Value of a company’s securities where they are publicly traded in an informed and liquid market. Recent capital raisings can also provide evidence of investors’ assessment of the Fair Value of a company’s securities.

6.5 Industry specific methods usually involve the use of industry rules of thumb to estimate the Fair Value of a company and its securities. Generally rules of thumb provide less persuasive evidence of the Fair Value of a company than other market based valuation methods because they may not account for company specific risks and factors.

Income Based Methods

6.6 Income based methods estimate value by calculating the present value of a company’s estimated future stream of earnings or cash flows. Income based methods include:

- discounted cash flow methods; and
- capitalisation of future maintainable earnings.

6.7 The DCF technique has a strong theoretical basis, valuing a business on the net present value of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital and an assessment of the residual value or the terminal value of the company’s cash flows at the end of the forecast period. This method of valuation is appropriate when valuing companies where future cash flow projections can be made with a reasonable degree of confidence.

6.8 The capitalisation of future maintainable earnings methodology is generally considered a short form DCF, where an estimation of the Future Maintainable Earnings (“FME”) of the business, rather than a stream of cash flows is capitalised based on an appropriate capitalisation multiple. Multiples are derived from the analysis of transactions involving comparable companies and the trading multiples of comparable companies.

6. Valuation Methodologies (Cont.)

Asset Based Methods

6.9 Asset based methodologies estimate the fair market value of a company's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method;
- liquidation of assets method; and
- net tangible assets on a going concern basis.

6.10 The value achievable in an orderly realisation of assets is estimated by determining the net realisable value of the assets of a company which would be distributed to security holders after payment of all liabilities, including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner. This technique is particularly appropriate for businesses with relatively high asset values compared to earnings and cash flows.

6.11 The liquidation of assets method is similar to the orderly realisation of assets method except the liquidation method assumes that the assets are sold in a shorter time frame, reflecting a distressed liquidation value. The liquidation of assets method will result in a value that is lower than the orderly realisation of assets method, and is appropriate for companies in financial distress or when a company is not valued on a going concern basis.

6.12 The net tangible assets on a going concern method estimates the market values of the net tangible assets of a company but unlike the orderly realisation of assets method, it does not take into account realisation costs. Asset based methods are appropriate when companies are not profitable, a significant proportion of the company's assets are liquid, or for asset holding purposes.

Selection of Valuation Methodologies

Valuation of KPO prior to the Proposed Transactions

Net assets on a going concern basis

6.13 The Kalina Cycle Technology has been utilised in a small number of commercial power plants and limited operating revenues have been derived from the Kalina Cycle Technology. In accordance with RG 111, we have therefore not utilised income based methodologies in our valuation of the shares in KPO.

6.14 We have, therefore, selected the net assets on a going concern basis in our assessment of the value of a share in KPO prior to the Proposed Transactions. In valuing a share in KPO prior to the Proposed Transactions, we have relied upon the carrying value of assets and liabilities as set out in KPO's audited consolidated statement of financial position at 30 June 2016, adjusted for the Rights Issue and private placements undertaken to the date of this Report as set out in paragraph 7.4.

Quoted Price of Listed Securities

6.15 As a secondary method of valuing a KPO share prior to the Proposed Transactions, we have also considered the quoted price for listed securities methodology. In accordance with RG 111, we have assessed the value of KPO's shares on the basis of a 100% controlling interest.

6.16 Prices at which a company's securities have been traded on the ASX can, in the absence of low liquidity or unusual circumstances, provide an objective measure of the value of the company, excluding a premium for control.

6.17 Notwithstanding the low liquidity of KPO's shares (discussed in further detail in section 7), we have utilised the quoted market price by as our secondary methodology in valuing a KPO share prior to the Proposed Transactions. In our assessment of the value of a KPO share utilising the quoted price methodology, we have also had regard to the recent capital raisings undertaken by the Company.

Valuation of KPO immediately after the Proposed Transactions

6.18 We have also selected the net assets on a going concern basis in our assessment of the value of a share in KPO immediately following Resolutions 4A, 4B and 4C on a standalone basis. Our assessment of the value of a share in KPO immediately following each Resolution is also based on the audited financial position at 30 June 2016, and adjusted for the pro forma terms of the Resolutions, as set out in paragraphs 3.20 to 3.22, and paragraphs 7.29, 7.33 and 7.37.

6. Valuation Methodologies (Cont.)

6.19 As the approval of Resolution 4A will result in the decrease of Non-Associated Shareholders' interest in KPO from 72.9% to 72.1%, in accordance with RG 111, we have ascribed a discount for lack of control to the value of a KPO share immediately after the approval Resolution 4A.

6.20 As the approval of Resolution 4B may result in the decrease of Non-Associated Shareholders' interest in KPO from 72.9% to 68.6% in the event that Harrington exercises all the 19,294,005 options issued, in accordance with RG 111, we have ascribed a discount for lack of control to the value of a KPO share immediately after the approval of Resolution 4B.

6.21 As the approval of Resolution 4C may result in the decrease of Non-Associated Shareholders' interest in KPO from 72.9% to 67.4% in the event that Harrington exercises all 24,934,055 of its options, in accordance with RG 111, we have ascribed a discount for lack of control to the value of a KPO share immediately after the approval of Resolution 4C.

7. Valuation of KPO

7.1 The basis of our evaluation of "fairness" is to compare the Fair Value of a KPO share prior to, and immediately after the Resolutions.

Valuation of a KPO share prior to the Proposed Transactions (on a controlling basis)

7.2 Our assessment of the Fair Value of a KPO share prior to the Proposed Transactions (on a controlling basis) is set out in the table below.

Kalina Power Limited Statement of Financial Position	As at 30-Jun-16 *Audited* $	Ref	Pro Forma Adjustments	Pro Forma Prior to the Proposed Transactions Assessed Value $
Current assets				
Cash and cash equivalents	755,861	7.4	5,609,364	6,365,225
Trade and other receivables	1,235,057			1,235,057
Other financial assets	71			71
Total current assets	1,990,989			7,600,353
Non-current assets				
Trade and other receivables	932,334			932,334
Investments acccounted for using the equity method	9,200			9,200
Property, plant and equipment	14,658			14,658
Intangible assets	4,204,008			4,204,008
Total non-current assets	5,160,200			5,160,200
Total assets	**7,151,189**			**12,760,553**
Current liabilities				
Trade and other payables	986,646	7.4	(282,000)	704,646
Borrowings	2,620,548	7.4	(2,441,147)	179,401
Provisions	110,329			110,329
Total current liabilities	3,717,523			994,376
Non-current liabilities				
Trade and other payables	1,301,263			1,301,263
Provisions	70,255			70,255
Total non-current liabilities	1,371,518			1,371,518
Total liabilities	**5,089,041**			**2,365,894**
NET ASSETS	**2,062,148**			**10,394,659**
Number of shares on issue	133,335,253	7.4, Table 2	171,895,406	305,230,659
Assessed Fair Value per share (controlling basis)				**$0.0341**

Table 11 – Assessed Fair Value of KPO prior to the Proposed Transactions (controlling basis)

7. Valuation of KPO (Cont.)

7.3 The assessment of the Fair Value of a KPO share prior to the approval of the Proposed Transactions is based on the pro forma consolidated balance sheet of the Company as at 30 June 2016.

7.4 KPO's balance sheet at 30 June 2016 has been adjusted for the following:

- the Rights Issue and private placement shares to raise $8,311,517 before costs, and before the adjustment of non-cash consideration as set out below, through the issue of a total of 166,230,338 shares, comprising the following (refer paragraphs 3.15 and 3.16, and Table 2):
  - the issue of 107,730,338 shares at $0.05 per share to raise $5,386,517 under the Rights Issue, less the non-cash consideration portion of $2,493,406 offset against the Loan from Harrington;
  - the issue of 36,000,000 shares at $0.05 per share to raise $1,800,000 under the Placement;
  - the issue of 22,500,000 shares at $0.05 per share to raise $1,125,000 under the additional private placements;
  - adjustment for the estimated raising costs of $210,000 as included in the supplementary prospectus dated 24 August 2016; and
  - the above Rights Issue and private placements resulting in an increase in cash of $5,608,111;
- the issue of 5,640,000 shares at $0.05 per share on 15 September 2016 (together with 2,820,000 attaching options), to settle creditor amounts totalling $282,000 (refer paragraph 3.18 and Table 2);
- the issue of 25,068 shares on 25 October 2016 due to the exercise of options at $0.05 per share; and
- the reduction of the Loan from Harrington to $179,401, being the principal amount of $2,500,000 plus interest of accrued to the date of this Report of $172,807, less $2,493,406 of the Loan converted to shares to offset Harrington's underwriting obligations under the Rights Issue (refer paragraphs 3.20 and 5.39, and Table 2).

7.5 Based on the above, our assessed value of a KPO prior to the Proposed Transactions is $0.0341.

7.6 The value of a KPO share prior to the Proposed Transactions is the value of a share on a controlling basis. The net assets on a going concern methodology applied represents the value of a controlling shareholding. Accordingly, we consider the value generated under the net assets on a going concern basis to incorporate a premium for control and no further premium is considered necessary to assess the value of KPO prior to the Proposed Transactions.

Quoted Price of Listed Securities

7.7 We have utilised the quoted price of listed securities methodology as our secondary methodology in our assessment of the value of a KPO share prior to the Proposed Transactions.

7.8 The assessment should only reflect trading prior to the announcement of the Proposed Transactions in order to avoid the influence of any movement in share price that occurred as a result of the announcement. We note that the Loan secured from Harrington, together with the Company's intention to conduct a rights issue, was first announced on 6 January 2016.

7.9 The table below sets out a summary of KPO's VWAP for the 5, 10, 30, and 60 calendar days prior to the announcement of the Proposed Transactions on 6 January 2016.

Days prior to Announcement	Trading Days	Low $	High $	Value $	Cumulative Volume	VWAP $	Volume traded as % of units outstanding
1 day	-	0.0510	0.0510	-	-	N/a	N/a
5 days	-	0.0510	0.0510	-	-	N/a	N/a
10 days	2 days	0.0500	0.0510	10,196	202,870	0.0503	0.15%
30 days	4 days	0.0500	0.0820	28,453	426,420	0.0667	0.32%
60 days	13 days	0.0500	0.1000	121,601	1,544,200	0.0787	1.16%

Source: Capital IQ and RSM calculations

Table 12 – KPO VWAP prior to the announcement of the Proposed Transactions

7. **Valuation of KPO (Cont.)**

7.10 As set out in the table above, the VWAP of KPO's shares ranged from $0.0503 to $0.0787 over the 60 calendar days prior to 6 January 2016.

7.11 Shares were traded for 13 days over the 60 calendar day period and comprised 1.16% of the weighted shares outstanding over the period.

7.12 RG 111.69 indicates that for the quoted market share price methodology to represent a reliable indicator of Fair Value, there needs to be an active and liquid market for the securities.

7.13 The following characteristics may be considered to be representative of a liquid and active market:

- regular trading in the company's securities;
- approximately 1% of a company's securities are traded on a weekly basis;
- the bid/ask spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of the company; and
- there are no significant but unexplained movements in the share price.

7.14 Notwithstanding the low liquidity of shares traded, the Company complies with the full disclosure regime required by the ASX. As a result, the market is fully informed about KPO's performance.

7.15 We have also had regard to KPO's recent capital raisings and private placements at $0.05 per share. We consider that these capital raisings provide evidence of investors' assessment of the value of a KPO share on a non-controlling basis. Based on the analysis of recent trading and having regard to KPO's recent capital raising activity, we have assessed the value of a KPO share on a minority interest basis, to be $0.050 consistent with the 5- day VWAP of a KPO share prior to the announcement of the Proposed Transactions.

7.16 The value above is indicative of the value of a marketable parcel of securities assuming a holder does not have control of the Company. In the case of a Section 611 acquisition, RG 111 states that the independent expert should calculate the value of a target's securities as if 100% control were being obtained. Therefore, in our assessment of the Fair Value of a KPO share, we should include a premium for control.

Premium for control

7.17 Obtaining control of an entity usually provides the acquirer with a number of advantages including the following:

- access to potential synergies;
- control over decision making and strategic direction;
- access to underlying cash flows; and
- control over dividend policies.

7.18 In the case of publicly traded securities, given the advantages control of an entity provides an acquirer, they are usually expected to pay a premium to the quoted market price to achieve control, which is often referred to as a control premium. A control premium is the amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the premium a buyer will pay to acquire control in a business enterprise. Consequently, earnings multiples for listed companies do not reflect the market value of a controlling interest in the company as they are derived from market prices which usually represent the buying and selling of non-controlling portfolio holdings (small parcels of shares).

7.19 RSM has conducted a study of 345 takeovers and schemes of arrangements involving companies listed on the ASX over the 7 years ended 30 June 2012 ("RSM Control Premium Study 2013"). In determining the control premium, we compared the offer price to the closing trading price of the target company 20, 10 and 2 trading days pre the date of the announcement of the offer. Where the consideration included shares in the acquiring company, we used the closing share price of the acquiring company on the day prior to the date of the offer.

7. **Valuation of KPO (Cont.)**

7.20 The findings are summarised below, showing the average control premium 20 days, 10 days and 2 days pre the date of the announcement of the offer.

	Number of Transactions	20 days pre	10 days pre	2 days pre
Average control premium - all industries	345	35.3%	29.3%	26.5%

Table 13 – Control Premium Study (Source: RSM Control Premium Study 2013)

7.21 On the basis of the above, we consider that premium for control of 25% to 30% is appropriate in assessing the value of a KPO share on a controlling basis.

7.22 The table below sets out our assessment of the value of a KPO share on a controlling basis utilising the quoted price of listed securities methodology.

	Ref	Low	High
Quoted market price (non-controlling basis)	7.15	$0.0500	$0.0500
Control premium	7.21	25.0%	30.0%
Value of a KPO share (controlling basis)		**$0.0625**	**$0.0650**

Table 14 – Assessed Fair Value of a KPO share – Quoted Price of Listed Securities method

Valuation Summary (Prior to the Proposed Transactions)

7.23 A summary of our assessed values of a KPO share prior to the Proposed Transactions is set out in the table below.

	Ref	Low	High	Preferred
Net assets on a going concern basis - primary method	Table 11, 7.5	**$0.0341**	**$0.0341**	**$0.0341**
Quoted price of listed securities - cross check	Table 14	$0.0625	$0.0650	$0.0638

Table 15 – Valuation of a KPO share prior to the Proposed Transactions (controlling basis)

7.24 We note the following with regards to the Company's recent trading history:

- as set out in Table 12 above, only 1.16% of the weighted average shares outstanding was traded in the 60 days prior to the announcement of the Proposed Transactions;
- the bid/ask spread is often used to measure market efficiency and liquidity. For the period 14 October 2015, the date KPO's shares recommenced trading on the ASX since its suspension in December 2013, to 31 December 2015 (the last day shares were traded prior to the announcement of the Proposed Transactions), the closing bid/ask spread of KPO averaged 24.4% of the mid-point price. On the basis that, over a comparable time period, all stocks trading on the ASX had an average bid/ask spread of 0.243%[1], we consider the bid/ask spread of KPO to be relatively large; and
- KPO has focused on restructuring the Company's activities in the period since its shares recommenced trading and has undertaken a number of private placements as well as the Rights Issue. The ongoing restructuring activities may be distorting the Company's traded price.

[1] Equity market data for the quarter ending 31 December 2015

7. Valuation of KPO (Cont.)

7.25 Based on the above, we have relied upon the net assets on a going concern valuation methodology as we consider that the trading market of KPO's shares is not sufficiently liquid and therefore, its price may not be a reliable indicator of value as the market for those shares may not be fully efficient. We note that our assessed value of a KPO share using the quoted market price of $0.05 (on a non-controlling basis), is consistent with the Company's capital raising activities undertaken in 2016. We consider that this price is reflective of investors' pricing the potential upside of an investment in KPO in the event that the Company is able to generate future operating profits.

7.26 We have therefore assessed the Fair Value of a KPO share on a controlling basis prior to the Proposed Transactions, utilising the net assets on a going concern basis, to be $0.0341.

Valuation of a KPO Share immediately after the approval of Resolution 4A (controlling basis)

7.27 Our assessment of the Fair Value of a KPO share immediately after Resolution 4A (on a controlling basis), is set out in the table below.

Kalina Power Limited Statement of Financial Position	Pro Forma Prior to Resolution 4A Assessed Value $	Ref	Pro Forma Immediately after Resolution 4A Assessed Value $
Assets			
Current assets	7,600,353		7,600,353
Total non-current assets	5,160,200		5,160,200
Total assets	**12,760,553**		**12,760,553**
Liabilities			
Current borrowings	179,401	7.29	-
Other current liabilities	814,975		814,975
Non-current liabilities	1,371,518		1,371,518
Total liabilities	**2,365,894**		**2,186,493**
NET ASSETS	**10,394,659**		**10,574,060**
Number of shares on issue	305,230,659	7.29	308,818,669
Assessed Fair Value per share (controlling basis)	**$0.0341**		**$0.0342**

Table 16 – Assessed Fair Value of KPO immediately after the approval of Resolution 4A (controlling basis)

7.28 The assessment of the Fair Value of a KPO share immediately after Resolution 4A (on a controlling basis) is also based on the pro forma balance sheet of the Company at 30 June 2016. As set out in paragraph 7.4, KPO's pro forma balance sheet has been adjusted for the Rights Issue, private placements and subsequent issue of shares to convert creditor amounts and exercise options, consistent with our adjustments in our assessment of the value of a KPO share prior to the Proposed Transactions.

7.29 We have adjusted the pro forma balance sheet for the issue of 3,588,010 fully paid shares to Harrington to convert the remaining $179,401 of the Loan (refer paragraph 3.21 and Table 3), in our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4A.

7.30 Based on the above, we have assessed the Fair Value of a KPO share immediately after the approval of Resolution 4A to be $0.0342 on a controlling basis.

7. Valuation of KPO (Cont.)

Valuation of a KPO Share immediately after the approval of Resolution 4B (controlling basis) (diluted)

7.31 Our assessment of the Fair Value of a KPO share immediately after Resolution 4B (on a controlling basis), is set out in the table below.

Kalina Power Limited Statement of Financial Position	Pro Forma Prior to Resolution 4B Assessed Value $	Ref	Pro Forma Immediately after Resolution 4B Assessed Value $
Assets			
Cash and cash equivalents	6,365,225	7.33	7,329,926
Other current assets	1,235,128		1,235,128
Non-current assets	5,160,200		5,160,200
Total assets	**12,760,553**		**13,725,254**
Liabilities			
Current liabilities	994,376		994,376
Non-current liabilities	1,371,518		1,371,518
Total liabilities	**2,365,894**		**2,365,894**
NET ASSETS	**10,394,659**		**11,359,360**
Number of shares on issue	305,230,659	7.33	324,524,664
Assessed Fair Value per share (controlling basis)	**$0.0341**		**$0.0350**

Table 17 – Assessed Fair Value of KPO immediately after the approval of Resolution 4B (controlling basis)

7.32 The assessment of the Fair Value of a KPO share immediately after Resolution 4B (on a controlling basis) is also based on the pro forma balance sheet of the Company at 30 June 2016. As set out in paragraph 7.4, KPO's pro forma balance sheet has been adjusted for the Rights Issue, private placements and subsequent issue of shares to convert creditor amounts and exercise options, consistent with our adjustments in our assessment of the value of a KPO share prior to the Proposed Transactions.

7.33 In our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4B, we have adjusted the pro forma balance sheet for the following:

- the issue of 19,294,005 options to Harrington (refer paragraphs 3.28 to 3.30 and Table 4); and
- notwithstanding that we have assessed the Fair Value of a KPO share prior to the Proposed Transactions to be $0.0341, the Company's shares are currently trading in excess of $0.05 and, as such, can be considered to be in the money. We have, therefore, considered the impact of Harrington exercising all 19,294,005 options held in the event that Resolution 4B is approved, together with the corresponding increase in cash of $964,700, in our assessment of fairness.

7.34 Based on the above, we have assessed the Fair Value of a KPO share immediately after the approval of Resolution 4B, and assuming that Harrington exercises all of the issued options, to be $0.0350 on a controlling basis.

7. Valuation of KPO (Cont.)

Valuation of a KPO Share immediately after the approval of Resolution 4C (controlling basis) (diluted)

7.35 Our assessment of the Fair Value of a KPO share immediately after Resolution 4C (on a controlling basis), is set out in the table below.

Kalina Power Limited Statement of Financial Position	Pro Forma Prior to Resolution 4C Assessed Value $	Ref	Pro Forma Immediately after Resolution 4C Assessed Value $
Assets			
Cash and cash equivalents	6,365,225	7.37	7,611,928
Other current assets	1,235,128		1,235,128
Non-current assets	5,160,200		5,160,200
Total assets	**12,760,553**		**14,007,256**
Liabilities			
Current liabilities	994,376		994,376
Non-current liabilities	1,371,518		1,371,518
Total liabilities	**2,365,894**		**2,365,894**
NET ASSETS	**10,394,659**		**11,641,362**
Number of shares on issue	305,230,659	7.37	330,164,714
Assessed Fair Value per share (controlling basis)	**$0.0341**		**$0.0353**

Table 18 – Assessed Fair Value of KPO immediately after the approval of Resolution 4C (controlling basis)

7.36 The assessment of the Fair Value of a KPO share immediately after Resolution 4C (on a controlling basis) is also based on the pro forma balance sheet of the Company at 30 June 2016. As set out in paragraph 7.4, KPO's pro forma balance sheet has been adjusted for the Rights Issue, private placements and subsequent issue of shares to convert creditor amounts and exercise options, consistent with our adjustments in our assessment of the value of a KPO share prior to the Proposed Transactions.

7.37 In the event that Resolution 4C is approved, Harrington may exercise 24,934,055 in options currently held (refer paragraphs 3.31 to 3.33, and Table 5). Notwithstanding that we have assessed the Fair Value of a KPO share prior to the Proposed Transactions to be $0.0341, the Company's shares are currently trading in excess of $0.05 and, as such, can be considered to be in the money. We have, therefore, considered the impact of Harrington exercising all 24,934,055 options currently held in the event that Resolution 4C is approved, together with the corresponding increase in cash of $1,246,703, in our assessment of fairness.

7.38 Based on the above, we have assessed the Fair Value of a KPO share immediately after the approval of Resolution 4C, and assuming Harrington exercises of its options currently held, to be $0.0353 on a controlling basis.

7. Valuation of KPO (Cont.)

Valuation of a KPO Share immediately after the Proposed Transactions (controlling basis) (diluted)

7.39 The table below sets out our assessment of the Fair Value of a KPO share in the event that all the Resolutions are approved (on a controlling basis), and assuming that Harrington exercises all of its options.

Kalina Power Limited Statement of Financial Position	Pro Forma Prior to the Proposed Transactions Assessed Value $	Ref	Pro Forma (Diluted) Immediately after the Proposed Transactions Assessed Value $
Assets			
Cash and cash equivalents	6,365,225	7.41	8,576,628
Other current assets	1,235,128		1,235,128
Non-current assets	5,160,200		5,160,200
Total assets	**12,760,553**		**14,971,956**
Liabilities			
Borrowings	179,401	7.41	-
Other current liabilities	814,975		814,975
Non-current liabilities	1,371,518		1,371,518
Total liabilities	**2,365,894**		**2,186,493**
NET ASSETS	**10,394,659**		**12,785,463**
Number of shares on issue	305,230,659	7.41	353,046,729
Assessed Fair Value per share (controlling basis)	**$0.0341**		**$0.0362**

Table 19 – Assessed Fair Value of KPO immediately after the approval of all the Resolutions (controlling and diluted basis)

7.40 The assessment of the Fair Value of a KPO share in the event that all the Resolutions are approved (on a controlling basis), and assuming that Harrington exercises all of its options, is also based on the pro forma balance sheet of the Company at 30 June 2016. As set out in paragraph 7.4, KPO's pro forma balance sheet has been adjusted for the Rights Issue, private placements and subsequent issue of shares to convert creditor amounts and exercise options, consistent with our adjustments in our assessment of the value of a KPO share prior to the Proposed Transactions.

7.41 If all the Resolutions are approved, 3,588,010 fully paid shares will be issued to Harrington to convert the remaining $179,401 of the Loan, and Harrington may exercise all 44,228,060 options held. We have therefore considered the impact of Harrington exercising all its options in the event that all the Resolutions are approved, together with the corresponding increase in cash of $2,211,403, in our assessment of fairness.

7.42 Based on the above, we have assessed the Fair Value of a KPO share immediately after the approval of all the Resolutions, and assuming Harrington exercises of its options, to be $0.0362 on a controlling basis.

Valuation of a KPO Share Immediately after the Proposed Transactions (on a non-controlling basis)

7.43 The approval of Resolution 4A will result in the decrease of Non-Associated Shareholders' interest in KPO from 72.9% to 72.1%.

7.44 The approval of Resolution 4B may result in the decrease of Non-Associated Shareholders' interest in KPO from 72.9% to 68.6% in the event that Harrington exercises all the 19,294,005 options issued.

7.45 The approval of Resolution 4C may result in the decrease of Non-Associated Shareholders' interest in KPO from 72.9% to 67.4% in the event that Harrington exercises all 24,934,055 of its options held.

7.46 If all the Resolutions were approved and Harrington exercised all of its options, Non-Associated Shareholders' interest in KPO would decrease to 63.0% on a fully diluted basis.

7.47 Whilst Harrington will not obtain control of the Company in any of the above scenarios, an interest in excess of 25% will enable Harrington to influence the strategic direction of the Company, block special resolutions, and influence the acceptance of takeover or merger proposals.

7. Valuation of KPO (Cont.)

7.48 Therefore, in accordance with RG 111, we have reflected a discount for lack of control in our assessment of the Fair Value of a KPO share immediately after the approval of the Resolutions on a non-controlling basis.

7.49 A discount for a minority interest (non-controlling interest) is the inverse of a premium for control. We have therefore applied a discount of 20.0% to 23.1% (rounded), being the inverse of the control premium utilised in our assessment of the value of a KPO share on a quoted price of listed securities basis.

7.50 Whilst we have applied a discount for lack of control in accordance with RG 111 in our assessment of the Fair Value of a KPO share immediately after the Proposed Transactions, we note that Harrington will not obtain control of the Company in the event that Non-Associated Shareholders approved any, or all, of the Resolutions.

7.51 As set out in Tables 16 to 18 above, the value of a KPO share immediately after each of the Resolutions on a controlling basis, exceeds our assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

Valuation of a KPO Share immediately after Resolution 4A on a non-controlling basis

7.52 The table below sets out our assessment of the value of a KPO share on a minority interest basis immediately after the approval of Resolution 4A.

	Ref	Pro Forma Immediately after Resolution 4A Assessed Value Low $	High $	Preferred $
Assessed value per share (controlling basis)	Table 16	**$0.0342**	**$0.0342**	**$0.0342**
Discount for lack of control	7.49	-23.1%	-20.0%	-21.6%
Assessed Fair Value per share (non-controlling basis)		**$0.0263**	**$0.0274**	**$0.0268**

Table 20 – Assessed Fair Value of KPO immediately after the approval of Resolution 4A (non-controlling basis)

7.53 Based on the above, our assessed value of a KPO share immediately after the approval of Resolution 4A (on a non-controlling basis), is in the range of $0.0263 to $0.0274 per share.

Valuation of a KPO Share immediately after Resolution 4B on a non-controlling basis (diluted)

7.54 The table below sets out our assessment of the value of a KPO share on a minority interest basis immediately after the approval of Resolution 4B and assuming Harrington exercises all of the issued options.

	Ref	Pro Forma Immediately after Resolution 4B Assessed Value Low $	High $	Preferred $
Assessed value per share (controlling basis)	Table 17	**$0.0350**	**$0.0350**	**$0.0350**
Discount for lack of control	7.49	-23.1%	-20.0%	-21.6%
Assessed Fair Value per share (non-controlling basis)		**$0.0269**	**$0.0280**	**$0.0275**

Table 21 – Assessed Fair Value of KPO immediately after the approval of Resolution 4B (non-controlling basis and assuming Harrington exercises all of the issued options)

7.55 Based on the above, our assessed value of a KPO share immediately after the approval of Resolution 4B (on a non-controlling basis), and assuming Harrington exercises all of the issued options, is in the range of $0.0269 to $0.0280 per share.

7. Valuation of KPO (Cont.)

Valuation of a KPO Share immediately after Resolution 4C on a non-controlling basis (diluted)

7.56 The table below sets out our assessment of the value of a KPO share on a minority interest basis immediately after the approval of Resolution 4C and assuming Harrington exercises all of its current options.

	Ref	Pro Forma Immediately after Resolution 4C Assessed Value		
		Low $	High $	Preferred $
Assessed value per share (controlling basis)	Table 18	**$0.0353**	**$0.0353**	**$0.0353**
Discount for lack of control	7.49	-23.1%	-20.0%	-21.6%
Assessed Fair Value per share (non-controlling basis)		**$0.0271**	**$0.0282**	**$0.0277**

Table 22 – Assessed Fair Value of KPO immediately after the approval of Resolution 4C (non-controlling basis and assuming Harrington exercises all its current options)

7.57 Based on the above, our assessed value of a KPO share immediately after the approval of Resolution 4C (on a non-controlling basis), and assuming Harrington exercises all of its current options, is in the range of $0.0271 to $0.0282 per share.

Valuation of a KPO Share Immediately after the Proposed Transactions on a non-controlling basis (diluted)

7.58 The table below sets out our assessment of the value of a KPO share in the event that all the Resolutions are approved (on a minority interest basis), and assuming that Harrington exercises all of its options.

	Ref	Pro Forma (Diluted) Immediately after the Proposed Transactions Assessed Value		
		Low $	High $	Preferred $
Assessed value per share (controlling basis)	Table 19	**$0.0362**	**$0.0362**	**$0.0362**
Discount for lack of control	7.49	-23.1%	-20.0%	-21.6%
Assessed Fair Value per share (non-controlling basis)		**$0.0278**	**$0.0290**	**$0.0284**

Table 23 – Assessed Fair Value of KPO immediately after the Proposed Transactions (non-controlling basis and assuming Harrington exercises all of its options)

7.59 Based on the above, our assessed value of a KPO share in the event that all of the Resolutions are approved (on a non-controlling basis and assuming all options held by Harrington are exercised), is in the range of $0.0278 to $0.0290 per share.

8. Are the Proposed Transactions Fair

8.1 In assessing the fairness of the Proposed Transactions, we have valued a share in KPO prior to each Resolution, and immediately after Resolutions 4A, 4B and 4C on a standalone basis. We have also valued a share in KPO immediately after the Proposed Transactions, assuming that Resolutions 4A, 4B and 4C are all approved, as set out in the table below.

Valuation Summary	Low $	High $	Preferred $
Fair Value per share prior to the Proposed Transactions (on a controlling basis)	$0.0341	$0.0341	$0.0341
Fair Value per share immediately after Resolution 4A (on a non-controlling basis)	$0.0263	$0.0274	$0.0268
Fair Value per share immediately after Resolution 4B (on a non-controlling basis and assuming all options issued to Harrington are exercised)	$0.0269	$0.0280	$0.0275
Fair Value per share immediately after Resolution 4C (on a non-controlling basis and assuming all options held by Harrington are exercised)	$0.0271	$0.0282	$0.0277
Fair Value per share immediately after all Resolutions have been approved (on a non-controlling basis and assuming all options held by Harrington are exercised)	$0.0278	$0.0290	$0.0284

Table 24 – Valuation Summary

8.2 We have assessed the value of a share in KPO on a controlling basis prior to the Proposed Transactions and then on a minority interest basis immediately after each Resolution, to account for the expected dilution of Non-Associated Shareholders' interest in KPO.

8.3 The above comparison is depicted graphically in the chart below.

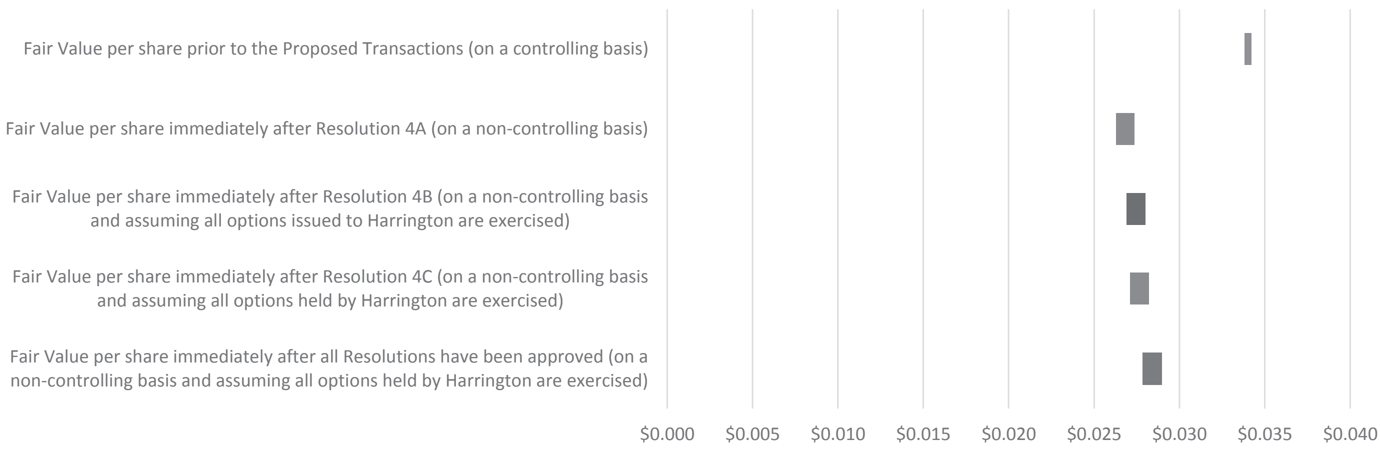

Chart 3 – Valuation Summary

8.4 As the Fair Value of a KPO share immediately after Resolutions 4A, 4B and 4C on standalone basis is less than the Fair Value of a KPO share prior to the Proposed Transactions, and in the absence of any other relevant information, in our opinion, Resolutions 4A, 4B and 4C are **not fair** to the Non-Associated Shareholders of KPO.

9. Other Factors taken into Consideration in Forming our Opinion

9.1 RG 111 establishes that an offer is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for the security holders to accept the offer.

9.2 In our assessment of whether the Proposed Transactions are reasonable, we have also considered the following:

- the future prospects of KPO if the Resolutions do not proceed;
- alternative offers and sources of funds; and
- other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Resolutions proceeding.

9. Other Factors taken into Consideration in Forming our Opinion (Cont.)

Future prospects of KPO if Resolution 4A does not proceed

9.3 If Resolution 4A is not successful, the issue of the 3,588,010 new ordinary shares to Harrington will not proceed. The Loan outstanding of $179,401 at the date of this Report will continue to accrue interest and will remain payable by the Company.

9.4 At 30 June 2016, the Company disclosed a cash position of $756,000, and has a cash balance of circa $5.3 million as at the date of this Report. At the date of this Report, the Company's share price was circa $0.125. Whilst the conversion of the Loan outstanding at $0.05 per share contemplated by Resolution 4A is more dilutive than if the conversion were to take place at KPO's current share price, we note that the Loan Agreement with Harrington provided that the Company would repay the Loan by Harrington underwriting the Rights Issue to the extent of the Loan. The issue of shares under Resolution 4A is to satisfy KPO's contractual obligations under its underwriting agreement with Harrington. If approval is not obtained, the Loan outstanding will continue to accrue interest and will need to be repaid on 30 January 2017.

9.5 KPO has yet to generate operating revenue and continues to incur significant costs. Whilst KPO currently has the capacity to repay the Loan outstanding, the conversion of the Loan will allow the Company to extinguish the Loan and utilise the funds for operating purposes.

Future prospects of KPO if Resolution 4B does not proceed

9.6 The issue of 19,294,005 options may still occur if Shareholders approve Resolution 5 (but not Resolution 4B). However, Harrington will be unable to exercise those options unless Shareholders subsequently approve their exercise or unless Harrington is otherwise able to exercise some or all of those options in accordance with Item 9, Section 611 of the Corporations Act.

9.7 As set out above, at 30 June 2016, the Company disclosed a cash position of $756,000, and has a cash balance of circa $5.3 million as at the date of this Report.

9.8 KPO has yet to generate operating profits. The Company's audited financial statements for the year ended 30 June 2016 included an emphasis of matter in the independent auditor's report that stated that KPO's ability to continue as a going concern was based on certain assumptions including:

- cashflow forecasts for the year to 30 June 2018 that included operating cash inflows and outflows in relation to ongoing projects;
- a forecast reduction in future operating expenses as the Board of Directors' focus will be to control future expenditure; and
- the successful raising of funds from its recent rights issue and private placements, as well as the conversion of the remainder of its Loan to Harrington.

9.9 At the date of this Report, KPO has achieved a successful capital raising through its recent Rights Issue. However, KPO's ability to continue as a going concern assumes that the Company will continue to raise sufficient capital to fund its ongoing projects whilst effectively controlling future expenditure. In the event that KPO is not able achieve all the key milestones set out above, the Company may not be able to continue as a going concern in the longer term.

Future prospects of KPO if Resolution 4C does not proceed

9.10 If Resolution 4C is not approved, Harrington will be unable to exercise the 24,934,055 options it currently holds unless Shareholders subsequently approve their exercise or unless Harrington is otherwise able to exercise some or all of those options in accordance with Item 9, Section 611 of the Corporations Act.

9.11 As set out above, KPO has yet to generate operating profits. The Company's audited financial statements for the year ended 30 June 2016 included an emphasis of matter in the independent auditor's report that stated that KPO's ability to continue as a going concern was based on certain assumptions including:

- cashflow forecasts for the year to 30 June 2018 that included operating cash inflows and outflows in relation to ongoing projects;
- a forecast reduction in future operating expenses as the Board of Directors' focus will be to control future expenditure; and

9. Other Factors taken into Consideration in Forming our Opinion (Cont.)

- the successful raising of funds from its recent rights issue and private placements, as well as the conversion of the remainder of its Loan to Harrington.

9.12 In the event the Company is unsuccessful in achieving all the key milestones as set out above, including further capital raisings, the Company may not be able to continue as a going concern in the longer term.

9.13 In assessing whether the Non-Associated Shareholders are likely to be better off if the Resolutions proceed than if the Resolutions do not proceed, we have compared various advantages and disadvantages that are likely to accrue to the Non-Associated Shareholders.

Advantages of Resolution 4A

9.14 The Loan amount of $179,401 due to Harrington will be fully extinguished if Resolution 4A is approved, and the funds that would be required to repay the Loan can be used for operating purposes.

9.15 Whilst we have applied a discount for lack of control in accordance with RG 111 in our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4A, we note that Harrington will increase its shareholding from 27.1% to 27.9%. As such, Harrington will not obtain control of the Company if Resolution 4A is approved. As set out in Table 16 of this Report, the value of a KPO share immediately after the approval of Resolution 4A, but before applying a minority interest discount, of $0.0342, exceeds our assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

Advantages of Resolution 4B

9.16 The issue of shares and options to Harrington under Resolution 4B will be undertaken at the same price as the recent Rights Issue undertaken by KPO.

9.17 Notwithstanding dilution in Non-Associated Shareholders' interest in the event Resolution 4B is approved, the cash position of the Company would be further improved if Harrington chooses to exercise any of its options issued under Resolution 4B.

9.18 Whilst we have applied a discount for lack of control in accordance with RG 111 in our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4B, we note that Harrington will increase its shareholding from 27.1% to 31.4% on a fully diluted basis. As such, Harrington will not obtain control of the Company if Resolution 4B is approved. As set out in Table 17 of this Report, the value of a KPO share immediately after the approval of Resolution 4B, but before applying a minority interest discount, of $0.0350 on a fully diluted basis, exceeds our assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

Advantages of Resolution 4C

9.19 The issue of shares to Harrington under Resolution 4C will be undertaken at the same price as the recent Rights Issue undertaken by KPO.

9.20 Notwithstanding dilution in Non-Associated Shareholders' interest in the event Resolution 4C is approved, the cash position of the Company would be further improved if Harrington chooses to exercise any of its options held if Resolution 4C was approved.

9.21 Whilst we have applied a discount for lack of control in accordance with RG 111 in our assessment of the Fair Value of a KPO share immediately after the approval of Resolution 4C, we note that Harrington will increase its shareholding from 27.1% to 32.6% on a fully diluted basis. As such, Harrington will not obtain control of the Company if Resolution 4C is approved. As set out in Table 18 of this Report, the value of a KPO share immediately after the approval of Resolution 4C, but before applying a minority interest discount, of $0.0353 on a fully diluted basis, exceeds our assessment of the Fair Value of a share prior to the Proposed Transactions of $0.0341.

Disadvantages of Resolution 4A

9.22 Resolution 4A is not fair.

9.23 Non-Associated Shareholders' interest in KPO will be diluted from 72.9% to 72.1% if Resolution 4A is approved.

9.24 The dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

9. Other Factors taken into Consideration in Forming our Opinion (Cont.)

Disadvantages of Resolution 4B

9.26 Resolution 4B is not fair.

9.27 Non-Associated Shareholders' interest in KPO will be diluted from 72.9% to 68.6% if Resolution 4B is approved and Harrington exercises all of the options issued under Resolution 4B.

9.28 The dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

Disadvantages of Resolution 4C

9.29 Resolution 4C is not fair.

9.30 Non-Associated Shareholders' interest in KPO will be diluted from 72.9% to 67.4% if Resolution 4C is approved and Harrington exercises all of its current options held in accordance with the approval obtained under Resolution 4C.

9.31 The dilution of Non-Associated Shareholders' interests reduces the ability of existing shareholders to influence the strategic direction of the Company, including acceptance or rejection of takeover or merger proposals.

Alternative Proposals

9.32 We are not aware of any alternative proposals at this time that would offer the Non-Associated Shareholders a premium over the terms offered by the Resolutions.

Response of the Market to the Announcement of the Resolutions

9.33 The table below sets out the VWAP of KPO's share price and volumes traded in the 60 days prior to the announcement of the Loan agreement with Harrington, together with the Company's intention to conduct a rights issue, and the period after the announcement to 2 November 2016.

	Trading days	High $	Low $	Value $	Volume Traded	VWAP $	Volume traded as % of issued shares
Calendar days prior to 6 January 2016							
5 days	-	0.0510	0.0510	-	-	N/a	N/a
10 days	2 days	0.0500	0.0510	10,196.370	202,870.000	0.0503	0.15%
30 days	4 days	0.0500	0.0820	28,452.850	426,420.000	0.0667	0.32%
60 days	13 days	0.0500	0.1000	121,601.230	1,544,200.000	0.0787	1.16%
Calendar days after 6 January 2016 to 4 October 2016							
301 days	112 days	0.0280	0.1550	12,554,377	126,693,620	0.0991	65.20%

Source: Capital IQ and RSM calculations

Table 25 – KPO VWAP after the announcement of the Proposed Transactions

9.34 The VWAP of $0.0991, in the period after the announcement to 2 November 2016, is 25.9% and 97.0% higher than the VWAP of $0.0787 and $0.0503 disclosed for the 60 days and 10 days prior to the announcement of the Proposed Transactions, respectively.

9.35 Volumes traded have increased to 65.2% for the period after the announcement of the Proposed Transactions to 2 November 2016. We note, however, that volumes traded since the Company's shares recommenced trading on the ASX may be distorted by the capital raising activities of the Company.

9.36 Notwithstanding the volatility and historically low liquidity of KPO's shares, we consider that the market has reacted favourably to the announcement of the Proposed Transactions.

9. Other Factors taken into Consideration in Forming our Opinion (Cont.)

Conclusion on Reasonableness

9.37 In our opinion, the position of the Non-Associated Shareholders if Resolution 4A is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that Resolution 4A is **Reasonable** for the Non-Associated Shareholders of KPO.

9.38 In our opinion, the position of the Non-Associated Shareholders if Resolution 4B is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that Resolution 4B is **Reasonable** for the Non-Associated Shareholders of KPO.

9.39 In our opinion, the position of the Non-Associated Shareholders if Resolution 4C is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that Resolution 4C is **Reasonable** for the Non-Associated Shareholders of KPO.

9.40 An individual shareholder's decision in relation to the Proposed Transactions may be influenced by his or her individual circumstances. If in doubt, Shareholders should consult an independent advisor.

Yours faithfully

RSM CORPORATE AUSTRALIA PTY LTD

Glyn Yates

GLYN YATES
Director

Jason Croall

JASON CROALL
Director

APPENDICES

Appendix 1 – Declarations and Disclosures

Declarations and Disclosures

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

Qualifications

Our report has been prepared in accordance with professional standard APES 225 “Valuation Services” issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM Australia) a large national firm of chartered accountants and business advisors.

Mr Glyn Yates and Mr Jason Croall are directors of RSM Corporate Australia Pty Ltd. Mr Yates and Mr Croall are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert’s reports for transactions involving publicly listed and unlisted companies in Australia.

Reliance on this Report

This report has been prepared solely for the purpose of assisting the Non-Associated Shareholders of KPO in considering the Proposed Transactions. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

Reliance on Information

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and Management of KPO and we have no reason to believe that this information was inaccurate, misleading or incomplete. However, we have not endeavoured to seek any independent confirmation in relation to its accuracy, reliability or completeness. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

Disclosure of Interest

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Glyn Yates, Jason Croall, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM Australia has any interest in the outcome of the Proposed Transactions, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of approximately $22,000, excluding GST, based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether KPO receives Shareholder approval for the Proposed Transactions, or otherwise.

Consents

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd, RSM Australia or RSM Australia Partners has been involved in the preparation of the Notice of General Meeting and Explanatory Statement. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement as a whole.

Appendix 2 – Sources of Information

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Audited financial statements of KPO for the three years ended 30 June 2016;
- A copy of the Underwriting Agreement between KPO and Harrington Global Limited, dated 9 May 2016;
- A copy of the Loan Agreement between KPO and Harrington Global Limited on behalf of Harrington Global Opportunities Fund SARL;
- Current share and options registers for KPO;
- ASX announcements of KPO; and
- Discussions with Management of KPO.

Appendix 3 – Glossary of Terms and Abbreviations

Term	Definition
Act or Corporations Act	Corporations Act 2001
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
A&W	A&W (Shanghai) New Energy Technology Development Co., Ltd
Cash flow	Cash that is generated over a period of time by an asset, group of assets, or business enterprise. It may be used in a general sense to encompass various levels of specifically defined cash flows. When the term is used, it should be supplemented by a qualifier (for example, "discretionary" or "operating") and a specific definition in the given valuation context
Control	The power to direct the management and policies of a business enterprise
Company or KPO	Kalina Power Limited, formerly known as Enhanced Systems Technologies Limited and Wasabi Energy Limited
Control premium or premium for control	An amount or a percentage by which the pro rata value of a controlling interest exceeds the pro rata value of a non-controlling interest in a business enterprise, to reflect the power of control
Directors	The directors of KPO
Discount rate	A rate of return used to convert a future monetary sum into present value
Discounted Cash Flow Method (DCF)	A method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Equity	The owner's interest in property after deduction of all liabilities
Fair Value or Fair Market Value	The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction
FME	Future maintainable earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
Going concern	An ongoing operating business enterprise
Harrington	Collectively, Harrington Global Limited and Harrington Global Opportunities Fund SARL

Term	Definition
Kalina Cycle®	A proprietary energy generating technology
KCT	Kalina Cycle Technology
Loan	The loan agreement between KPO and Harrington Global Limited, the investment manager of Harrington Opportunities Fund SARL (collectively, Harrington) for $2,500,000 funding on 7 January 2016. Harrington provided the Loan to the Company ahead of its obligations to underwrite a non-renounceable rights issue of KPO. The Loan accrues interest on a daily basis at 10% per annum and is repayable on 30 January 2017 unless converted to shares, pursuant to Harrington's underwriting obligations under the Rights Issue. At the date of this Report, the Loan amount outstanding totalled $179,401
Management	Management of KPO
MWe	Megawatt electrical; measure of energy referencing electrical power
MW	Megawatt; reference to energy produced regardless of energy source
NOM	Notice of General Meeting and Explanatory Statement to shareholders for the Annual General Meeting of KPO to be held on or about 28 November 2016.
Non-Associated Shareholders or Shareholders	The shareholders of KPO not associated with the Proposed Transactions
Non-controlling interest or minority interest	An assessment of the fair value of an equity interest, which assumes the holder or holders do not have control of the entity in which the equity is held
Pan Andean	Pan Andean Capital Pty Limited
Placement	The placement of $1,800,000 conducted alongside the Rights Issue
Proposed Transactions or Resolutions	Resolutions 4A, 4B, 4C and 5 as set out in the NOM
Report or IER	This Independent Expert's Report
RG 111	ASIC Regulatory Guide 111 Content of Expert Reports
RG 112	ASIC Regulatory Guide 112 Independence of Experts
Rights Issue	A non-renounceable rights issue undertaken by KPO for new fully paid ordinary shares at an issue price of 5 cents per share, on the basis of 3 new ordinary shares for each 4 fully paid ordinary shares held, with an accompanying option exercisable at 5 cents, on or before 30 August 2017 for every 2 ordinary shares issued, to raise circa $5.5 million. The Rights Issue was underwritten by Harrington and Pan Andean and was completed in September 2016

Term	Definition
RSM	RSM Corporate Australia Pty Ltd
Shares	Fully paid ordinary shares in KPO
$ or A$	Australian Dollars
SSNE	Shanghai Shenghe New Energy Resource Science Technology Limited
VWAP	Volume Weighted Average Price

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

Kalina Power Limited

ABN 24 000 090 997

KPO

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Lodge your vote:

By Mail:
Kalina Power Limited,
Level 1, 114-116 Auburn Road,
Hawthorn, VIC 3122

Alternatively you can fax your form to
+61 3 9818 3656

For all enquiries call:

+61 3 9236 2800

Proxy Form

XX

For your vote to be effective it must be received by 11:30am (AEDST) Tuesday, 13 December 2016

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the help tab, "Printable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

Turn over to complete the form →

View your securityholder information, 24 hours a day, 7 days a week:

www.investorcentre.com

☑ **Review your securityholding**

☑ **Update your securityholding**

Your secure access information is:

SRN/HIN: I9999999999

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Kalina Power Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Kalina Power Limited to be held at Level 25, Bourke Place, 600 Bourke Street, Melbourne, VIC, 3000 on Thursday, 15 December 2016 at 11.30am (AEDST) and at any adjournment or postponement of that Meeting.

Chairman authorised to exercise undirected proxies on remuneration related resolutions: Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 1, 6, 7, 8, 9, 10, 11 & 14 (except where I/we have indicated a different voting intention below) even though Resolutions 1, 6, 7, 8, 9, 10, 11 & 14 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

Important Note: If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Resolutions 1, 6, 7, 8, 9, 10, 11 & 14 by marking the appropriate box in step 2 below.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	Adoption of the Remuneration Report	☐	☐	☐
Resolution 2	Re-election of Director - John Byrne	☐	☐	☐
Resolution 3	Election of Director - Jeffry Myers	☐	☐	☐
Resolution 4A	Approval of Issue of Shares	☐	☐	☐
Resolution 4B	Approval of Issue of Shares on Exercise of Options	☐	☐	☐
Resolution 4C	Approval of Issue of Shares and Issue of Shares on Exercise of Options	☐	☐	☐
Resolution 5	Issue of New Options	☐	☐	☐
Resolution 6	Grant of Options to Timothy Horgan	☐	☐	☐
Resolution 7	Grant of Options to John Byrne	☐	☐	☐
Resolution 8	Grant of Options to (John) Ross MacLachlan	☐	☐	☐
Resolution 9	Grant of Options to Malcolm Jacques	☐	☐	☐
Resolution 10	Grant of Options to Jeffry Myers	☐	☐	☐
Resolution 11	Approval to Issue Securities	☐	☐	☐
Resolution 12	Additional Placement Capacity	☐	☐	☐
Resolution 13	Issue of Shares	☐	☐	☐
Resolution 14	Employee Incentive Scheme	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	**Director**	**Director/Company Secretary**

Contact Name ________ **Contact Daytime Telephone** ________ **Date** ___ / ___ / ___