KALINA POWER LIMITED

ABN 24 000 090 997

Half-year financial report for the half-year ended 31 December 2015

Contents

CORPORATE DIRECTORY

Directors:	Mr John Byrne	Executive Chairman
	Mr Tim Horgan	Executive Director
	Mr Ross MacLachlan	Executive Director
	Dr Malcolm Jacques	Non-executive Director
Company Secretary:	Mr Alwyn Davey	
Registered Office:	First Floor, Suite 1 114-116 Auburn Road Hawthorn VIC 3122 Telephone: + 61 3 9236 2800 Facsimile: + 61 3 9818 3656	
Principal Place of Business:	First Floor, Suite 1 114-116 Auburn Road Hawthorn VIC 3122 Telephone: + 61 3 9236 2800 Facsimile: + 61 38 9818 3656	
Share Registry:	Computershare Registry Services Pty Limited Yarra Falls, 452 Johnston Street, Abbotsford, Vic, Australia, 3067 Telephone: 1300 787 272	
Bankers:	Commonwealth Bank of Australia 385 Bourke Street Melbourne VIC 3000	
Auditors:	HLB Mann Judd Level 9, 575 Bourke Street Melbourne VIC 3000 Telephone: + 61 3 9606 3888 Facsimile: + 61 3 9606 3800	
Solicitors:	Gadens Lawyers Level 25 Bourke Place 600 Bourke Street Melbourne VIC 3000	
Stock Exchange:	The Company is listed on the Australian Stock Exchange.	
Other Information:	KALINA POWER LIMITED, incorporated and domiciled in Australia, is a publicly listed company limited by shares. ASX code: KPO	

Directors' report

The directors of Kalina Power Limited present the interim financial report of the company and its subsidiaries (the consolidated entity) for the half-year ended 31 December 2015. In order to comply with the provisions of the *Corporation's Act 2001*, the directors report as follows:

The names of the directors of the company during or since the end of the half-year are:

Mr John Byrne
Executive Chairman

Dr Malcolm Jacques
Non-executive Director

Mr Tim Horgan
Executive Director

Mr Ross MacLachlan
Executive Director

Review of operations

The total loss of the consolidated entity attributable to the owners of the parent for the half year ended 31 December 2015 was $13,600,264 (2014: net profit $10,095,373). This equates to a basic loss per share of 11.2 cents (2014: basic profit per share of 23.8 cents). During the financial reporting period, the consolidated entity regained control of New Energy Asia Ltd (NEA) through conversion of debt to equity which resulted in a loss on consolidation on account of debt settled recognised in the statement of profit or loss and other comprehensive income of $14,017,910. The consolidated entity assessed the fair value of its existing 49.27% holding in NEA which resulted in a gain being recognised in the statement of profit or loss and other comprehensive income of $1,488,740.

Prior to and during the period, the new executive directors of the Company, Mr Ross Maclachlan and Mr Tim Horgan led a number of reviews focusing on the underlying business plan of the Company, the drivers for revenue and profitability and the structure of the Group.

The outcomes of the reviews included:

- Key objectives identified:
  - Simplify and strengthen the corporate structure
  - Improve contracting and licensing procedures to be more profitable and effective
  - Provide more effective oversight and control to ensure quality and compliance for project execution
  - Recruit team skilled in technology commercialisation, power plant project development and management
- Steps identified to improve future profit margins:
  - Enhanced engineering improvements
  - Engineering charges for improvements to existing KALiNA Cycle® plants
  - Modularisation and standardisation of plant components and procurement for quicker lead times and for better quality and margins
  - Develop an international project financing package for qualified projects built to KALiNA Cycle® design specifications
  - Enhanced IP portfolio and KALiNA Cycle® technology 'trade secrets' to command increased licensing fees

In progressing with the objectives identified the following results were achieved during the period:

- Simplified corporate structure removing substantially all debt from the group while significantly increasing subsidiary ownership levels
- Key highlights:
  - Removal of over US$12,500,000 of external debt at Asia, China and US subsidiary levels
  - Increased ownership of NEA from 49.2% to 75%
  - Increased ownership and control of operations in China to 49.9% non-dilutable A class shares
  - In process of restructuring commercial terms and management of construction of initial Sinopec Hainan project

In order to achieve the above a growing team of business development professionals have been working closely with the technical team and stakeholders to complete the strategic and operational reviews. Together they identified key objectives set out above that we believe will create a strong, focused and effective company to deliver KALiNA Cycle power projects around the world.

Kalina Cycle has been deployed at 15 plants around the world. These plants have provided us with a wealth of experience in operating diverse applications such as petrochemical and steel facilities as well as geothermal power plants. We have come to learn what is required to develop and execute successful projects.

With this experience we have developed a plan that involves a far more involved role in the execution of KALiNA Cycle projects across the project cycle of engineering, design, procurement and construction. Working with selective equipment vendors and technical service providers, Kalina Power will provide turnkey solutions which shall provide us with far better control and oversight than has been achieved previously under the previous licensing model. This will enable better management of project delivery and substantially improve profit margins for our company.

Our Company will also increasingly look to take ownership of selected and targeted projects in countries with supportive electricity pricing and stable rule of law.

Based upon the successful operating performance of several existing Kalina Projects, management is confident that project financing for new Kalina plants is available from a variety of sources including financial institutions, infrastructure funds, governments and international agencies.

In order to deliver the above business plan the Company raised $2,000,000 from its largest shareholder, Harrington Global Limited in October 2015 and recommenced trading on the ASX on 14 October 2015.

Subsequent to the period end, the Company announced its intention to offer shareholders the opportunity to participate in the future funding of the Company as its implements its plan by way of a non-renounceable rights issue. Harrington Global Limited have agreed to underwrite $2,500,000 of the proposed Rights Issue. This Rights Issue is anticipated to be completed in April 2016.

During the period there has been significant negotiations by all countries in regards of climate change, and in particular the outcomes of the Paris conference held in December 2015.

The implementation of the Company's business plan is set against this backdrop of increasing awareness by government and commercial stakeholders of the benefits that energy efficiency and clean energy can provide in achieving global climate targets. At the recently completed climate talks in Paris an agreement was reached to help mobilize $100 billion each year by 2020, and beyond, through public and private financing to assist developing countries in reducing emissions and adapting to climate change. The provision of financing will encourage the number of potential projects to be implemented and reduce the financing risk to project providers, such as Kalina Power, as countries around the world strive to meet the revised emission targets set down at the Paris conference.

Renewable energy, energy efficiency and innovation will play a critical role in the implementation of the Paris agreement emission targets. As the owner of KALiNA Cycle technology, Kalina Power provides one of the most efficient renewable energy and energy efficiency solutions.

Application of the Kalina Cycle through our Turnkey approach to industrial processes like petrochemical, steel and cement manufacturing will significantly contribute to reduced carbon emissions and reduce energy costs for the organisations involved. Kalina Power through its ownership and delivery of the Kalina Cycle can help the global drive to cap global temperatures and reduce carbon emissions whilst delivering value to its stakeholders.

New Energy Asia Limited (NEA)

NEA was a 49.2% owned associate of Kalina Power Limited (KPL) at the start of the period. The Company acquired a further 26.42% of NEA upon which it was consolidated as a subsidiary as of 31 July 2015. NEA holds the Kalina Cycle® License for the Asia region (excluding China).

The Company had lent approximately $14.0 million to NEA as well as provided guarantees for some of its liabilities. NEA also had a balance of the loan from China Shiny Holdings Limited, a Hong Kong company, of RMB10,000,000 (A$1.9m).

NEA agreed with the Company and with China Shiny Holdings Limited to convert all of the outstanding debt to new equity in NEA at US$0.10 per share. In addition, NEA has disposed of its wholly owned subsidiary, Newmont Holdings Limited, which is the entity under which SSNE was being purchased. As part of this disposal, NEA has the right to repurchase Newmont for a period of 24 months should it choose to do so. The effect of this restructure allows NEA to progress its activities in Asia and to continue to support SSNE in China while it is the Kalina Cycle Licensee for that region, but removing all significant liabilities from its balance sheet. This restructure was completed on 31 July 2015 and the Company currently owns approximately 75% of the issued capital of NEA.

Key to the future progress of NEA is the completion of the Sinopec Hainan 4MWe Kalina Cycle® plant being built by SSNE, the current Kalina Cycle® licensee for China. SSNE had been working closely with its engineering and construction partners in its efforts to deliver this first major Kalina Cycle® power plant in China for Sinopec. Major items have been completed on this project and the turbine and generator are now on site waiting to be installed. As a result of the restructuring of NEA, Kalina Power engineers have performed a review of the Sinopec Hainan plant and are working with Sinopec and SSNE to negotiate the support required to complete the project in as timely a process as possible.

Once this project has completed the directors believe a number of new Kalina Cycle® projects will be contracted with other major industrial firms in China as well as with Sinopec.

Intellectual Property
The Company has been managing the IP portfolio in relation to the Kalina Cycle in conjunction with Recurrent Engineering. A new patent for increasing the efficiency of the Kalina Cycle was granted in the US in 2014 and Japan, China and Canada in 2015. The patent is pending in a number of other countries covering the major market places for the Company, including Europe, Malaysia, Indonesia and Philippines.

Further work is being undertaken to identify additional IP opportunities for the Group. This is part of an overall review of the intellectual property strategy in which the maintenance of existing patents is being assessed and the technical know-how and trade secrets are being documented in such a way as to afford comprehensive protection and maximum effect in aggressively staking the company's claims in the sector.

Licensees
FLSmidth is a leading provider of engineering services to the cement and lime industries. FLSmidth has two Kalina Cycle® power plant projects. The first 8.6 MWe power plant at the DG Khan cement plant in Pakistan has been completed however it is not yet at full operating levels. This plant has been operating at reduced levels due to provision of heat at lower than design levels. Notwithstanding this, the plant has been producing approximately 6MWe of power on average and is only expected to operate at its nameplate capacity of 8.6MWe if the expected heat is available. The commencement of operations at this plant marks the first installation of a Kalina Cycle® power plant in the cement and lime industry.

FLSmidth have also completed construction of a 4.75 MWe Kalina Cycle power plant at Star Cement at Ras Al Khaimah, in the United Arab Emirates which is expected to be fully online in 2016.

Geysir, the Kalina Cycle licensee in Germany, has been developing the Geothermie Taufkirchen power plant. Geothermie Taufkirchen and Geysir have completed the majority of the construction of the Kalina Cycle power plant which is anticipated to come online in 2016.

Other Investment - subsidiary
Imparator Enerji
During the year the Company was not active in Turkey. However it retains certain rights within Turkey and sees the Turkish market as a potential market for expansion by the Company due to its geothermal resources, supportive regulations, particularly in relation to the power price, and the growth expected in the Turkish economy which will require additional power.

Aqua Guardian Group Limited (AGG)
The Company currently owns 79.2% of AGG an Australian unlisted public company that was founded in 2006 to provide large scale water efficiency solutions servicing the urban water, mining, resources and agribusiness sectors. AGG licensed its technology in October 2014 to Venture Services Pty Limited (Venture), a part of the Venture Group, a major global plastics manufacturer, predominately for the automotive industry, which has been working with AGG since 2009. The license covers Australia/NZ, Southern Africa and Chile. AGG will receive a royalty from each module sold by Venture.

The Company intends to dispose of its holding in AGG in order to gain value from the holding while concentrating its business on the Kalina Cycle.

Corporate
Loss for the half year attributed to owners of the parent was $13,600,264 (2014: Profit $10,095,373)

Subsequent events

(i) In January 2016 the Company received A$2.5m from Harrington Holdings as loan with interest payable @ 10% per annum. This loan is to be treated as part of the rights issue under writing which is currently underway

Auditor's independence declaration
The auditor's independence declaration is included on page 8 of the half-year financial report.

Signed in accordance with a resolution of directors' made pursuant to *S.306(3)* of the *Corporations Act 2001*.

On behalf of the Directors

Tim Horgan
Director
Melbourne, 26 February, 2016

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the review of the half-year financial report of Kalina Power Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kalina Power Limited and the entities it controlled during the half-year ended 31 December 2015.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Tim Fairclough

Tim Fairclough
Partner

Melbourne
26 February 2016

HLB Mann Judd

Accountants | Business and Financial Advisers

Independent Auditor's Review Report to the Members of Kalina Power Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kalina Power Limited ("the Company") which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd (VIC Partnership)
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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Kalina Power Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to the going concern disclosure set out in note 1 *Going Concern*, which identifies that the half-year financial report has been prepared using the going concern basis. The factors identified in note 1 *Going Concern* of the half-year financial report indicate the existence of a material uncertainty that may cast significant doubt upon the ability of the Company and the Consolidated entity to continue as a going concern and therefore the Company and the Consolidated entity may not be able to realise their assets and extinguish their liabilities in the normal course of business.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Tim Fairclough

Tim Fairclough
Partner

Melbourne
26 February 2016

Directors' declaration

The directors declare that:

(a) in the directors' opinion and based on the factors outlined in Note 1 going concern, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with Accounting Standard AASB 134 Interim Financial Reports, and give a true and fair view of the financial position and performance of the consolidated entity for the half year ended 31 December 2015.

Signed in accordance with a resolution of the directors made pursuant to *S.303(5)* of the *Corporations Act 2001*.

On behalf of the Directors

Tim Horgan
Director
Melbourne 26 February, 2016

Consolidated statement of profit or loss and other comprehensive income for the half-year ended 31 December 2015

	Note	Consolidated Half-year ended 31 Dec 2015 $	Half-year ended 31 Dec 2014 $
Continuing operations			
Revenue		2,312	1,006,067
Cost of sales		-	(542,592)
Gross (loss)/profit		2,312	463,475
Other revenue/(expenditure)		-	(1,788,818)
Finance income		90,724	145,779
Employee benefits expenses		(838,757)	(776,631)
Administration expenses		(295,137)	(174,953)
Depreciation and amortisation expenses		(43,197)	(89,303)
Travel expenses		(82,407)	(292,799)
Gain/(Loss) on revaluation of financial assets fair valued through profit and loss		(81)	(1,824,261)
Gain recognised on disposal of and deconsolidation of subsidiaries	3	-	24,371,040
Share of loss of associate	4	-	(9,457,588)
Gain/(loss) on investment classified as available for sale		-	36,875
Gain on revaluation of associate	6	1,488,740	-
Impairment of other assets		-	40,318
Impairment of intangibles		-	(92,625)
Legal and professional fees		(68,814)	(298,704)
Patent costs		(67,307)	(89,645)
Foreign exchange gain		265,613	517,108
Loss on conversion debt to equity	6	(14,017,910)	-
Finance costs		(52,093)	(1,392,778)
Loss before tax		(13,618,314)	9,296,490
Income tax		-	143,195
Profit/(Loss) for the period		(13,618,314)	9,439,685
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange reserve arising on translation of foreign operations		(188,578)	(725,342)
Other comprehensive gain for the period, net of income tax		(188,578)	(725,342)
Total comprehensive income/(loss) for the period		(13,806,892)	8,714,343
Profit/(Loss) attributed to:			
Owners of the parent		(13,600,264)	10,095,373
Non-controlling interests		(18,050)	(655,688)
		(13,618,314)	9,439,685
Total comprehensive profit/(loss) attributed to:			
Owners of the parent		(13,788,842)	9,370,031
Non-controlling interests		(18,050)	(655,688)
		(13,806,892)	8,714,343
Earnings/(loss) per share			
From continuing and discontinued operations:			
Basic (cents per share)	10	(11.2)	23.8
Diluted (cents per share)		(11.2)	23.3

Notes to the condensed consolidated financial statements are included on pages 17 to 23.

Consolidated statement of financial position as at 31 December 2015

		Consolidated	
		31 Dec 2015	30 Jun 2015
	Note	$	$
Current assets			
Cash and cash equivalents		157,537	39,099
Trade and other receivables		916,900	364,816
Other financial assets		71	152
Total current assets		1,074,508	404,067
Non-current assets			
Trade and other receivables		924,911	16,079,659
Other assets		763,616	-
Investments accounted for using the equity method	4	9,200	9,200
Property, plant and equipment		46,404	88,118
Intangible assets		4,137,674	-
Total non-current assets		5,881,805	16,176,977
Total assets		6,956,313	16,581,044
Current liabilities			
Trade and other payables		582,530	917,240
Provision		87,613	95,940
Total current liabilities		670,143	1,013,180
Non-current liabilities			
Trade and other payables		1,448,123	-
Provision		63,007	56,598
Total non-current liabilities		1,511,130	56,598
Total liabilities		2,181,273	1,069,778
Net assets		4,775,040	15,511,266
Equity			
Issued capital	5	91,675,329	89,672,984
Reserves		632,886	129,074
Accumulated losses		(87,743,542)	(74,143,192)
Total equity attributable to equity holders of the company		4,564,673	15,658,866
Non controlling interest		210,367	(147,600)
Total equity		4,775,040	15,511,266

Notes to the condensed consolidated financial statements are included on pages 17 to 23.

Consolidated statement of changes in equity
for the half-year ended 31 December 2015

	Consolidated								
	Issued capital and contributed equity	**Foreign currency translation reserve**	**Share based payments reserve**	**Other reserves**	**Treasury Shares**	**Accumulated losses**	**Attributable to owners of the parent**	**Non-controlling interest**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Balance at 1 July 2014	83,718,959	580,747	4,313,876	(5,726,503)	(450,800)	(84,502,635)	(2,066,356)	10,547,608	8,481,252
Movement in foreign exchange values	-	(725,342)	-	-	-	-	(725,342)	-	(725,342)
((Profit/(Loss) for the period	-	-	-	-	-	10,095,373	10,095,373	(655,688)	9,439,685
Total comprehensive loss for the period	-	(725,342)	-	-	-	10,095,373	9,370,031	(655,688)	8,414,343
New issue	247,670	-	-	-	-	-	247,670	-	247,670
Option reserve	-	-	-	-	-	-	-	-	
Capital raising costs	(175,353)	-	-	-	-	-	(175,353)	-	(175,353)
Difference arising on decrease in control of subsidiary	-	-	-	1,394,516	-	-	1,394,516	(9,815,506)	(8,420,990)
Value of options issued	-	-	37,330	-	-	-	37,330	-	37,330
Balance at 31 December 2014	**83,791,276**	**(144,595)**	**4,351,206**	**(4,331,987)**	**(450,800)**	**(74,407,262)**	**8,807,838**	**76,414**	**8,884,252**

Notes to the condensed consolidated financial statements are included on pages 17 to 23.

Consolidated statement of changes in equity
for the half-year ended 31 December 2015 (cont'd)

	Consolidated								
	Issued capital and contributed equity	Foreign currency translation reserve	Share based payments reserve	Other reserves	Treasury Shares	Accumulated losses	Attributable to owners of the parent	Non-controlling interest	Total
	$	$	$	$	$	$	$	$	$
Balance at 1 July 2015	89,672,984	(377,199)	5,070,186	(4,113,113)	(450,800)	(74,143,192)	15,658,866	(147,600)	15,511,266
Movement in foreign currency	-	(188,492)	-	-	-	-	(188,492)	(86)	(188,578)
Profit/(Loss) for the period	-	-	-	-	-	(13,600,350)	(13,600,350)	(17,964)	(13,618,314)
Total comprehensive loss for the period	-	(188,492)	-	-	-	(13,600,350)	(13,788,842)	(18,050)	(13,806,892)
New issue	2,010,138	-	-	-	-	-	2,010,138	-	2,010,138
Value of options Issued	-	-	692,304	-	-	-	692,304	-	692,304
Capital raising costs	(33,789)	-	-	-	-	-	(33,789)	-	(33,789)
Recognition of Minority Interest	-	-	-	-	-	-	-	376,017	376,017
Exercise of options	25,996	-	-	-	-	-	25,996	-	25,996
Balance at 31 December 2015	**91,675,329**	**(565,691)**	**5,762,490**	**(4,113,113)**	**(450,800)**	**(87,743,542)**	**4,564,673**	**210,367**	**4,775,040**

Notes to the condensed consolidated financial statements are included on pages 17 to 23.

Consolidated cash flow statement for the half-year ended 31 December 2015

	Consolidated	
	Half-year ended 31 Dec 2015	Half-year ended 31 Dec 2014
	$	$
Cash flows from operating activities		
Receipts from customers	193	432,724
Interest and finance costs paid	(19,216)	(313,395)
Payments to suppliers and employees	(1,182,738)	(1,429,678)
Tax refund	4,406	-
Sundry income	-	314
Net cash used in operating activities	(1,197,355)	(1,310,035)
Cash flows from investing activities		
Interest received	6,365	183
Proceeds from sale of equity investments		1,250,832
Proceeds from sale of fixed assets		15,365
Payment for fixed assets	(1,484)	-
Payment for new business development	(315,060)	-
Loans to other entity	(515,765)	-
Loans to related party	(10,541)	(244,473)
Net cash (used in)/provided in investing activities	(836,485)	1,021,907
Cash flows from financing activities		
Proceeds from issue of shares and options	2,185,994	172,393
Proceeds from borrowings/convertible notes	-	1,722,483
Repayment of borrowings	-	(1,440,687)
Adjustment for gain/(loss) of control of subsidiaries	69	(183,361)
Capital raising costs	(33,785)	(21,503)
Net cash provided by financing activities	2,152,278	249,325
Net decrease in cash and cash equivalents	118,438	(38,803)
Cash and cash equivalents at the beginning of the period	39,099	60,250
Cash and cash equivalents at the end of the period	157,537	21,447

Notes to the condensed consolidated financial statements are included on pages 17 to 23.

Notes to consolidated financial statements

1. Summary of significant accounting policies

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Kalina Power Limited and its controlled entities (referred to as the "Group"). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half-year

These interim financial statements were authorised for issue by the board of directors on 26 February 2016.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.
The Group has considered the implications of new or amended Accounting Standards, but determined that their application to the financial statements is either not relevant or not material.

Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Consolidated Entity.

Key estimates

Impairment – Intangibles as a result of acquisition of New energy Asia Ltd (NEA) license $4,137,674 (refer also note 6)
The Consolidated Entity assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Consolidated Entity that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions. Based on forecast revenue and EBITDA estimates prepared by the company expected to be generated from the Kalina Cycle license in the Asia region (excluding China).

There is a degree of risk inherent in the achievability of the projected cash flows due to the early stage of development of the Kalina Cycle in the Asian market which in turn places a higher degree of sensitivity of the underlying assumptions adopted in the NPV model.

1. Significant accounting policies (cont'd)

Going concern

The operating loss for the 6 months period ended 31 December 2015 was $13,618,314 (half-year ended 31 December 2014: profit $9,439,685). The consolidated entity had net current assets as at 31 December 2015 of $404,365 (30 June 2015: net current liabilities $609,113). At the date of this report, the Directors have considered the above factors and are of the opinion that the consolidated entity will be able to continue as a going concern and will be able to pay its debts as and when they fall due, based on forecasted cash flows through to July 2017

The above note is underpinned by certain key assumptions including:

a) A rights issue by the Company to be completed in April 2016, is expected to raise $5,322,210 before costs.
b) The company received a loan of $2,500,000 on 2 January, 2016 from the major shareholder. This loan is to be considered as part of underwriting towards the rights issue
c) The directors are confident the entire rights issue will be underwritten prior to the rights issue.

In the event that the consolidated entity is unsuccessful in the matters set out above, there is material uncertainty whether the consolidated entity will continue as a going concern. If the consolidated entity is unable to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the normal course of business.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

2. Segment information

The following is an analysis of the Group's revenue and results by reportable operating segments for the periods under review:

	Revenue		Segment profit/(loss)	
	Half-year ended		Half-year ended	
	31 Dec 2015 $	31 Dec 2014 $	31 Dec 2015 $	31 Dec 2014 $
Continuing operations				
Investments	2,312	1,000,000	(13,618,314)	9,598,149
Power business	-	6,067	-	(158,464)
Consolidated segment revenue				
Revenue for the period	2,312	1,006,067	-	-
Profit/(loss) for the period	-	-	(13,618,314)	9,439,685

The revenue reported above represents the revenue generated from external customers. The total segment revenue includes revenue, other revenue and finance income.

Segment loss represents the loss incurred by each segment with the allocation of interest revenue, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by reportable operating segment

	Consolidated	
	31 Dec 2015 $	30 Jun 2015 $
Investments	6,956,313	16,554,781
Power business	-	26,263
Total segment assets	6,956,313	16,581,044
Unallocated assets	-	-
Total assets	6,956,313	16,581,044

3. Assets classified as available-for-sale

	Consolidated	
	31 Dec 2015 $	30 Jun 2015 $
Balance at start of period	-	25,703,935
Additions		
Transfers		
Deconsolidation adjustment-net	-	(29,410,635)
Impairment		
Foreign exchange	-	3,706,700
Balance at end of period		-

	31 Dec 2015 $	31 Dec 2014 $
Gain on deconsolidation	-	24,371,040

The gain resulted from the deconsolidation of New Energy Asia Ltd of $23,020,723 including proceeds and of Recurrent Engineering Ltd of $1,350,317.

4. Investments accounted for using the equity method

Name of entity	Country of incorporation	Principal activity	Ownership interest 31 Dec 2015 %	Ownership interest 31 Dec 2014 %
Associates				
Exergy inc	USA	Investment	46.0	46.0
New Energy Asia Ltd (refer to note 6)		Investment	-	49.2

	Consolidated	
	31 Dec 2015 $	30 Jun 2015 $
Reconciliation of movement in investment accounted for using the equity method:		
Balance at start of period	9,200	9,200
Share of loss of associate	-	-
Balance at end of period	9,200	9,200

Dividends received from associates

No dividends were received during the half year (31 December 2014: Nil) from the associates.

5. Contributed equity

	31 Dec 2015	30 June 2015
Ordinary Shares	***No .Shares***	***No. Shares***
Fully paid		
Movement during the half year		
Opening Balance	109,893,416	43,795,695
Movements during the period	23,161,837	66,097,721
	133,055,253	109,893,416

During the half year 259,955 options were exercised at 10 cents, and the company issued 22,901,882 shares at 10 cents together with a free attaching option exercisable at 10 cents each.

The following Options were on issue at 31 December 2015:

Tranche	Number	Exercise Price	Expiry Date
Tranche 1 (granted on 23 July 2015)	21,600,000	11 cents	30 June 2018
Tranche 2 (granted on 1 October 2015)	20,328,767	10 cents	30 September 2016
Tranche 3 (granted on 14 October 2015)	1,600,000	10 cents	30 September 2016

6. Business combinations

On 31 July 2015 the Company converted a receivable of $14,814,100 owing from an associate NEA (New Energy Asia Ltd) to equity in NEA. NEA issued 138,049,050 ordinary shares @ US$0.50 per share.
The fair value reassessment of the Consolidated Entity's existing 49.27% interest in NEA resulted in a gain being recognised in profit and loss for the period ended 31 December 2015 of $1,488,740.

The conversion of debt to equity resulted in an increase in the Consolidated Entity's interest in NEA from 49.27% to 75.62% on 31 July 2015 and consolidation of NEA in the consolidated financial statements of Kalina Power Limited as at 31 December 2015.
The fair value of the consideration in relation to the business combination has been determined based on the fair value of NEA's rights to use the Kalina license across the rest of Asia region. *(Refer also to Note 1, critical accounting estimates and judgements).*
The conversion of debt to equity between Kalina Power Ltd (parent entity) and NEA resulted in a write down of book value of the debt being, $14,814,100, to fair value of $796,190 which resulted in a loss on conversion recognised in profit and loss of $14,017,910.
Profit and revenue resulting from the acquisition of NEA for the period ended 31 December 2015 was nil.

In accordance with AASB3, the provisional accounting for this business combination is as follows:

6.1 Assets acquired and liabilities assumed at the date of acquisition

	New Energy *Asia Ltd*
Current assets	
Cash and cash equivalents	69
Non-current assets	
Intangibsle at fair value	3,019,042
Non-current liabilities	
Other payables	(1,476,795)

6.2 Intangibles arising on acquisition

	New Energy *Asia Ltd*
Consideration transferred	2,284,930
Plus: non-controlling interests	374,917
Less: fair value of identifiable net assets acquired	(1,541,215)
Intangibles arising on acquisition	1,118,632

7. Financial Instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

7.1 Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

In the absence of an active market for an identical asset or liability, the Group selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- *Market approach*: valuation techniques that use prices and other relevant information generated by the market transactions for the identical or similar assets or liabilities.
- *Income approach*: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- *Cost approach*: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing assets or liability are considered observable, whereas inputs for which marker data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Recurring and Non-recurring Fair value Measurement Amounts and the Level of Fair Value Hierarchy within the Fair Value Measurement Are Categorised

Financial assets/financial liabilities	Fair value as at 31 Dec 2015	30 June 2015	Fair value hierarchy	Valuation technique(s) and key inputs(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
1) Other financial assets	Listed equity securities in Canada - $71	Listed equity securities in Canada - $152	Level 1	Quoted bid prices in an active market.	N/A	N/A
2) Assets classified as available-for-sale (Non-current)					Average forecast electricity selling price	The higher the average forecast electricity selling price, the higher the fair value.
					Contract price and investment amount for new projects taking into account management's experience and knowledge of market conditions of the specific industries	The higher the contract price and investment amount, the lower the fair value.
					Weighted average cost of capital of 22.3% determined using a capital asset pricing model.	The higher the weighted average cost of capital, the lower the fair value.
					Discount for lack of control of 20% determined by reference to the share price of listed entities in similar industries.	The higher the discount the lower the fair value

8. Dividends

No dividends have been paid or declared since the start of the interim period.

9. Contingent liability

The Company supported NEA by way of financial guarantees of certain liabilities including in part those related to the building of the Sinopec Hainan plant. The Company may have a liability to the Bank of East Asia with respect of a loan made to SSNE that is due for payment if SSNE were to default on the loan. The Company expects SSNE to repay this loan from the payments made by Sinopec in relation to the ongoing completion of the Hainan plant.

There are no other known contingencies as at 31 December 2015 or 2014

10. Earnings per share

	Consolidated	
	31 Dec 2015 Cents per share	31 Dec 2014 Cents per share
Basic earnings (loss) per share	(11.2)	23.8
Diluted earnings (loss) per share	(11.2)	23.3

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of earnings per share are as follows:

	2015 $	2014 $
Net profit/(Loss) (i)	(13,600,264)	10,095,373

(i) Net Loss is the same amount as loss after tax in the statement of comprehensive income attributable to owners of the parent

	2015 No.	2014 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	121,652,411	42,490,375

11. Subsequent events

Apart from the matters identified below, no other events or matters have arisen which significantly affected or may significantly affect the operations of the group, the results of those operations or the state of affairs of the group in future financial years.

(i) In January 2016 the Company received A$2.5m from Harrington Global Limited as loan with interest payable @ 10% per annum. This loan is to be treated as part of the rights issue under writing which is expected to commence in March 2016.