

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Kalina Power Limited ("Company") is responsible for the corporate governance of the Consolidated Entity. The Board guides and monitors the business and affairs for the Company on behalf of the shareholders whom they are accountable. This statement is current at the reporting date and has been approved by the Board.

The Directors are conscious of the requirement to fulfil their responsibilities individually and as a Board to all of the Company stakeholders. This involves the recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines of 'The Corporate Governance Principles and Recommendations' established by the ASX Corporate Governance Council.

Given the size of the Company, the nature of its business, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, the Company has adopted some modified procedures that it believes will allow it to meet the principles of good corporate governance. In accordance with the ASX Corporate Governance Council's recommendation, the Corporate Governance Statement must contain specific information, and also report on the Company's adoption of the Council's principles and recommendations on an exception basis, whereby disclosure is required of any recommendations that had not been adopted by the Company, together with the reasons why. The Company's corporate governance principles and policies are therefore structures with reference to the Corporate Governance Council's corporate governance principles and recommendations, which are as follows:

Principle 1: Lay solid foundations for management and oversight

Principle 2: Structure the board to add value

Principle 3: Act ethically and responsibly

Principle 4: Safeguard integrity in corporate reporting

Principle 5: Make timely and balanced disclosure

Principle 6: Respect the rights of security holders

Principle 7: Recognise and manage risk

Principle 8: Remunerate fairly and responsibly

The Company sets out below or elsewhere in the Directors Report of the Annual Report the information and disclosures with regard to the governing principles and recommendations.

### **Principle 1: Lay solid foundations for management and oversight**

The Board is responsible for the development of the business strategy of the Company, oversight and support of management and the monitoring of risk, compliance and performance of the Company.

The Company refers all major investment decisions to the Board for consideration and approval. Day to day operations of the Company is the responsibility of the Executive Directors and Senior Management.

The performance of key executives is reviewed regularly by reference to ongoing performance of the company and its investments. The Board has formed a Remuneration Committee who will perform this review going forward. During the period, no formal evaluations were undertaken which is considered appropriate given the size of the Company.

The skills, expertise and experience of directors relevant to their positions and their term in office are disclosed in the Directors' Report.

The Board has not yet established a formal written policy concerning diversity. The board is reviewing this aspect of the corporate governance guidelines. Currently the Company includes only men in senior management positions. As the Board has not yet established a formal written policy concerning diversity there are no measurable objectives set. The Company does not have any women on the Board. The previous Chief Operating Officer (Senior Management) was a woman. Overall there are 30% (2014:20%) of the Company's employees who are women operating across finance and administration. Due to the size of the company and the board this is deemed acceptable to the directors of the company

The Company Secretary of the Company is accountable directly to the Board on all matter to do with the functioning of the Board.

### **Principle 2: Structure the board to add value**

Directors of Kalina Power Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, 'materiality' is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following director of Kalina Power Limited is considered to be independent: Malcolm Jacques, Non-Executive Director

The company's Board comprises 4 directors. Mr John Byrne (6 years' service), Dr Malcolm Jacques (5 years' service) Mr Ross MacLachlan (newly appointed) and Mr Tim Horgan (newly appointed). Therefore, there is not a majority of independent directors on the Board. The directors consider that the balance of independent and non-independent directors is appropriate given the size of the Board, the experience of the directors and their understanding of their requirements and responsibilities as directors of the company.

There are procedures in place to enable directors in the furtherance of their duties to seek independent professional advice at the company's expense.

The Chairman, John Byrne, is not considered as an independent director. Due to the size of the company and the board this is deemed acceptable to the directors of the company. Should the company increase in size then the company will consider, and if thought appropriate, appoint an independent director as chairman.

The chair of the board is Mr John Byrne and the Chief Executive Officer is Mr Ross MacLachlan.

There is no specific nomination committee. Currently all members of the Board are part of this process to ensure the Board continues to operate within the established guidelines including when necessary, selecting candidates for the position of director. The directors consider that this is appropriate given the size of the Board and the company.

When a vacancy occurs, through whatever cause, or where it is considered that the company would benefit from the skills of an additional Director with particular skills, the Board will consider candidates with the appropriate expertise and experience.

The key experience and expertise areas that the board currently has or is looking to achieve in its membership is:

- Financial management
- Power Industry
- Project Delivery
- Technology development and commercialisation
- Legal

The performance of the Board is not currently reviewed annually. The performance is reviewed on an ad hoc basis by the board and directors are assessed based on the financial and non-financial objectives and results of the company. Directors whose performance is consistently unsatisfactory may be asked to retire. During the reporting period, the Board did not meet to specifically evaluate the performance of Board members, which was considered appropriate given the given the size of the Board and the activities of the company.

### **Principle 3: Act ethically and responsibly**

The company has not yet established a formal written code of conduct. Currently each of the directors and senior management is aware of the investment and corporate objectives of the company and is conscious of the expectations of the shareholders, investee companies and their stakeholders. Any activities of the company are undertaken in consideration of all legal and regulatory requirements as well as with consideration of the underlying value of the activity to shareholders and other stakeholders. The Company Secretary is primarily tasked with maintaining a high level of compliance on all aspects of the business and has the support of the board to achieve this outcome.

The Company has established a written Share Trading Policy set out the policy on the sale and purchase of securities in the Company by its Key Management Personnel.

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including and Director (whether executive or otherwise) of that entity.

The Company has determined that its Key Management Personnel are its Directors and those employees directly reporting to the Chief Executive Officer / Managing Director.

Key Management Personnel are encouraged to be long-term holders of the Company's securities. However, it is important that care is taken in the timing of any purchase or sale of such securities.

The Key Management Personnel are only expected to only trade in the securities of the Company when the market is considered to be fully informed of the activities of the Company and Key Management Personnel are not able to trade in a closed period, being the time leading up to an announcement and 24 hours after such announcement. Any Key Management Personnel who wish to trade require the prior approval of the Chairman, or in the case of the Chairman, the board of the Company.

#### **Principle 4: Safeguard integrity in corporate reporting**

The Board has established an audit committee which operates under a charter approved by the Board. It is the audit committee's responsibility to ensure that an effective internal control framework exists within the entity.

This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operations key performance indicators. The Committee will also provide the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The audit committee should be structured so that it:

- consists of only non-executive directors;
- consists of a majority of independent directors;
- is chaired by an independent chair who is not chair of the Board; and
- has at least three members.

The current audit committee was appointed on 31 August 2015 and comprises:

<b>Name</b>	<b>Qualifications</b>
John Byrne	-
Dr Malcolm Jacques (Chairman)	Ph.D. Chemical Engineering

In accordance with the definition of independence described in Principle 2 above, and the materiality thresholds set, Malcolm Jacques is considered to be independent and is a non-executive director. John Byrne is not considered independent and is an executive director.

The committee is currently chaired by Dr Malcolm Jacques who is not chair of the Board. The committee has two members, only one of which is independent, which is less than the recommended minimum of three and a majority of independent directors, but given the size and nature of the Board, the directors consider that this is appropriate.

The auditor of the Company is available to answer questions in relation to the audit at the AGM of the Company.

The Board has received a declaration from the Company Secretary, being an officer with primary responsibility as defined by section 295 of the Corporations Act, assuring that the declaration provided in accordance with section 295 of the Corporations Act is founded on a sound system of risk management and internal control and that the system, to the extent that they relate to financial reporting, is operating effectively in all material respects.

The committee has a formal charter which is disclosed on the company's website.

#### **Principle 5: Make timely and balanced disclosure**

The company has made the directors and the senior management, including of its subsidiaries and associates, aware of the requirement for continuous and periodic disclosure to ensure the factual presentation of the company's financial position and market-sensitive information is maintained in an orderly and timely fashion.

At present the company does not have a written policy due to the size of the company and the limited number of people and activities of the company. The board consider this is appropriate for the size of the company however it is currently reviewing its policies in regard to this Principle.

#### **Principle 6: Respect the rights of security holders**

The company aims to ensure that the shareholders are informed of all major developments affecting the company. All shareholders are able to receive the company's annual report. The company also encourages full participation of shareholders at its annual general meeting and at extraordinary general meetings when called. The company makes available a telephone and email address for shareholders to make enquiries of the company.

The company maintains a website at [www.kalinapower.com](http://www.kalinapower.com) on which it makes available: company announcements; shareholder meeting notices and explanatory materials; financial information and annual reports. The company is currently reviewing its website and where necessary will enhance the information available on that site. During this review process, historical information, including past financial information, annual reports and announcements can be viewed at [www.estl.com.au](http://www.estl.com.au).

#### **Principle 7: Recognise and manage risk**

The identification and effective management of risk is viewed as an essential part of the company's approach to creating long-term shareholder value. In recognition of this, the Board has recently formed a Risk Committee to better determine the company's risk profile and this committee is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. This process is ongoing and will continue to be a focus of the committee and the board. The members of the Risk Committee are Ross MacLachlan and Tim Horgan.

The company will be establishing a risk management policy within which will be set out a framework for a system of risk management and internal compliance and control. Senior management as required will have responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on these risks and the extent to which it believes they are being adequately managed. During the period prior to the establishment of the Risk Committee, the Senior Management have been undertaking risk management processes, including preparation of weekly reports, in order to report to the board the outcomes. Due to the size of the company and the board this is deemed acceptable to the directors of the company.

**Principle 8: Remunerate fairly and responsibly**

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive officers and executive team. The Board has now established a remuneration committee, which comprises of the chairman, John Byrne, and the independent non-executive director, Malcolm Jacques. Given the size and nature of the Board, the directors consider that this is appropriate that the Chairman, while not independent, is a member of the remuneration committee. The remuneration committee has not yet met. The terms of reference for the remuneration committee will include review and recommendation to the board on the company's remuneration, recruitment and termination for senior executives, review of executives' performance and a framework for directors' compensation.

It is the aim of the Company to provide maximum shareholder benefit through the retention of high quality board members, Executives and Senior management and to ensure that remuneration levels are consistent with market rates for comparable positions.