

KRZ

KALREZ ENERGY LTD

ACN: 000 753 640

ANNUAL REPORT

2001

CONTENTS

	Page No.
• Corporate Directory	1
• Directors' Report	2
• Statement of Financial Performance	5
• Statement of Financial Position	6
• Statement of Cash Flows	7
• Directors' Declaration	23
• Auditor's Report	24
• Shareholder's Information	26
• Corporate Governance Statement	30

CORPORATE DIRECTORY

DIRECTORS

Hersh Solomon MAJTELES
Russell BRIMAGE
Robert John COLLINS

COMPANY SECRETARY

Bruce R McCULLAGH

REGISTERED OFFICE

1st Floor, 8 Parliament Place
West Perth WA 6005
Telephone: (08) 9481 7833
Facsimile: (08) 9481 7835
Email: kalrez@kalrez.com.au
Website: www.kalrez.com.au

AUDITORS

Stanton Partners
Accountants
1 Havelock Street
West Perth WA 6005

BANKERS

Challenge Banking Corporation
40 St Georges Terrace
Perth WA 6000

SHARE REGISTRY

Computershare Investor Services
Level 2 Reserve Bank Building
45 St. Georges Terrace
Perth WA 6000
GPO Box D182
Perth WA 6840
Investor Enquiries (08) 9323 2059
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2096
perth.services@computershare.com.au

ASX code for shares: KRZ

DIRECTORS' REPORT

The Directors of Kalrez Energy Ltd (chief entity) submit the consolidated Financial Accounts of the economic entity (comprising Kalrez Energy Ltd and the entities it controlled during the financial year) for the year ended 30 June 2001.

DIRECTORS

The following persons hold office as Directors of the Company at the date of this report:-

Hersh Solomon Majteles	Chairman
Russell Brimage	Executive Director
Robert John Collins	Finance Director

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the financial year was the strategic investment by the Company into the petroleum industry.

RESULTS

The consolidated loss for the financial year after providing for income tax amounted to \$90,732. (2000: Profit of \$201,483).

DIVIDENDS

Since the end of the previous financial year, no dividend has been declared or paid by the economic entity. The Directors do not recommend the payment of a dividend.

LIKELY DEVELOPMENTS AND REVIEW OF OPERATIONS

The economic entity is investigating other avenues to add value to the company by appraising additional petroleum investments in Indonesia.

INFORMATION ON DIRECTORS

(a) Qualifications, experience and special responsibilities:-

- (i) Hersh Solomon MAJTELES LLB
Mr Majteles has a Bachelor of Law Degree (University of WA) and is a solicitor in private practice in Western Australia. Mr Majteles has extensive experience in general commercial law. He is also a Director of Australian United Gold NL.
- (ii) Russell BRIMAGE
Mr Brimage is of Australian nationality, with 27 years experience in oil and gas drilling and production throughout South East Asia. He was a founding director of Oilserv Australia Ltd, a company providing drilling, well testing and production services and prior to joining Kalrez Energy Ltd, he was Chief Executive of Western Resources NL and General Manager of a Western Australian gas field operator.
- (iii) Robert John COLLINS Dp.Acc
Mr Collins was principal in his own accounting practice in Perth for over 20 years and has extensive experience in financial and general commercial matters. In 1990, he retired from practice and joined Kalrez Energy Ltd as Finance Director. He has held board positions in listed companies for over 19 years.

DIRECTORS' REPORT

(b) Relevant interests in shares of the chief entity at the date of this report are as follows:-

Name	Shares Directly	Shares Indirectly
H S Majteles	4,000	2,000,000
R J Collins	2,000	-
R. Brimage	6,140,000	-

(c) Directors' interest in contracts:-

No Director has an interest, whether directly or indirectly, in a contract or proposed contract with the chief entity.

(d) Emoluments of board members and senior executives:-

The level of fees paid to Directors is influenced by comparing fees paid to directors in other companies within the exploration industry, and then set at a level to attract qualified people to accept the responsibilities of directorship. Details of the nature and amount of each element of the emoluments of each Director of Kalrez Energy Ltd are set out below:

Name	Directors Fee \$	Superannuation \$	Consulting Fee \$	Total \$
H S Majteles, Chairman	22,500	-		22,500
R J Collins	14,000	1,120	89,000	104,120
R Brimage	14,000	-	223,546	237,546

The company does not have any Officers or senior executives, other than the Directors. The Board undertakes an Annual Review of its performance against goals set at the commencement of the year.

ENVIRONMENT

The economic entities objective is to ensure that the highest standard of environmental care is achieved and maintained.

SIGNIFICANT CHANGES TO STATE OF AFFAIRS

There have not been any significant changes in the state of affairs of the Company during the financial year.

SHARES

During the year 86,666,666 shares were issued @ 3.75 cents (together with a free attaching option) raising \$3,250,000. A further 50,000,000 shares were issued in part consideration for a 75% interest in Petroasia Limited.

DIRECTORS' REPORT

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the chief entity's Directors held during the year ended 30 June 2001 and the number of meetings attended by each Director.

Name:	Eligible to Attend	Attended
H S Majteles	5	5
R J Collins	5	5
R Brimage	5	5

The chief entity does not have a formally appointed audit committee, as all Directors are involved in all activities of the Company and the size and scope of operations does not warrant its formation.

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

At the Annual General Meeting held on November 28 2000 Mr R E Brimage retired by rotation as a Director, in accordance with the Articles of Association and, being eligible, offered himself for re-election, and was re-elected.

At the Annual General Meeting to be held on November 29 2001 Mr R J Collins retires as a Director, in accordance with the Articles of Association and being eligible, offers himself for re-election.

OPTIONS

During the year 86,666,666 options were issued to subscribe for ordinary fully paid shares in the capital of the company, exercisable at 20 cents on or before 30 June 2003.

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

DIRECTORS' BENEFITS

Except as detailed in Note 16, no Director of the chief entity has received or become entitled to receive during or since the end of the previous financial year, any benefit (other than a benefit included in the aggregate amounts of emoluments received or due and receivable by Directors shown in the financial statements or the fixed salary of a full time employee of the chief entity or of a related corporation) by reason of a contract made by the chief entity or a related corporation with the Director or with a firm of which he is a member or with a company in which he has a substantial financial interest.

The Company has paid a premium in respect of a policy for Directors and Officers liability insurance which includes the current Directors named above, and the Company Secretary, BR McCullagh. The liabilities insured, include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the company, or a related body corporate.

This report is made in accordance with a resolution of the Directors.

R J Collins
DIRECTOR

Dated this 20th day of September 2001
Perth, Western Australia

KALREZ ENERGY LTD
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2001

	Note	Consolidated		Parent Entity	
		2001	2000	2001	2000
		\$	\$	\$	\$
Sales Revenue	2	11,489,975	6,476,147	-	-
Cost of sales	3	(11,278,442)	(4,364,343)	-	-
		211,533	2,111,804	-	-
Foreign exchange gain/(loss)	2	268,061	571,421	(162,378)	91,738
Interest income	2	258,040	71,981	256,705	71,981
Depreciation	3	(80,994)	(189,080)	(16,179)	(12,579)
Other operating expenses		(747,372)	(2,364,643)	(763,641)	(732,324)
Operating (loss)/profit before income tax		(90,732)	201,483	(685,493)	(581,184)
Income tax expense	4	-	-	-	-
Operating (loss)/profit after income tax		(90,732)	201,483	(685,493)	(581,184)
Earnings per share		2001	2000		
		cents	cents		
(Loss)/profit per share	18	(0.15)	.04		

The accompanying notes form part of these financial statements

KALREZ ENERGY LTD
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2001

	Note	Consolidated		Parent Entity	
		2001 \$	2000 \$	2001 \$	2000 \$
CURRENT ASSETS					
Cash	6	2,624,614	5,872,242	1,627,359	4,650,242
Receivables	7	591,905	225,883	21,181	11,672
Inventories	8	2,724,402	2,086,739	-	-
Prepayments & Deposits		85,287	84,553	-	-
TOTAL CURRENT ASSETS		6,026,208	8,269,417	1,648,540	4,661,914
NON-CURRENT ASSETS					
Property, Plant & Equipment	9	7,501,938	46,371	19,999	23,395
Investments	10	156,658	318,435	2,376,664	318,435
Receivables	7	-	-	8,270,991	3,105,121
Exploration and Development	20	1,619,281	794,335	-	-
TOTAL NON-CURRENT ASSETS		9,277,877	1,159,141	10,667,654	3,446,951
TOTAL ASSETS		15,304,085	9,428,558	12,316,194	8,108,865
CURRENT LIABILITIES					
Payables	11	3,666,047	3,513,701	47,747	35,792
Intercompany Liability	11	-	-	3,169,011	2,863,144
Provisions	17	1,046,806	-	-	-
TOTAL CURRENT LIABILITIES		4,712,853	3,513,701	3,216,758	2,898,936
TOTAL LIABILITIES		4,712,853	3,513,701	3,216,758	2,898,936
NET ASSETS		10,591,232	5,914,857	9,099,436	5,209,929
ISSUED EQUITY					
Contributed equity	12	27,017,849	22,442,849	27,017,849	22,442,849
Accumulated losses	22	(16,618,724)	(16,527,992)	(17,918,413)	(17,232,920)
Equity attributable to parent entity		10,399,125	5,914,857	9,099,436	5,209,929
Minority interests		192,107	-	-	-
TOTAL EQUITY		10,591,232	5,914,857	9,099,436	5,209,929

The accompanying notes form part of these financial statements

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2001**

	Note	Consolidated		Parent Entity	
		2001	2000	2001	2000
		\$	\$	\$	\$
Cashflow from operating activities					
Petroleum Sales		8,821,548	7,129,937	-	-
Interest received		267,198	62,012	265,863	62,012
Payments to suppliers & employees		(9,019,555)	(5,273,926)	(767,468)	(541,525)
Other expense		-	39,270	-	(17,163)
		-----	-----	-----	-----
Net cash inflow/(outflow) from operating activities	17(b)	69,191	1,957,293	(501,605)	(496,676)
		-----	-----	-----	-----
Cashflow from investing activities					
(Payments) Receipts for plant and equipment		(5,273,706)	11,767	(16,273)	(3,700)
Funds received from subsidiary petroleum company		-	-	-	2,193,513
Exploration expenditure		(1,118,113)	(288,524)	-	(275,368)
Investment in subsidiary company		-	-	(720,000)	-
Loans to subsidiary companies		-	-	(4,860,005)	(714,445)
		-----	-----	-----	-----
Net cash outflow from investing activities		(6,391,819)	(276,757)	(5,596,278)	1,200,000
		-----	-----	-----	-----
Cashflow from financing activities					
Proceeds from issue of shares and options		3,250,000	2,159,975	3,250,000	2,159,975
Share placement fees		(175,000)	-	(175,000)	-
		-----	-----	-----	-----
Net cash inflow from financing activities		3,075,000	2,159,975	3,075,000	2,159,975
		-----	-----	-----	-----
Net (decrease)/increase in cash held		(3,247,628)	3,840,511	(3,022,883)	2,863,299
Cash at the beginning of the financial year		5,872,242	2,031,731	4,650,242	1,786,943
		-----	-----	-----	-----
Cash at end of the financial year	17(a)	2,624,614	5,872,242	1,627,359	4,650,242
		=====	=====	=====	=====

The accompanying notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies & Methods

This general purpose financial report has been prepared on an accrual basis, and in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act. The accounting policies have been consistently applied and, except where there is a change in accounting policy, are consistent with the previous year.

The significant accounting policies which have been adopted in the preparation of the financial statements are:-

(a) Historical Cost

The financial statements are prepared in accordance with the historical cost convention except for certain assets, which as noted, are at valuation.

(b) Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Kalrez Energy Ltd as at 30 June 2001 and the results of all its controlled entities for the year then ended, except as referred to above. Kalrez Energy Ltd and its controlled entities together are referred to in this financial report as the economic entity. The effects of all transactions between entities in the economic entity are eliminated in full.

Where control of any entity is obtained during a financial period, its results are included in the consolidated profit and loss account from the date on which control commences. Where control of an entity ceases during a financial period its results are included for that part of the period during which control exists. A list of controlled entities is contained in Note 10(c).

(c) Depreciation

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets. Equipment is written off over a period of three to seven years.

(d) Mineral and Petroleum Exploration and Evaluation Expenditure

Exploration and evaluation costs relating to an area of interest are carried forward provided the rights to tenure of the area of interest are current, and provided further that either:-

- (i) it is expected that the expenditure will be recovered through successful development and exploitation of the area of interest, or alternatively by its sale, or
- (ii) exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation, to the area are continuing.

(e) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the profit and loss account is matched with the accounting profit (after allowing for permanent differences). The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(f) Interests in Joint Ventures

The proportion of assets, liabilities, expenses and revenues attributable to the interests of the economic entity in joint ventures is incorporated in the financial statements under the appropriate headings.

(g) Investments

Investments in listed and unlisted securities are brought to account at cost less any amounts for the permanent diminution in the value of the investment. Dividend income is recognised in the profit and loss account when received.

(h) Earnings per share

(i) Basic Earnings Per Share

Basic earnings per share is determined by dividing the operating profit/(loss) after income tax attributable to members of Kalrez Energy Ltd by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted Earnings Per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares.

(i) Cash

For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions and bank bills net of bank overdrafts

(j) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(k) Inventories

Inventory of Petroleum is valued at the lower of cost and net realisable value.

Cost comprises direct material, labour and transportation expenditure in getting such inventories to their existing location and condition, together with an appropriate portion of fixed and variable overhead expenditure, based on weighted average costs incurred during the period in which such inventories were produced.

Net realisable value is the amount estimated to be obtained from sale of the inventory item in the normal course of business, less any anticipated costs to be incurred prior to its sale.

Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value. A regular and ongoing review is undertaken to establish the extent of surplus items, and a provision is made for any potential loss on their deposit.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(l) Revenue Recognition

Amounts are recognised as sales revenue when, but only when, there has been a passing of risk to a customer, and

- the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the producer;
- the quantity and quality of the product can be determined with reasonable accuracy;
- the product has been despatched to the customer and is no longer under physical control of the producer (or property in the product has earlier passed to the customer); and
- the selling price can be determined with reasonable accuracy.

Sales revenue represents gross proceeds receivable from the customer. Certain sales are initially recognised at estimated sales value when the product is shipped. Adjustments are made for variations in metal price, assay, weight and currency between the time of shipment and the time final settlement of sales proceeds.

Revenue received from sale or disposal of product, material or services during the exploration, evaluation or development phases of operations is offset against expenditure in respect of the area of interest or mineral resource concerned.

(m) Royalties and Other Mining Imposts

Ad valorem royalties and other mining imposts are accrued and charged against earnings when the liability from production or sale of the mineral crystallises. Profit-based royalties are accrued on a basis which matches the annual royalty expense with the profits on which the royalties are assessed (after allowing for permanent differences).

(n) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental of the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the fair value of the asset acquired, including goodwill where applicable.

Costs relating to the acquisition of new areas of interest are classified as either exploration and evaluation expenditure, development properties or mine properties based on the stage of development reached at the date of acquisition. Assets acquired may also include mineral reserves, mineral resources and unexplored and unevaluated acreage.

(o) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(p) Maintenance and Repairs

Maintenance, repair costs and minor renewal are charged as expenses as incurred. Where the economic benefit of major overhauls will be realised over more than one accounting period, the costs are capitalised and amortised over the life of the asset or until the next major overhaul, whichever is the shortest.

(q) Development Properties

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Development expenditure incurred by or on behalf of the entity is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific nexus with the development property.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated with the costs of development and classified under non-current assets as "Development Properties".

All expenditure incurred prior to the commencement of commercial levels of production from each development property, is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of the property, is reasonably assured.

No amortisation is provided in respect of development properties until they are reclassified as "Mine Properties" following a decision to commence mining.

(r) Mine Properties

Mine properties represent the accumulation of all exploration, evaluation, and development expenditure incurred by or on behalf of the Company in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of the mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation of costs are provided on the unit-of-production method with separate calculations being made for each mineral resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves.

The net carrying value of each mine property is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against/written off in the financial year in which this is determined.

(s) Restoration, Rehabilitation and Environmental Expenditure

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are accrued at the time of those activities and treated as exploration and evaluation expenditure. Ongoing costs are expensed.

Restoration, rehabilitation and environmental expenditure to be incurred during the production phase of operations is accrued when the need for such expenditure is established, and then written off as part of the cost of production of the mine property concern. Significant restoration, rehabilitation and environmental expenditure to be incurred subsequent to the cessation of production at each mine property is accrued, in proportion to production, when its extent can be reasonably estimated.

The Company has certain obligations for restoration and rehabilitation of mining areas following the completion of production. Such obligations are being accrued in proportion to production and the accrual will be adequate to meet those obligations once production from the mineral resource is completed. The costs are based on current legal requirements and technology. Costs relate to restoration of land, including waste site closures, but exclude plant closure costs. Changes in estimates are dealt with on a prospective basis.

(t) Foreign Currency Translation

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

(ii) Specific Commitments

Hedging is undertaken in order to avoid or minimize possible adverse financial effects of movements in exchange rates. Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions are deferred up to the date of the purchase or sale and included in the measurement of the purchase or sale. In the case of hedges of monetary items, exchange gains or losses are brought to account in the financial year in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the profit and loss statement over the lives of the hedges.

If the hedging transaction is terminated prior to its maturity date and the hedged transaction is still expected to occur, deferral of any gains and losses which arose prior to termination continues and those gains and losses are included in the measurement of the hedged transaction.

In those circumstances where a hedging transaction is terminated prior to maturity because the hedged transaction is no longer expected to occur, any previously deferred gains and losses are recognised in the profit and loss statement on the date of termination.

If a hedge transaction relating to a commitment for the purchase or sale of goods or services is redesignated as a hedge of another specific commitment and the original transaction is still expected to occur, the gains and losses that arise on the hedge prior to its redesignation are deferred and included in the measurement of the original purchase or sale when it takes place. If the hedge transaction is redesignated as a hedge of another commitment because the original purchase or sale transaction is no longer expected to occur, the gains and losses that arise on the hedge prior to its redesignation are recognised in the profit and loss statement at the date of the redesignation.

(iii) General Commitments

Exchange gains or losses on other hedge transactions are brought to account in the profit and loss statement in the financial year in which the exchange rates change. Gains or costs arising on entry into hedges of general commitments are brought to account at the time of entry into the hedges and are amortised over the lives of the hedges.

(iv) Speculative Transactions

Gains and losses on speculative foreign currency transactions are brought to account as they arise. These gains and losses are measured by reference to movements in the forward exchange rates for the relevant currencies.

(v) Foreign Controlled Entity

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

As the foreign controlled entity is self-sustaining, its assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while its revenues and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

The foreign controlled entities are operating in Indonesia, which, in common with a number of Asian countries, has suffered a severe economic downturn and a significant weakening of its currency. The directors have assessed these matters and consider that it is still appropriate to treat the controlled entities as self-sustaining. They also believe the carrying amount of the investment in the parent entity's financial statements does not exceed the recoverable amount.

(u) **Going Concern**

The financial statements have been prepared on a going concern basis. Negotiations are being conducted with brokers for the Company to make a placement of shares to raise additional working capital.

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	\$	\$	\$	\$
2. Operating and Other Revenue				
Operating Petroleum Sales	11,489,975	6,476,147	-	-
Other Revenue				
Interest Income	258,040	71,981	256,705	71,981
Foreign Exchange Gain	268,061	571,421	-	91,738
	-----	-----	-----	-----
	12,016,076	7,119,549	256,705	163,719
	=====	=====	=====	=====
3. Operating Profit				
Operating profit before income tax is arrived at after:-				
Crediting:				
Revenue as above	12,016,076	7,119,549	256,705	163,719
	=====	=====	=====	=====
Charging:				
Petroleum production expenses	11,278,442	4,364,343	-	-
Foreign exchange loss	-	-	162,378	-
Depreciation of property, plant and equipment	80,994	189,080	16,179	12,579
Other	592,368	2,330,801	598,375	698,482
Provision for diminution in value of investments	161,776	33,842	161,776	33,842
Loss on disposal of equipment	3,490	-	3,490	-
	=====	=====	=====	=====

Consolidated

Parent Entity

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

	2001 \$	2000 \$	2001 \$	2000 \$
4. Income Tax				
Reconciliation of prima facie income tax benefit on operating loss to income tax as provided in the financial statements				
Operating (loss)/profit	(90,732)	201,483	(685,493)	(581,184)
	=====	=====	=====	=====
Prima facie income tax benefit thereon at 34% (2000: 36%)	(30,848)	72,534	(233,067)	(209,226)
Adjusted for the tax effect of:				
Permanent differences:				
Foreign exchange	91,140	-	55,208	-
Provision for diminution in value of investments	55,003	12,183	55,003	12,183
Provision for write down of loan to subsidiary	-	-	4,423	-
Legal and other non deductibles	17,890	4,073	17,890	4,073
Deferred assessable income overseas	(354,795)	(109,026)	-	-
	-----	-----	-----	-----
	(221,610)	(20,236)	(100,543)	(192,970)
	-----	-----	-----	-----
Tax losses not brought to account	221,610	(20,236)	100,543	(192,970)
	-----	-----	-----	-----
Income tax benefit	-	-	-	-
	=====	=====	=====	=====

As of 30 June 2001 the chief entity has carried forward tax losses estimated at \$1,200,000. The benefit of these losses is not brought to account as realisation is not certain. The benefit will only be obtained if:-

- (i) The chief entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised.
- (ii) The chief entity continues to comply with the conditions for deductibility imposed by the Law; and
- (iii) No changes in tax legislation adversely affect the chief entity in realising the benefits for the deductions for the losses.

5. Auditors' Remuneration

Amounts received or due and receivable by the Company's auditors for:-

Auditing financial statements	23,724	11,750	23,724	11,750
Other services	3,976	9,435	3,976	9,435
	-----	-----	-----	-----
	27,700	21,185	27,700	21,185
	=====	=====	=====	=====

Consolidated

Parent Entity

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

	2001 \$	2000 \$	2001 \$	2000 \$
6. Cash				
Deposit - at call	-	2,191,781	-	2,191,781
Cash at bank	1,079,894	1,780,592	82,640	558,592
Bank bills - at call	1,544,720	1,899,869	1,544,719	1,899,869
	-----	-----	-----	-----
	2,624,614	5,872,242	1,627,359	4,650,242
	=====	=====	=====	=====
7. Receivables				
Current				
Other debtors	591,905	225,883	21,181	11,672
	-----	-----	-----	-----
	591,905	225,883	21,181	11,672
	=====	=====	=====	=====
Non-Current				
Owing by Kalrez Petroleum Seram Ltd	-	-	3,219,443	2,390,676
Owing by Oxford Mining NL	-	-	287,000	988,436
Less: Provision for doubtful debts	-	-	(287,000)	(273,991)
Owing by Indonesia Prima Energy Services Ltd	-	-	585,941	-
Owing by PT Prima Jasa Energi	-	-	3,994,135	-
Owing by Petroasia Ltd	-	-	471,472	-
	-----	-----	-----	-----
	-	-	8,270,991	3,105,121
	=====	=====	=====	=====
8. Inventories				
Warehouse inventory	409,802	67,739	-	-
Oil Stock	2,314,600	2,019,000	-	-
	-----	-----	-----	-----
	2,724,402	2,086,739	-	-
	=====	=====	=====	=====
9. Non-Current Assets				
Equipment movement				
Opening balance July 1st	46,371	230,918	23,395	32,274
Purchases	7,540,051	4,533	16,273	3,700
Disposals	(9,674)	-	(9,674)	-
Depreciation written back	6,184	-	6,184	-
Depreciation	(80,994)	(189,080)	(16,179)	(12,579)
	-----	-----	-----	-----
Closing balance June 30	7,501,938	46,371	19,999	23,395
	=====	=====	=====	=====
Equipment	20,444,393	12,914,016	49,533	42,934
Less provision for depreciation	(12,942,455)	(12,867,645)	(29,534)	(19,539)
	-----	-----	-----	-----
Closing balance June 30	7,501,938	46,371	19,999	23,395
	=====	=====	=====	=====

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	\$	\$	\$	\$
10. Investments				
(a) Investments listed on prescribed stock exchanges - at cost	397,275	397,275	397,275	397,275
Less:				
provision for diminution in value	(240,617)	(78,842)	(240,617)	(78,842)
	-----	-----	-----	-----
	156,658	318,433	156,658	318,433
	=====	=====	=====	=====
The aggregate market value of investments listed on prescribed stock exchanges at 30 June	156,658	318,433	156,658	318,433
	=====	=====	=====	=====

The market value at the date of the Directors Statement was \$ 116,023.

- (b) Details of acquisition of 75% of Petroasia Limited on 25 September 2000 are as follows:

For value of identifiable net assets of controlled entity.

Plant and equipment	768,432
Minority interest	(192,107)

	576,325

Goodwill for fair value of plant	1,643,675

	2,220,000
	=====

Consideration Paid	
Shares 50 million, at 3 cents each	1,500,000
Cash	720,000

	2,220,000
	=====

Shares in Controlled entities	-	-	2,220,006	2
(Refer Note 10(c))	=====	=====	=====	=====

- (c) Controlled Entities
Details of the Company's investments in controlled entities are as follows:-

Name	Place of Incorporation & Business	Percentage Owned		Share Investment	
		2001	2000	2001	2000
		%	%	\$	\$
Oxford Mining NL	Western Australia	100	100	-	-
Kalrez Petroleum					
Seram Ltd	Hong Kong	100	100	2	2
Indonesia Prima Energy					
Services Ltd	Mauritius	100	-	4	-
Petroasia Ltd	Hong Kong	75	-	2,220,000	-
				-----	-----
				2,220,006	2

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	\$	\$	\$	\$
11. Payables				
Current				
Sundry creditors and accruals	3,666,047	3,513,701	47,747	35,792
Intercompany - owing to Kalrez Petroleum (Seram) Ltd	-	-	3,169,011	2,863,144
	3,666,047	3,513,701	3,216,758	2,898,936
	3,666,047	3,513,701	3,216,758	2,898,936

12. Contributed Equity

(a) Movements in Contributed Equity

Date	Details	Number of Shares	Issue Price Cents	Amount \$
30 June 1999	Balance	412,164,043		20,282,875
May - June 2000	Issued shares for cash	57,599,311	3.75	2,159,974
30 June 2000	Balance	469,763,354		22,442,849
13 July 2000	Issued shares for cash	86,666,666	3.75	3,250,000
	Less – share placement fee	-		(175,000)
5 October 2000	Issued shares in part consideration for 75% interest in Petroasia Limited	50,000,000	3	1,500,000
28 November 2000	Reconstruction of partly paid shares	(29,986,050)		-
	To be replaced by ordinary shares	9,995,350		-
30 June 2001	Balance	586,439,320		27,017,849

(b) Options over shares:-

As at 30 June 2001 the Company had:

- (i) 320,786,327 options on issue to subscribe for fully paid ordinary shares, on or before, 30 June 2003, at an exercise price of 20 cents per share.
- (ii) 1,000,000 options on issue to subscribe for fully paid ordinary shares, on or before, 31 December 2001, at an exercise price of 6 cents per share.
- (iii) 2,000,000 options on issue to subscribe for fully paid ordinary shares, on or before, 31 December 2002, at an exercise price of 7.5 cents per share.

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

13. Commitments

(i) Management Agreement

The Company has a management agreement with Kalgoorlie Mine Management Pty Ltd for the provision of management services of \$110,000 per annum plus CPI. Charges are at commercial terms in accordance with a new agreement entered into on 1 August 1999 for a five year term. The current rate is \$116,710 per annum.

14. Segment Reporting

2001	\$	South East Australia \$	Asia \$	Consoli
Sales to customers outside the consolidated entity	-	11,489,975	11,489,975	
Other Revenue	256,705	431,774	688,479	
	-----	-----	-----	
	256,705	11,921,749	12,178,454	
	=====	=====	=====	
Segment Result	(685,493)	594,761	(90,732)	
Consolidated operating (loss) profit before income tax	(685,493)	594,761	(90,732)	
Segment assets	1,825,197	13,478,888	15,304,085	
Unallocated asset	-	-	-	
	-----	-----	-----	
Total Asset	1,825,197	13,478,888	15,304,085	
	=====	=====	=====	

2000	\$	Australia \$	South East Asia \$	Consoli
Sales to customers outside the consolidated entity	-	6,476,147	6,476,147	
Other Revenue	54,818	588,584	643,402	
	-----	-----	-----	
	54,818	7,064,731	7,119,549	
	=====	=====	=====	
Segment Result				
Unallocated expenses				
Consolidated operating (loss) profit Before income tax and extraordinary item	(581,184)	782,667	201,483	
Segment assets	5,003,742	4,424,816	9,428,558	
Unallocated asset	-	-	-	
	-----	-----	-----	
Total Assets	5,003,742	4,424,816	9,428,558	
	=====	=====	=====	

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

15. Related Parties

- (a) The names of persons who held office as Directors of Kalrez Energy Ltd during the financial year were:-

Mr R J Collins Mr H S Majteles Mr R Brimage

- (b) Related Party Transactions:

Profit and Resource Management Pty Ltd, a company under the control of Mr R J Collins, received fees for the provision of consulting services during the year. The aggregate amount charged for such services was \$89,000 (2000: \$86,100).

PT Harmoni Jaya Semesta, a company under the control of Mr R Brimage, earned fees for the provision of consulting services during the year. The aggregate amount charged for such services was \$223,546 (2000: \$197,733).

Phillips Fox, a legal group associated with Mr H S Majteles earned fees for the provision of consulting services during the previous year. The aggregate amount charged for such services was NIL (2000: \$15,348).

- (c) Transaction of Directors and Director-Related Entities concerning shares (including partly paid shares) or share options.

Aggregate numbers of shares and share options of Kalrez Energy Ltd acquired and disposed of by Directors and their Director-related entities from the Company were as follows:

	2001 Number	2000 Number
Ordinary shares acquired	1,640,000	-
Ordinary shares disposed	-	9,200,000
Options acquired	-	-
Options disposed	-	5,500,000

Aggregate number of shares of Kalrez Energy Ltd held directly, indirectly or beneficially by Directors or their Director-related entities at balance date:

Ordinary shares	8,146,000	6,506,000
Options over ordinary shares	-	1,500,000

- (d) The Company has paid a premium in respect of a policy for Directors and Officers Liability Insurance.

16. Remuneration of Directors & Executives

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	\$	\$	\$	\$
(a) Directors' Remuneration				
Remuneration paid or payable or otherwise made available as Directors fees:-	51,620	46,980	51,620	46,980
Consulting fees paid to entities associated with Directors:	312,546	299,181	89,000	152,704
	364,166	346,161	140,620	199,684

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

===== ===== ===== =====

The number of Directors of the chief entity whose income from the chief entity and any related body was within the following specified bands is as follows:

		Number		
		2001	2000	
\$20,001	-	\$30,000	1	-
\$30,001	-	\$40,000	-	1
\$100,001	-	\$110,000	1	1
\$210,001	-	\$220,000	-	1
\$230,001	-	\$240,000	1	-

17. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Balance Sheet as follows:

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	\$	\$	\$	\$
Cash (Note 6)	2,624,614	5,872,242	1,627,359	4,650,242
	-----	-----	-----	-----
	2,624,614	5,872,242	1,627,359	4,650,242
	=====	=====	=====	=====

(b) Reconciliation of Operating (Loss) Profit after Income Tax to Net Cash Outflow from Operating Activities

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	\$	\$	\$	\$
Operating (loss) profit after income tax	(90,732)	201,483	(685,493)	(581,184)
Exploration expenditure expensed	-	288,524	-	275,368
Depreciation	80,994	189,080	16,179	12,579
(Increase)/Decrease in debtors and prepayments	(366,759)	488,853	(9,510)	(9,969)
Increase/(Decrease) in liabilities	139,337	2,287,900	11,953	(227,312)
Increase in provision for diminution in value of investments	161,776	33,842	161,776	33,842
Increase in inventory	(637,663)	(1,000,239)	-	-
Record petroleum assets at historical value (foreign exchange gain)	(268,061)	(532,150)	-	-
Provision for plug and abandon well	1,046,806	-	-	-
Loss on disposal of assets	3,490	-	3,490	-
	-----	-----	-----	-----
Net cash inflow (outflow) from operating activities	69,191	1,957,293	(501,605)	(496,676)
	=====	=====	=====	=====

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

18. Earnings Per Share

	2001 Number	2000 Number
Weighted average number of shares on issue during the financial year used in the calculation of basic earnings per share	569,928,037 =====	465,029,297 =====

19. Financial Instruments

(a) Interest Rate Risk

The company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate		Fixed Interest Rate Maturing			
	2001	2000	2001	2000	Within 1 Year		1 to 5 Years	
	%	%	\$	\$	\$	\$	\$	\$
Financial Assets								
Cash			1,079,894	1,780,592	-	-	-	-
Short Term Deposits	5.77	6.10	1,544,720	4,091,650	-	-	-	-
Receivables			591,905	225,883				
Inventories				-				
Prepayments			85,287	84,553				
Total Financial Assets			3,301,806	6,182,678	-	-	-	-
Financial Liabilities								
Total Financial								
Liabilities			3,666,047	3,513,701				
Net Financial Assets			(364,241)	2,668,977				

Reconciliation of net financial assets to net assets

	2001 \$	2000 \$
Note		
Net financial assets as above	(364,241)	2,668,977
Inventories	2,724,402	2,086,739
Investments	156,658	318,433
Fixed Assets	9,121,219	840,708
Provisions	(1,046,806)	-
	-----	-----
Net assets per balance sheet	10,591,232	5,914,857
	-----	-----

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provision for doubtful debts, as disclosed in the balance sheet and notes to the financial report.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**

(c) Net Fair Values

The net fair values of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in a standardised form other than listed investments. Financial assets where the carrying amount exceeds net fair values have not been written down as the company intends to hold these assets to maturity.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to and forming part of the financial statements.

20. Venture

The consolidated entities interest in the petroleum exploration joint venture is represented by:

	\$
Receivables	231,211
Inventory	87,363
Equipment	18,514
Exploration & Development	1,619,281
Accounts Payable	(259,484)
	1,696,885
	1,696,885

Kalrez Petroleum Seram Ltd has a 2.5% interest in a Petroleum Production Sharing Contract in Indonesia.

	Consolidated		Parent Entity	
	2001	2000	2001	2000
	\$	\$	\$	\$
21. Provisions				
Provision for plug and abandon wells	1,046,806	-	-	-
	1,046,806	-	-	-
22. Accumulated Losses				
Balance at beginning of year	(16,527,992)	(16,729,475)	(17,232,920)	(16,651,736)
(Loss) profit for year	(90,732)	201,483	(685,493)	(581,184)
	(16,618,724)	(16,527,992)	(17,918,413)	(17,232,920)
	(16,618,724)	(16,527,992)	(17,918,413)	(17,232,920)

DIRECTORS' DECLARATION

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 5 to 22:
 - (a) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2001 and of their performance, as represented by their results of their operations and their cash flows, for the financial year ended on that date; and
 - (b) comply with Accounting Standards, the Corporations Regulations and other mandatory professional requirements.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

SIGNED in accordance with a resolution of the Directors on behalf of the Board.

R J Collins
DIRECTOR

Dated this 20th day of September 2001
Perth, Western Australia

AUDITORS' REPORT

AUDITORS' REPORT

**KALREZ ENERGY LTD
SHAREHOLDER INFORMATION**

1. Distribution of Shareholders

As at 20 September 2001 the distribution of members and their shareholdings were:-

(a) Fully Paid Shareholders

Range	Holders	Shares Held	Percent
1 - 1,000	87	51,285	0.01
1,001 - 5,000	998	3,112,107	0.53
5,001 - 10,000	699	5,673,626	0.97
10,001 - 100,000	2,708	119,173,290	20.32
100,001 - over	808	458,429,012	78.17
	----- 5,300	----- 586,439,320	----- 100.00
	=====	=====	=====

(b) There are 2,806 shareholders who hold less than a marketable parcel.

Voting Rights

There were 5,300 holders of fully paid ordinary shares who on a poll have one vote for each share held.

Twenty Largest Share Holders

The names of the 20 largest share holders as at 20 September 2001 are listed below.

Ordinary Shares

Name	Number	%
Petroasia Group Limited	50,000,000	8.53
Northlight Nominees Pty Ltd	11,000,000	1.88
Merrill Lynch (Australia) Nominees Pty Ltd	10,480,020	1.79
Creston Pty Ltd	8,063,333	1.37
Exchange Nominee Pty Ltd	7,665,000	1.31
ANZ Nominees Limited	7,653,917	1.31
Shah Nominees Pty Ltd	6,500,000	1.11
Francesco Perre & Caterina Perre	6,400,000	1.09
Russell Ernest Brimage	6,140,000	1.05
Pata Nominees Pty Ltd	6,107,780	1.04
Bennett & Bennett Pty Ltd	5,967,200	1.02
James John del Piano	5,800,000	0.99
Australian United Gold NL	5,696,889	0.97
Bow Lane Nominees Pty Ltd	4,668,332	0.80
Roger Kenneth Whyte & Margaret Marie Whyte	4,620,073	0.79
Blaise Peter D'Souza	4,500,000	0.77
National Nominees Pty Ltd	4,306,958	0.73
Sancat Pty Ltd	4,000,000	0.68
First Distribution Services Limited	3,702,000	0.63
Tre Pty Ltd	3,432,333	0.59
Total	----- 166,703,835	----- 28.43
	=====	=====

**KALREZ ENERGY LTD
SHAREHOLDER INFORMATION**

2. OPTIONHOLDERS

(a) Distribution of Optionholders as at 20 September 2001:-

Size of Holding	Number of Holders	Options Held	%
1 - 1,000	81	62,598	0.02
1,001 - 5,000	366	1,147,150	0.36
5,001 - 10,000	208	1,729,572	0.54
10,001 - 100,000	788	39,026,980	12.17
100,001 and over	522	278,820,027	86.92
	----- 1,965 =====	----- 320,786,327 =====	----- 100.00 =====

There are 58 optionholders who hold less than a marketable parcel.

(b) **Twenty Largest Option Holders**

The names of the 20 largest option holders as at 20 September 2001 are listed below.

Options Name	Number of Options Held	% of Options Held
Pata Nominees Pty Ltd	44,363,817	13.83
Dietmar Richard Bottcher	8,645,000	2.69
Overnight Nominees Pty Ltd	5,600,000	1.75
Whitechurch Developments Pty Ltd	5,000,000	1.56
Lyphock Pty Ltd	4,588,000	1.43
Leonard William Jones & Lynden Paige Jones	3,500,000	1.09
O'Dwyer Technology Training Pty Ltd	3,500,000	1.09
Edward Paul Capelli & Debra Julie Capelli	3,084,824	0.96
Atlantic Securities	3,070,000	0.96
Navag Property Group Pty Ltd	2,800,000	0.87
Semyon Litinetsky & Daniel Litinetsky	2,700,000	0.84
RS & HD Waterhouse Investment Pty Ltd	2,420,000	0.75
Raymond Lawson	2,250,000	0.70
Soheil Taheri	2,240,000	0.70
Christopher Thomas	2,000,000	0.62
Raymond Barclay Wyatt	2,000,000	0.62
John Jeremie White	2,000,000	0.62
Kathleen Patricia A'Hearn	2,000,000	0.62
Mahamendige Priyantha	2,000,000	0.62
Acanthus Investments Pty Limited	2,000,000	0.62
Total	----- 105,761,641 =====	----- 32.97 =====

**KALREZ ENERGY LTD
AND IT'S CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

This statement outlines the main Corporate Governance practices that were in place throughout the financial year unless otherwise stated. These practices are dealt with under the following headings: Board of Directors, Auditors, Internal Control Framework, Ethical Standards, Environment, Business Risks and the Role of Shareholders.

BOARD OF DIRECTORS

The Board is responsible for the overall Corporate Governance of the economic entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The company is not currently considered to be of a size, nor are its affairs of such complexity to justify the establishment of separate committees and accordingly all matters which may be capable of delegation to a committee are dealt with by the full board.

The Board meets regularly in order to retain full and effective control over the company and monitor the executive management. The Board has established a framework for the management of the company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

Each director has the right to seek independent professional advice on matters relating to his position as a director of the company at the company's expense, subject to prior approval of the chairman which shall not be unreasonably withheld.

COMPOSITION OF THE BOARD

The names of the directors of the company, together with details of their relevant qualifications and experience are set out in the directors' report in this annual report.

The procedures for election and retirement of directors are governed by the company's Articles of Association and the Listing Rules of Australian Stock Exchange Limited (ASX).

The composition of the Board is determined using the following principles:-

- The Board shall comprise directors with a range of expertise encompassing the current and proposed activities of the company.
- Where a vacancy is considered to exist, the Board selects an appropriate candidate through consultation with external parties, consideration of the needs of the shareholder base and consideration of the needs of the company. Such appointments are referred to shareholders at the next available opportunity for re-election in general meeting.

AUDITORS

Whilst the company does not have a formally constituted audit committee, the Board reviews the performance of the external auditors on an annual basis and meets with them at least twice a year.

- to review the results and findings of the audit, the adequacy of accounting and financial controls and to obtain feedback on the implementation of recommendations made; and
- to review the draft financial statements and audit or review reports at year end and half year.

The board monitors the need to form an audit committee on a periodic basis.

**KALREZ ENERGY LTD
AND IT'S CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

INTERNAL CONTROL FRAMEWORK

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors or irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described under the following headings:-

- ***Financial Reporting***

There is a budgeting system with an annual budget approved by the directors. Actual results are reported against budget and revised forecasts for the year are prepared and presented to the Board regularly. The company reports to shareholders yearly. Procedures are also in place to ensure that price sensitive information is reported to the ASX in accordance with Continuous Disclosure Requirements.

- ***Quality and Integrity of Personnel***

The company conducts a comprehensive review of the ability and experience of potential employees prior to appointment. Informal appraisals are conducted regularly with continuous feedback and on-the-job monitoring and training for all employees.

- ***Operational reporting***

The Company has a management agreement with Kalgoorlie Mine Management Pty Ltd for the provision of Management Services and the directors are in regular contact with its senior geologist on an informal basis.

ETHICAL STANDARDS

Kalrez Energy NL recognises the need for directors and employees to observe the highest standards of behaviour and business ethics in conducting its business and intends to maintain a reputation of integrity.

Whilst the company does not currently believe it is of a size to warrant the development of formal ethical guidelines, the Board subscribes to the Code of Conduct as published by the Australian Institute of Company Directors.

ENVIRONMENT

The company aims to ensure a high standard of environmental care is achieved and to ensure compliance as a minimum with World Bank Standards.

BUSINESS RISKS

The Board adopts practices designed to identify significant areas of business risk and to effectively manage those risks in accordance with the company's risk profile. Where necessary, the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

The company's main areas of risk include:-

- exploration and development
- fluctuating commodity prices and exchange rates
- political and economic climate in its areas of operation
- continuous disclosure obligations.

Regular consideration is given to all these matters by the board.

THE ROLE OF SHAREHOLDERS

**KALREZ ENERGY LTD
AND IT'S CONTROLLED ENTITIES
CORPORATE GOVERNANCE STATEMENT**

The Board of Directors ensure that shareholders are informed of all major developments affecting the company's state of affairs.

