

Kern River plc

Company Number 3262305

Report and Accounts
30th September 1999



KERN RIVER PLC

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KERN RIVER PLC

CHAIRMAN'S STATEMENT

The Board remains focused on maximising value for shareholders from the two oil fields in which Kern River holds majority operating interests through its subsidiary, CSV Holdings Inc. ("CSV").

For the year ending 30th September 1999 the Group incurred an overall loss of £199,721 (1998 : £146,693). Income stemmed from the Starks field in Louisiana where we achieved Gross Oil production of some 61,000 barrels, compared with 69,000 barrels in the previous year.

The results reflect the fact that, during that same period, everyone in the upstream oil industry was being affected by the depressed market prices for Crude Oil. In the case of Kern River it was again possible to minimise such losses through low corporate overheads and by effecting ultra tight controls to ensure maximum operational efficiency.

Oil Price

For the twelve month period of this report, oil values were their lowest for several years. At the beginning of the period (October 1998) CSV was realising an average of only \$12.50 per barrel for Louisiana Crude. These prices continued to fall and reached a low of \$8.50 per barrel by March 1999.

Your Directors share growing confidence within the oil industry that much of the universal improvement to Crude Oil prices since the Summer of 1999 will be sustained. By September (our year-end) we were able to realise \$19.80 per barrel and prices have continued to rise. In January 2000, our gross revenues were in excess of \$140,000, the most ever achieved in a month and equating to an average price of \$22.50 per barrel for Starks production.

The Group's Reserves and their Value

Independent Engineers have reviewed the level of our Proven Reserves (confirmed at 5.3 million barrels) and their worth, which they assess to have a Net Present Value of \$33.6 million (£21 million); NPV after discount @ 10% per annum. These assessments were based on constant oil prices of \$18.50 per barrel at Nukern and \$20.83 per barrel at Starks.

The on-shore location and nature of our Proven Reserves are an added attraction to low risk investment. There are also opportunities to prove up further oil reserves, especially at Starks.

The Starks Field, Louisiana

For Starks, the independent assessment confirmed Net Proven Reserves of 1.06 million barrels as at 1st October 1999, providing a Net Present Value of \$7.37 million (£4.6 million); NPV after discount @ 10% per annum. The report of our General Manager provides more detail; however, it is clear that the Starks field would benefit from a progressive increase in the number of producing wells from its soundly mapped and predictable reservoir.

At Starks, further exciting opportunities exist for expansion of the reserve base by way of step-out drilling. The rim of the dome is virtually unexplored for oil, yet lies within the leasehold of the Group. We feel an intensive geological study of the rim area could point to additional reserves.

KERN RIVER PLC

CHAIRMAN'S STATEMENT (CONTINUED)

The Nukern Lease, Kern County, California

For Nukern, the independent assessment confirmed Net Proven Reserves of 4.27 million barrels as at 1st October 1999, providing Net Present Value of \$26.3 million (£16.4 million); NPV after discount @ 10% per annum.

Natural drive production at Nukern has protected CSV ownership of the lease. Only small quantities of this heavy oil can be produced by "natural drive" so production has to be stimulated by heating the oil in the ground.

Circumstances are now more favourable to go forward with investment in the steamflood technique for Enhanced Recovery which has been employed so successfully by Arco and Texaco on neighbouring leases. Our earlier studies confirm this to be the way to ensure the best economic return. Whilst it remains necessary to invest in steam generation on the Nukern lease, much of the other infrastructure for steam injection into the wells, oil/water separation, water injection and oil storage is already in place.

Loan Note

Ultrasis plc, formerly Villiers Group plc ("Ultrasis"), is one of our major shareholders. The \$2.5 million loan from a subsidiary of Ultrasis was due to be paid in two equal instalments, the first (for \$1,250,000) being payable on 20th October 2000 and the second on 20th April 2001. To compensate for low oil prices during the year ending 30th September 1999, we drew down £140,000 on the conditional loan facility from Ultrasis to fund our Working Capital requirements. Since then a further £100,000 has been drawn down against this facility.

Repayment of the £240,000 Working Capital loan has been set for October 2001 whilst repayment of the original loan has been deferred to 1st October 2001 for the first instalment and 1st April 2002 for the second instalment.

The Way Ahead

The Board continue to take a very positive view of the size, nature and location of the Group's Reserves. Kern River is a prime candidate to benefit from the return in confidence to the Oil Sector and your Directors are actively reviewing options for the next steps in the development of our reserves. Our various investigations include the possibility of farming out, or perhaps to secure joint venture partners, at one or other or even both fields.

I would like to take this opportunity to acknowledge those shareholders who have continued to support Kern River during these past twelve months.



Neville A. Brown, Chairman
30 March 2000

KERN RIVER PLC

OPERATIONAL REVIEW

CSV Holdings, Inc ("CSV") is a wholly-owned subsidiary of Kern River plc. CSV owns the Group's two oil field interests; the Starks field and the Nukern Lease. At both locations CSV employs an external operator whose services are provided through Joint Operating Agreements. CSV has continued to maintain close control on activities.

Starks Field, Louisiana

(Proven Reserves : 1.06 million barrels net, as at 1st October 1999)

The Starks Lease Area comprises 680 acres located on top of a salt dome in Calcasieu Parish, Louisiana. CSV acquired its interest in the second half of 1996 and our development of the field began in January 1997 following flotation of Kern River plc.

In the year ended 30th September 1999, CSV achieved Gross production of 61,236 barrels resulting in sales of 45,972 barrels (the difference reflecting mineral owners' oil entitlements, changes in CSV's stock tank inventories and customary adjustments for quality and temperature).

As reported previously, during 1998 CSV consolidated its interests in a number of flank wells. During the year most of these wells have been tested and five were brought into production. A gas gathering system was installed on the Caprock and this has helped relieve excess gas pressure from a number of the smaller wells with significant improvement both in their production and in their overall performance. Further improvements in production were obtained by modifying downhole pump design and by the application of other low-cost techniques.

With the low prices being realised for production during most of the year, no wells were recompleted and CSV focused on keeping production at base levels to sustain the field. Limited working capital and expense controls also denied opportunities to proceed with workover & re-completion programmes and other expansion plans.

Since the year end the situation is much improved. The progressive increase in prices has prompted three re-completions in the shallow Caprock area as well as one very encouraging re-completion on the flank. Apart from opportunities to drill many further Caprock wells (most of which have multiple pay potential), further exciting opportunities exist for expansion of the reserve base via step-out drilling.

The rim of the dome is virtually unexplored for oil, yet lies within the CSV leasehold. A large number of wells were drilled in the 1930's and early 1940's exploiting the Caprock sulphur deposits, which bottom out at approximately 2,000 feet in the rim. A number of these wells evidenced the presence of oil and gas sands. There are no electric logs available for these wells; however, a good number of them were logged with driller's logs which, upon analysis, may yield information regarding the optimum areas for oil and gas drilling. An intensive geological study of the rim area could yield additional reserves. Development would proceed by drilling a number of extension and step-out wells off the Caprock area to depths ranging from 1,100 to 1,800 feet.

KERN RIVER PLC

OPERATIONAL REVIEW (CONTINUED)

Nukern Lease, California

(Proven Reserves : 4.27 million barrels net, as at 1st October 1999)

The Nukern Lease consists of 55 acres of land in the South West portion of the Kern River Field, which is in Bakersfield, California. CSV's working interest stands at 93.4% with a net revenue interest of 77.84%, after allowing for payments to the mineral owners.

For the period under review production at Nukern has been targeted at the minimum necessary to maintain the lease.

The Nukern reserves are of heavy viscosity oil (API 13 degrees), requiring the application of Enhanced Oil Recovery techniques. Most local fields rely upon some form of steam heating. CSV favour adoption of the same steamflood technique which has been employed so successfully by Arco and Texaco on neighbouring leases, including Texaco's substantial activity along our property lease line. This approach to Enhanced Recovery is reflected in the above latest estimate of Proven Reserves (made by independent Petroleum Consulting Engineers).

Whilst it remains necessary to invest in steam generation on the Nukern lease, much of the other infrastructure for steam injection into the wells, oil/water separation, water injection and storage is already in place. Key personnel, with excellent knowledge and experience of the Kern River reservoirs, have been retained. This means that not only have CSV been in a position to continue to satisfy Regulatory requirements but also have the capacity to prepare plans such that we are now ready to move forward with confidence.

Development of the Nukern lease is most likely to be achieved through a joint venture or farm-out arrangement.

Anthony J. Carroll, General Manager,

30 March 2000

KERN RIVER PLC

OFFICERS AND ADVISERS

DIRECTORS

Neville A. Brown (Non Executive, Chairman)
Garry Butterfield
Anthony Carroll
Colin Weaver (Non Executive)

SECRETARY

Garry Butterfield

BANKERS

Bank of Scotland
124 Colmore Row
Birmingham B3 3AU

AUDITORS

BDO Stoy Hayward
8 Baker Street
London W1M 1DA

REGISTERED OFFICE

Cooper Street
Wolverhampton
WV2 2JL

CONSULTING PETROLEUM
ENGINEERS

SAVAGEngineers
7291 S. Highland
Littleton, Colorado 80120
U.S.A.

REGISTRARS AND TRANSFER OFFICE

Northern Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield HD8 0LA

NOMINATED ADVISER AND
AND NOMINATED BROKER

Marshall Securities Limited
Crusader House
145-157 St John Street
London EC1V 4RE

KERN RIVER PLC

DIRECTORS' PROFILES

Neville A. Brown

Neville A. Brown, aged 61, is non-Executive Chairman of the Company and was appointed to the Board on 6 November 1996. He has worked within the Shell group of companies for forty years. From 1989, until his retirement at the end of 1995, he was appointed Head of Commercial Business Development with Shell UK Exploration and Production. Now a consultant, he is providing Kern River with the benefit of his long and varied career in the oil industry. Neville A. Brown was a non-Executive Director of Gall Thomson Environmental plc from July 1996 until December 1999. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

Anthony Carroll

Anthony Carroll, aged 63, is an Executive Director and General Manager of the Company and was appointed to the Board on 6 November 1996. Mr Carroll holds a BSc from West Texas Agriculture and Mechanical University. He worked from 1961 to 1981 for the Bureau of Mines in the US Department of Interior. From 1984, until he resigned in 1990, he was President and Chairman of the Board of Churchill Technology, Inc., an oil and gas company based in Denver. Since June 1990 Mr Carroll has been Chairman of the Board, Chief Executive and President of Caspen Oil, Inc., which owns Summit Overseas Exploration, Inc. As General Manager he provides Kern River with the benefit of his particular knowledge and experience of the industry in the USA.

Garry Butterfield

Garry Butterfield, aged 40, is Finance Director and Company Secretary of the Company. He was appointed to the Board on 6 November 1996. He qualified as a chartered accountant in 1986 after training with Longcrofts. He joined Villiers Limited in 1989 and from 1994 to 1999 he was a director of Villiers Group plc.

Colin Weaver

Colin Weaver, aged 66, is a non-Executive Director of the Company and was appointed to the Board on 6 November 1996. He has worked for over thirty years as a stock jobber and market maker in the London Stock Exchange of which he became a member in 1963. He was a partner with Pinchin Denny & Co before it became Morgan Grenfell Securities, where he joined as Senior Assistant Director. Currently a Member of the Securities Institute (MSI), maintaining an active interest in the Stock Market, Colin Weaver is Chairman of the Audit Committee and a member of the Remuneration Committee.

KERN RIVER PLC

DIRECTORS' REPORT

The Directors submit their report and the accounts for the year to 30 September 1999.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group during the year was the management of two established producing oil fields in the USA. Details of this activity are included in the operational review.

RESULTS AND DIVIDENDS

The loss for the period after taxation was £199,721 (1998 £146,693).

The Directors are unable to recommend the payment of a dividend and therefore the balance on the profit and loss account has been carried forward.

CREDITOR PAYMENT POLICY

The Group seeks to maintain good terms with all of its trading partners. In particular, it is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers, and provided the supplier has complied with them, to abide by the terms of payment agreed. For the Group the number of days' purchases outstanding at 30 September 1999 was 123 (1998: 81) and for the Company it was nil (1998: 26).

DIRECTORS AND INTERESTS IN SHARES

The Directors of the Company at 30 September 1999 and their beneficial interests in the shares, which are required to be disclosed by the Companies Act 1985 were as follows:

	Ordinary shares of 25p each	
	30 September 1999	30 September 1998
Neville A. Brown (non-Executive Chairman)	10,000	10,000
Garry Butterfield	-	-
Anthony Carroll	613,621	613,621
Colin Weaver (non-Executive)	30,000	30,000

There has been no movement in the Directors' shareholdings from the balance sheet date to the date of this report.

SUBSTANTIAL SHARE INTERESTS

According to notifications received by the Company by the date of this report, the shareholdings in excess of 3 per cent of the issued share capital were as follows:

	Ordinary shares of 25p each	
	Number	Per cent
Caspen Oil, Inc.	3,719,362	32.3%
Ultrasis plc (formerly Villiers Group plc)	2,272,500	19.8%
Churchill U.S.A., Inc.	1,373,179	11.9%
A.J. Carroll	613,621	5.3%
The AIM Trust	600,000	5.2%
Summit Overseas Exploration, Inc. Profit Sharing Plan	531,338	4.6%
Churchill U.S.A., Inc. Profit Sharing Plan	500,000	4.4%
Bank of England Pension Fund	375,000	3.3%

KERN RIVER PLC

DIRECTORS' REPORT (continued)

CORPORATE GOVERNANCE

The Company has voluntarily given full consideration to the provisions set out in Section 1 of the Combined Code which apply to fully listed companies. It has adopted those provisions thought appropriate to a company of its size and with full regard to the wish to contain overheads. In this context the Company has appointed Neville A. Brown as non-Executive Chairman and Mr. Weaver as a non-Executive Director. Remuneration and Audit Committees have been established comprising Neville A. Brown and Mr. Weaver. The Remuneration Committee last met in March 1999, the Audit Committee normally meets twice each year.

Internal Financial Control

The Directors acknowledge their responsibilities for the Company's system of internal financial control. In fulfilling these responsibilities the Board has reviewed the effectiveness of the system of internal financial control on the basis of the criteria set out in the Guidance for Directors "Internal Control and Financial Reporting". The Board considers major business and financial risks. All strategic decisions are referred to the Board for approval. Accepting that no system of financial control can provide absolute assurance against material misstatement or loss, the Directors believe that the established systems of internal control within the Company are appropriate to the business. No weaknesses have resulted in any material losses, contingencies or uncertainties which would require disclosure as recommended by the Guidance for Directors.

Financial Instruments

The Group seeks to reduce to acceptable levels the operating risks associated with currency fluctuations. The majority of the Group's assets and long term loans are in US Dollars, which is the functional currency of the Group. However for statutory purposes we report in Sterling, with the result that the Sterling Balance Sheet can be affected by currency movements.

Year 2000 Issue

The Group has assessed the risks and uncertainties associated with the year 2000 problem. It has reviewed its internal operating systems and believes them to be compliant. Since the end of 1999 no problems have been experienced by the Group. The Board however is continuing to monitor the issue both internally and externally.

Going Concern

As referred to in the Chairman's Statement and Note 1 of the accounts, the Group has agreed with Ultrasis plc, a major shareholder in the Company, an extension of loan repayments totalling \$2.5million and £140,000 due to the Ultrasis group. As a result \$1.25million and £140,000 is now due to be repaid in October 2001, and the balance of \$1.25million in April 2002. Accordingly, after making enquiries, the Directors have formed a judgement at the time of approving the accounts that there is a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts.

The requirement, or otherwise, for additional working capital facilities in the Autumn of 2001 will depend upon the Group's results during each of the two years ending 30th September 2001.

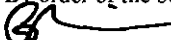
ANNUAL GENERAL MEETING

As special business at the Annual General Meeting, shareholders are being asked to renew the Directors authority to allot relevant securities up to a maximum nominal amount of £950,000 and to grant authority to the Directors to issue equity shares (as defined in section 94 of the Companies Act 1985) up to a maximum aggregate nominal amount of £143,750 for cash without being limited by the restrictions otherwise imposed by the statutory pre-emption provisions set out in section 89(1) of the Companies Act 1985. The Board has no present intention of issuing any part of the unissued share capital.

AUDITORS

On 1 March 1999 the Auditors, Moores Rowland, merged their practice with that of BDO Stoy Hayward and are now practising under that name. A resolution will be proposed at the Annual General Meeting to re-appoint BDO Stoy Hayward as auditors to the Company for the ensuing year.

By order of the board


Garry Butterfield
Secretary
30 March 2000

Registered Office:
Cooper Street
Wolverhampton WV2 2JL

KERN RIVER PLC

REMUNERATION REPORT

The remuneration and terms and conditions of service of the Executive Directors are determined by the Board. From the outset, the Directors consider that the Group has taken due account of the principles of the Combined Code.

Remuneration Policy

The Board recognise that, over time, it may be necessary to provide remuneration packages which are more competitive. Since the Group must continue to attract high calibre executives, the Board may need to design schemes which more properly reward each of the Executive Directors for their individual contributions to the Group's performance.

Bonus and/or Share Option schemes may need to be considered; however, the Board realised that last year was not an appropriate time to launch any such initiative.

Fees

From the outset aggregate fees were set at a level of £35,500 per annum plus reimbursement of expenses, as incurred.

After discussion, it was agreed that the fees of three Directors would be halved for the six month period ending March 1999 (being the time of the lowest oil prices); resulting in a saving to the Group, for the year, of £8,125.

From 1st September 1999 it was necessary to terminate the arrangement with Villiers Group plc for the services of Mr Garry Butterfield. In negotiating a fee with Mr Butterfield for his continuing services as Company Secretary of Kern River plc, the Remuneration Committee proposed reductions in the basic fees paid to all three of the other Directors. Under these new arrangements the aggregate annual fees for all four Directors will be £37,000, compared with the £35,500 determined in 1996.



Neville A. Brown,
Chairman
30 March 2000

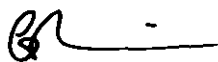
DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare accounts that give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for the financial year. In doing so the Directors are required to:

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for maintaining proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board on 30 March 2000



G. Butterfield - Director

KERN RIVER PLC

AUDITORS' REPORT TO THE MEMBERS OF KERN RIVER PLC

We have audited the financial statements on pages 12 to 24, which have been prepared under the accounting policies set out on pages 16 and 17.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Directors' report, the Directors are responsible for the preparation of accounts. It is our responsibility as auditors to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.


We planned and performed our audit so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 1 of the accounts concerning the financial arrangements with Ultrasis plc put in place by the Directors since the year end. In view of the significance of these financial arrangements we consider that they should be brought to your attention but our opinion is not qualified in this respect.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 September 1999 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



BDO Stoy Hayward
Chartered Accountants
Registered Auditors

London
30 March 2000

KERN RIVER PLC

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 30 September 1999

	Note	Year to 30 September 1999 £	Year to 30 September 1998 £
TURNOVER	1	340,147	387,138
Cost of sales		<u>475,227</u>	<u>399,379</u>
GROSS LOSS		(135,080)	(12,241)
Administrative expenses		<u>60,901</u>	<u>154,150</u>
OPERATING LOSS		(195,981)	(166,391)
Interest receivable		4,083	19,817
Interest payable	2	<u>(4,005)</u>	<u>(119)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(195,903)	(146,693)
Tax on loss on ordinary activities	5	<u>(3,818)</u>	<u>-</u>
LOSS FOR THE YEAR	14, 6	<u>(199,721)</u>	<u>(146,693)</u>
LOSS PER SHARE - basic	7	1.74p	1.28p
LOSS PER SHARE - diluted	7	1.74p	1.28p

All disclosures relate only to continuing operations.

STATEMENT OF TOTAL RECOGNISED
GAINS AND LOSSES

	1999 £	1998 £
Loss for financial year	(199,721)	(146,693)
Currency translation differences	<u>126,445</u>	<u>(203,795)</u>
Total recognised gains and losses of the year	<u>(73,276)</u>	<u>(350,488)</u>

KERN RIVER PLC

CONSOLIDATED BALANCE SHEET

As at 30 September 1999

		1999		1998	
	Note	£	£	£	£
FIXED ASSETS					
Tangible assets	8		6,373,538		6,052,941
CURRENT ASSETS					
Debtors	10	62,403		70,869	
Cash at bank and in hand		<u>96,797</u>		<u>202,919</u>	
		159,200		273,788	
CREDITORS - amounts falling due within one year	11	<u>165,482</u>		<u>73,094</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(6,282)</u>		<u>200,694</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			6,367,256		6,253,635
CREDITORS - amounts falling due after more than one year	12		<u>1,658,004</u>		<u>1,471,107</u>
TOTAL NET ASSETS			<u>4,709,252</u>		<u>4,782,528</u>
CAPITAL AND RESERVES					
Called up share capital	13		2,875,000		2,875,000
Share premium	15		381,325		381,325
Merger reserve	15		2,197,944		2,197,944
Exchange equalisation reserve	15		(225,337)		(351,782)
Profit and loss account	14		<u>(519,680)</u>		<u>(319,959)</u>
EQUITY SHAREHOLDERS' FUNDS	16		<u>4,709,252</u>		<u>4,782,528</u>

Approved by the Board on 30 March 2000



G. Butterfield - Director

KERN RIVER PLC

BALANCE SHEET

As at 30 September 1999

		1999		1998	
	Note	£	£	£	£
FIXED ASSETS					
Investments	9		2,250,002		2,250,002
CURRENT ASSETS					
Debtors	10	963,876		836,332	
Cash at bank and in hand		<u>20,065</u>		<u>54,728</u>	
		983,941		891,060	
CREDITORS - amounts falling due within one year	11	<u>27,692</u>		<u>18,345</u>	
NET CURRENT ASSETS			<u>956,249</u>		<u>872,715</u>
CREDITORS - amounts falling after more than one year	12		<u>140,000</u>		<u>-</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>3,066,251</u>		<u>3,122,717</u>
CAPITAL AND RESERVES					
Called up share capital	13		2,875,000		2,875,000
Share premium	15		381,325		381,325
Profit and loss account	14		<u>(190,074)</u>		<u>(133,608)</u>
EQUITY SHAREHOLDERS' FUNDS	16		<u>3,066,251</u>		<u>3,122,717</u>

Approved by the Board on 30 March 2000



G. Butterfield - Director

KERN RIVER PLC

CONSOLIDATED CASHFLOW STATEMENT
Year ended 30 September 1999

	Note	1999 £	1998 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	17	(17,530)	(155,595)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	18	4,078	19,613
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	18	(230,141)	(341,696)
TAX PAID		<u>(3,818)</u>	<u>-</u>
NET CASH OUTFLOW BEFORE FINANCING		(247,411)	(477,678)
FINANCING	18	<u>140,000</u>	<u>-</u>
DECREASE IN CASH	19	<u>(107,411)</u>	<u>(477,678)</u>
RECONCILIATION OF NET CASHFLOW TO MOVEMENT IN NET DEBT			
DECREASE IN CASH IN YEAR		(107,411)	(477,678)
CASH INFLOW FROM INCREASE IN NET DEBT		(140,000)	-
TRANSLATION DIFFERENCES		<u>(45,608)</u>	<u>95,822</u>
MOVEMENT IN NET DEBT IN THE YEAR		(293,019)	(381,856)
NET DEBT AT 1 OCTOBER 1998		<u>(1,268,188)</u>	<u>(886,332)</u>
NET DEBT AT 30 SEPTEMBER 1999		<u>(1,561,207)</u>	<u>(1,268,188)</u>

KERN RIVER PLC

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Accounting conventions

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Going Concern

As referred to in the Chairman's Statement, due to low oil prices in 1999, the Group has agreed with Ultrasis plc, a major shareholder in the Company, an extension of loan repayments totalling \$2.5million and £140,000 due to Ultrasis group. As a result \$1.25million and £140,000 is now due to be repaid in October 2001, and the balance of \$1.25million in April 2002. Accordingly, after making enquiries, the Directors have formed a judgement at the time of approving the accounts that there is a reasonable expectation that the Group has adequate resources to continue its operations for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the accounts.

Basis of consolidation

The consolidated accounts include the Company and its subsidiaries. Merger accounting has been used to reflect the combination of CSV Holdings, Inc. on 19 November 1996 by way of share for share exchange.

Turnover

Turnover comprises the invoiced value of goods supplied outside the Group and sold within the USA. All turnover and net assets derive from the management of oil fields in the USA.

Oil and gas interests and depletion

Oil and gas properties are accounted for using the full cost method of accounting, whereby all productive and non productive costs are capitalised. Costs relating to non-producing mineral properties are excluded from those amounts being amortised until such time as there are indications of impairment, or appraisal programmes are complete. Costs relating to evaluated properties are amortised on a unit of production basis over Proven Reserves. Such calculation takes account of estimates of the future costs of development relating to those Reserves based on current price levels. The capitalised costs of evaluated properties are compared to estimates of future net revenues attributable to the Group's interests in the cost pool. In accordance with Financial Reporting Standard 11, such net revenues and costs are discounted at 10% and prices, cost levels and exchange rates are those anticipated for future periods. Any shortfall of future net revenues over capitalised costs net of deferred tax is provided as additional depletion in the profit and loss account.

Depreciation of other tangible fixed assets

Depreciation is provided on all other tangible fixed assets by equal instalments over their estimated useful lives on a straight line basis:

Motor vehicles 33.3%

Financial Instruments

In relation to the disclosures made in note 20:

- Short term debtors and creditors are not treated as financial assets or financial liabilities.
- The group does not hold or issue derivative financial instruments for trading purposes.

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

1. ACCOUNTING POLICIES (continued)

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the rate ruling at the date of the transaction. Differences on exchange have been written off to the profit and loss account.

The results of the subsidiary undertakings reporting in foreign currency are translated at the average rate ruling in the accounting period (\$1.63:£1), (1998 \$1.66: £1), and the assets and liabilities at the rate ruling at the balance sheet date (1999:\$1.65:£1), (1998:\$1.70:£1). Differences on exchange arising from the translation of the subsidiary undertakings are taken directly to reserves.

Deferred tax

Deferred tax is provided under the liability method on those timing differences which are expected to reverse in the foreseeable future.

2.	INTEREST PAYABLE	1999 £	1998 £
	Bank loans and overdrafts	5	119
	Other loans	4,000	-
		4,005	119
3.	LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	1999 £	1999 £
	Loss on ordinary activities before taxation is stated after charging/(crediting):		
	Auditors' remuneration – audit fees	10,000	9,000
	Auditors' remuneration – non-audit fees	1,750	-
	Depreciation of fixed assets	1,649	2,579
	Depletion of oil and gas reserves	101,117	90,405
	Exchange losses/(gains)	(25,339)	46,691
		101,177	148,675
4.	DIRECTORS AND OTHER EMPLOYEES	1999 £	1998 £
	The emoluments of the Directors were as follows:		
	For services as Directors – fees received	27,500	35,500
		27,500	35,500

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

4.	DIRECTORS AND OTHER EMPLOYEES (continued)	1999	1998
		£	£
	No pensions are paid for directors.		
	Directors fees by individual		
	Neville A. Brown	11,000	15,000
	Garry Butterfield	3,583	3,000
	Colin Weaver	5,500	7,500
	Anthony Carroll	7,417	10,000
		<u>27,500</u>	<u>35,500</u>

Average number of employees in the year including Directors	4	4
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5.	TAX ON LOSS ON ORDINARY ACTIVITIES	1999	1998
		£	£
	Overseas tax	<u>3,818</u>	<u>-</u>

No liability to UK corporation tax arises on the results for the year. The Company has tax losses available for offset against future taxable profits in the UK.

The Group has the following amounts of unprovided deferred taxation at the balance sheet date.

	Accelerated Capital Allowances	
	£	£
At 1 October 1998	725,003	728,923
Movement	<u>439,699</u>	<u>(3,920)</u>
At 30 September 1999	<u>1,164,702</u>	<u>725,003</u>

6.	LOSS FOR THE FINANCIAL YEAR AFTER TAXATION	1999	1998
		£	£
	Dealt with in parent Company accounts	(56,466)	(128,275)
	Loss incurred by subsidiary undertakings	<u>(143,255)</u>	<u>(18,418)</u>
		<u>(199,721)</u>	<u>(146,693)</u>

As permitted by Section 230 of the Companies Act 1985 the profit and loss account of the Company is not presented with these accounts.

7. LOSS PER SHARE

The calculation of loss per share and the diluted loss per share is based on the loss for the year of £199,721 and on the weighted average number of ordinary shares in issue of 11,500,000. (1998: Loss of £146,693, shares in issue 11,500,000).

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

8. TANGIBLE FIXED ASSETS - GROUP	Oil reserves £	Motor vehicles £	Total £
Cost			
At 1 October 1998	6,221,721	7,738	6,229,459
Additions	230,141	-	230,141
Translation adjustment	198,335	247	198,582
At 30 September 1999	<u>6,650,197</u>	<u>7,985</u>	<u>6,658,182</u>
Depreciation and depletion			
At 1 October 1998	173,294	3,224	176,518
Charge for period	101,117	1,649	102,766
Translation adjustment	5,257	103	5,360
At 30 September 1999	<u>279,668</u>	<u>4,976</u>	<u>284,644</u>
Net book value at 30 September 1999	<u>6,370,529</u>	<u>3,009</u>	<u>6,373,538</u>
Net book value at 30 September 1998	<u>6,048,427</u>	<u>4,514</u>	<u>6,052,941</u>
Net Proven Reserves of oil (number of barrels)			Total
At 1 October 1998			5,482,154
Net reduction in period			<u>153,993</u>
At 1 October 1999			<u>5,328,161</u>

The Reserve quantities above represent those confirmed by SAVAGEngineers, Consulting Petroleum Engineers, as at 1 October 1999.

9. FIXED ASSET INVESTMENTS - COMPANY	Subsidiary undertakings	Total
Cost at 30 September 1999 and 30 September 1998	£2,250,002	£2,250,002
	Nature of business	Effective interest
The subsidiary undertakings are:		
CSV Holdings, Inc.(Incorporated and operating in USA)	Oil fields	100%
Kern River Investments Ltd	Dormant	100%

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

9. FIXED ASSET INVESTMENTS (continued)

On 19 November 1996 the Company acquired the entire issued share capital of CSV Holdings, Inc. of 862.50 ordinary shares, in consideration of 9,000,000 ordinary shares of £0.25 each.

On 18 November 1996 the Company acquired the entire share capital of Kern River Investments Limited. This company has not been consolidated on the grounds of materiality.

The investment in CSV Holdings, Inc. has been consolidated in these accounts on the basis of merger accounting.

10. DEBTORS	Group 1999 £	Group 1998 £	Company 1999 £	Company 1998 £
Trade debtors	61,292	69,040	-	-
Amounts owed by Group undertakings	-	-	962,765	834,503
Other debtors	50	643	50	643
Prepayments and accrued income	1,061	1,186	1,061	1,186
	<u>62,403</u>	<u>70,869</u>	<u>963,876</u>	<u>836,332</u>

All amounts shown under debtors are due for payment within one year

11. CREDITORS - amounts falling due within one year	Group 1999 £	Group 1998 £	Company 1999 £	Company 1998 £
Trade creditors	137,790	61,721	-	6,970
Accruals and deferred income	27,692	11,373	27,692	11,375
	<u>165,482</u>	<u>73,094</u>	<u>27,692</u>	<u>18,345</u>

12. CREDITORS - amounts falling due after more than one year	Group 1999 £	Group 1998 £	Company 1999 £	Company 1998 £
Working capital loan	140,000	-	140,000	-
Secured Loan note	1,518,004	1,471,107	-	-
	<u>1,658,004</u>	<u>1,471,107</u>	<u>140,000</u>	<u>-</u>

The secured loan note is for US\$2,500,000, is repayable in two equal instalments on 20 October 2001 and 20 April 2002 and is secured on Starks oil field. The working capital loan carries interest at 2% above Lloyds Bank base rate and is repayable on 31 October 2001.

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

		1999	1998		
		£	£		
13.	CALLED UP SHARE CAPITAL				
	Authorised				
	15,300,000 ordinary shares of £0.25 each	<u>3,825,000</u>	<u>3,825,000</u>		
	Allotted and fully paid:				
	11,500,000 ordinary shares of £0.25 each	<u>2,875,000</u>	<u>2,875,000</u>		
14.	PROFIT AND LOSS ACCOUNT	Group	Group	Company	Company
		1999	1998	1999	1998
		£	£	£	£
	Loss for the year	(199,721)	(146,693)	(56,466)	(128,275)
	Profit and loss brought forward	<u>(319,959)</u>	<u>(173,266)</u>	<u>(133,608)</u>	<u>(5,333)</u>
	Deficit at 30 September 1999	<u>(519,680)</u>	<u>(319,959)</u>	<u>(190,074)</u>	<u>(133,608)</u>
15.	OTHER RESERVES	Group and Company Share Premium Reserve	Group Exchange Equalisation Reserve	Group Merger Reserve	
		£	£	£	
	At 1 October 1998	381,325	(351,782)	2,197,944	
	Exchange differences on consolidation	-	126,445	-	
	At 30 September 1999	<u>381,325</u>	<u>(225,337)</u>	<u>2,197,944</u>	

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

16.	RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS	Group 1999	Group 1998	Group 1999	Group 1998
		£	£	£	£
	Loss for the financial period	(199,721)	(146,693)	(56,466)	(128,275)
	Translation adjustments	<u>126,445</u>	<u>(203,795)</u>	<u>-</u>	<u>-</u>
	Net reduction in shareholders' funds	(73,276)	(350,488)	(56,466)	(128,275)
	Opening shareholders' funds	<u>4,782,528</u>	<u>5,133,016</u>	<u>3,122,717</u>	<u>3,250,992</u>
	Closing shareholders' funds	<u><u>4,709,252</u></u>	<u><u>4,782,528</u></u>	<u><u>3,066,251</u></u>	<u><u>3,122,717</u></u>
17.	RECONCILIATION OF OPERATING LOSS TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES			1999	1998
				£	£
	Operating loss			(195,981)	(166,391)
	Depreciation and depletion charges			102,766	92,984
	Decrease in debtors			8,466	(31,086)
	Increase/(decrease) in creditors			<u>67,219</u>	<u>(51,102)</u>
	Net cash outflow from operating activities			<u><u>(17,530)</u></u>	<u><u>(155,595)</u></u>

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

18.	ANALYSIS OF CHANGES IN CASHFLOWS DURING THE YEAR	1999 £	1998 £		
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
	Interest received	4,083	19,732		
	Interest paid	<u>(5)</u>	<u>(119)</u>		
		<u>4,078</u>	<u>19,613</u>		
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
	Purchase of tangible fixed assets	<u>(230,141)</u>	<u>(341,696)</u>		
	FINANCING				
	Working capital loan	<u>140,000</u>	<u>-</u>		
19.	ANALYSIS OF CHANGES IN NET DEBT	1 October 1998 £	Cash Flow £	Translation Difference £	30 September 1999 £
	Cash at bank and in hand	202,919	(107,411)	1,289	96,797
	Debt due after one year	<u>(1,471,107)</u>	<u>(140,000)</u>	<u>(46,897)</u>	<u>(1,658,004)</u>
		<u>(1,268,188)</u>	<u>(247,411)</u>	<u>(45,608)</u>	<u>(1,561,207)</u>

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

20. FINANCIAL INSTRUMENTS

A discussion of the Group's policies and objectives with regard to financial instruments is given in the directors report on pages 8 and 9.

Fair values and book values of financial instruments:

	Fair Value 1999 £	Book Value 1999 £
Long term borrowings	(1,658,004)	(1,658,004)
Cash at bank and in hand	96,797	96,797

Interest rate, currency profile and maturity of long term borrowings:

	Total £	Floating Rate Borrowings £
Currency:		
US Dollars	(1,518,004)	(1,518,004)
Sterling	(140,000)	(140,000)

All of the long term borrowings are repayable in more than two years but not more than five years. The Sterling floating rate borrowings bear interest at 2% above Lloyds Bank base rate. The US Dollar floating rate borrowings bear no interest but this is subject to continuing negotiation.

Borrowing facilities:

The group has undrawn committed facilities available of £100,000 at the balance sheet date expiring in more than two years but not more than five.

21. CONTINGENT LIABILITY

CSV Holdings, Inc. is party to a letter of credit arrangement that provides for up to \$100,000 (£60,606) (1998 - \$100,000 (£58,844)) in the event of future liabilities arising in connection with site reinstatement at Starks Oilfield. No provision has been made in the accounts for such potential liabilities. An amount of £60,606 included in cash at bank and in hand is secured against this potential liability by bankers of CSV Holdings, Inc..

22. RELATED PARTIES, ULTIMATE CONTROLLING PARTY AND SIGNIFICANT CONTRACTS

Churchill Energy, Inc., a subsidiary of Churchill U.S.A., Inc., is the licensed operator of the oilfields at Nukern and Starks, under agreements dated 3 July 1989 and 19 November 1996 respectively, on behalf of CSV Holdings, Inc.. The turnover in respect of these agreements for the year was £340,147 (1998 - £387,138) and the related expenditure was £348,435 (1998 - £306,331).

At 30 September 1999 an amount of £962,765 (1998 - £834,503) was due to Kern River plc by its subsidiary CSV Holdings, Inc.

The Directors consider that no party has overall control of the company.

Advantage has been taken of the exemption from disclosing transactions and balances with other Group companies as permitted by Financial Reporting Standard No.8.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the third Annual General Meeting of Kern River plc ("the Company") will be held at 3rd Floor, Crusader House, 145-157 St. John Street, London EC1V 4RE at 11.30am on Thursday 4 May 2000 for the following purposes:

As Ordinary Business

1. To receive the Reports of the Directors and of the Auditors and the Accounts for the period ended 30 September 1999.
2. To re-elect, as a Director, Mr Butterfield who retires in accordance with the Articles of Association of the Company and offers himself for re-election.
3. To re-appoint BDO Stoy Hayward as Auditors.
4. To authorise the Directors to fix the remuneration of the Auditors.

As Special Business

To consider and if thought fit, pass the following resolutions of which number 5 will be proposed as an Ordinary Resolution and number 6 as a Special Resolution:

Ordinary Resolution

5. That the Directors be and are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985) up to an aggregate nominal amount of £950,000 provided that this authority shall expire on 4 August 2001 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may, before such expiry, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred had not expired.

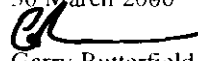
Special Resolution

6. That, subject to the passing of the Ordinary Resolution numbered 5 above, the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of that Act) as if sub-section (1) of Section 89 of that Act did not apply to any such allotment provided that this power shall be limited:
 - (a) to the allotment of equity securities in connection with a rights issue or open offer in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them, provided that the Directors may make such arrangements as they consider necessary or expedient in respect of fractional entitlements and in respect of legal or practical problems arising under the laws or securities regulations in any overseas territory; and
 - (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £143,750

and shall expire on 4 August 2001 or, if earlier, on the date of the next Annual General Meeting of the Company after the passing of this Resolution save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred had not expired.

By order of the Board

30 March 2000


Garry Butterfield
Secretary

Registered Office:
Cooper Street
Wolverhampton
WV2 2JL

Notes overleaf

NOTES

- i. The holders of the Ordinary Shares in the capital of the Company are entitled to attend the above Meeting and to vote thereat.
- ii. A member entitled to vote at the Meeting may appoint a proxy or proxies to attend and, on a poll, vote instead of him or her. A proxy need not be a member of the Company.
- iii. Forms of Proxy, duly completed, must be lodged with the Registrar of the Company at least 48 hours before the time fixed for the Meeting. A pre-paid Form of Proxy is enclosed. The appointment of a proxy will not prevent a member from attending the Meeting and voting in person.
- iv. Every member entitled to vote at the Meeting shall on a show of hands have one vote and, on a poll, every member present in person or by proxy shall have one vote for every share of which he or she is the holder.
- v. Copies of the service agreements of the Directors and the register of Directors' shareholdings and transactions will be available for inspection at the Registered Office of the Company from the date of this notice until the date of the Meeting and at the place of the Meeting from 15 minutes before the Meeting commences until the conclusion of the Meeting.

FORM OF PROXY

For use at the Annual General Meeting of Kern River plc to be held on 4 May 2000

I/We (Name)

of (Address)

being a member of Kern River plc hereby appoint the Chairman of the Meeting or

(note b)

as my/our proxy to vote for me/us at the Annual General Meeting of the Company to be held at 11.30am on 4 May 2000 and at any adjournment thereof.

Please indicate with a tick in the spaces below how you wish your votes be be cast.

Ordinary Resolutions	For	Against
1. To receive the Reports of the Directors and of the Auditors and the Accounts for the period ended 30 September 1999		
2. To re-elect Mr Butterfield as a Director		
3. To re-appoint BDO Stoy Hayward as Auditors		
4. To authorise the Directors to fix the remuneration of the Auditors		
5. To renew the authority to allot relevant securities		
Special Resolution		
6. To disapply pre-emption rights		

Signature Date

NOTES

- a. To be valid this Form of Proxy, duly completed and signed must be deposited, together with any power of attorney under which it is signed, at Northern Registrars Limited, Northern House, Woodsome Park, Fenay Bridge, Huddersfield, West Yorkshire, not less than 48 hours before the time appointed for the Meeting.
- b. A member may appoint one or more proxies of his own choice, in which case he should delete the reference to the Chairman of the Meeting and insert the name(s) of the person(s) appointed in the space provided. A proxy need not be a member of the Company.
- c. If the appointer is a corporation, the Form of Proxy must be executed under its common seal or under the hand of some officer or attorney duly authorised in writing in that behalf.
- d. In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority will be determined by the order in which the names stand in the register of members.
- e. Unless it is indicated how the proxy should vote, he may vote, or abstain from voting, as he thinks fit.
- f. The appointment of a proxy does not preclude the member from attending the meeting and voting in person.

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