

REGISTRAR OF COMPANIES

KERN RIVER PLC

DIRECTORS' REPORT AND ACCOUNTS

PERIOD FROM INCORPORATION TO 30 SEPTEMBER 1997

Company Number: 3262305



KERN RIVER PLC

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KERN RIVER PLC

CHAIRMAN'S STATEMENT

In the first year since its flotation on AIM, Kern River plc ("Kern River") has successfully upgraded facilities at one of its two areas of operation. The focus of Kern River is to secure improved economic returns from selected, under-performing oil and gas fields located in North America. Currently Kern River and its subsidiaries ("the Group") hold majority operating interests in two oil fields; the Nukern Lease in California and Starks field in Louisiana. Our approach is one of carefully-targeted investment, of maintaining close co-operation with the regulatory authorities and of effecting tight controls to ensure high efficiency in our operations.

At 1 October 1997 the Group's Proven Reserves were 3.1 million barrels, an increase of 5% since flotation. During the year we increased our working interest in the Nukern Lease from 86.52% to 93.4%. This increased interest more than offset the depletion of reserves through the year's production at the two fields. Using recognised techniques for evaluation, independent Petroleum Consulting Engineers have assessed the Net Present Value of the Group's Proven Reserves to be \$11.6 million (£7.2 million), as at 1 October 1997.

The year's results arise principally from oil production at the Starks field which was acquired in July 1996. In accordance with the Starks development programme, drilling commenced early in 1997 and certain facilities were upgraded. However, in the summer months, it was necessary to carry out further capital works which resulted in disruption to production. Without this setback the Group would have achieved a small trading profit in the year.

I am pleased to report that, since September, Starks production has been largely back to target levels. Whilst Starks accounted for nearly all of the year's turnover (Nukern was operating at only minimal levels), the results also reflect interest receivable on the net proceeds of the Placing as well as an exchange gain arising from the conversion of US Dollar balances. The majority of our funds are held in this currency to match expenditure on our field development programmes.

Oil prices are forecast to remain stable over the next year. Over the remainder of 1997/98 we intend to invest the net proceeds of production at Starks for further development of the field. Consistent with plans described at the time of flotation, we have set aside part of the placing proceeds to secure a supply of steam at Nukern. Although we were unable to conclude an agreement during this first-year, I am pleased to report that constructive discussions have recently been held with representatives of the new owners of the co-generation plant. We are actively seeking to agree some mutually beneficial arrangements which would ensure an early supply of steam and I hope to report further progress early in 1998.

I would like to take this opportunity to acknowledge those shareholders who supported the flotation as well as to welcome those who have invested in Kern River during these past twelve months. The Directors have confidence in the on-going success of the development programmes at both Starks and Nukern and hope that you will share the excitement which we feel for the future.

Neville A. Brown
Chairman
16 December 1997

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 has appointed an external operator whose services are provided through joint operating agreements. CSV maintains close control of activities.

Starks Field, Louisiana

(Proven Reserves : 740,000 barrels net, as at 1 October 1997)

The Starks Lease Area comprises some 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. CSV has a net revenue interest of an average of 75% in the wells on the Starks Lease Area. Independent Consulting Petroleum Engineers have recently assessed the Group's Proven Reserves at Starks to carry a Net Present Value of \$3.56 million (£2.2 million) at 10% pa discount, as at 1 October 1997.

Good working relationships have been established with suppliers, contractors and the regulatory authorities and in the year ended 30 September 1997 CSV's entitlement to oil produced at Starks was just under 25,000 barrels. Further capital improvements have been effected since the Interim report, taking overall investment at Starks during the year to some \$618,000 (£383,000). Our programme of investment was calculated to provide progressive improvements to monthly production; however extra works were necessary to upgrade oil treatment and storage plant as well as facilities for salt water disposal.

We have confidence that the upgrade of facilities at Starks will prove a good investment, providing not only greater operational reliability in the gathering areas which service the producing wells around the crest of the salt dome but also generating profits for reinvestment. Thus net proceeds from production from the twenty wells, which will have been completed or re-completed by the end of December, will be used to fund further planned improvements at Starks. These include plans to drill, with our own rig (which was financed as part of this year's capital programme), up to fourteen new wells on the crest of the salt dome as well as to further increase capacity for salt water disposal.

We will give careful consideration to opportunities to farm-out acreage on the flank of the Starks Salt Dome. This would avoid risks associated with such exploration whilst retaining an equity interest should the drilling prove successful.

Nukern Lease, California

(Proven Reserves : 2.37 million barrels net, as at 1 October 1997)

The Nukern Lease consists of some 55 acres of land in the South West portion of the Kern River Field, which is in Bakersfield, California. During the year CSV was able to negotiate an increase in equity at Nukern and, as a result, we now have a 93.4% working interest, providing a net revenue interest of 77.84%, after allowing for payments to the mineral owners. The value of the increased entitlement is some \$600,000, Independent Consulting Petroleum Engineers having reassessed the Group's Proven Reserves at Nukern to have a Net Present Value of \$8.08 million (£5 million) at 10% pa discount, as at 1 October 1997.

The Nukern Reserves are of heavy viscosity oil (API 13 degrees), requiring the application of enhanced oil recovery techniques. This year production at Nukern has remained at the low level necessary to maintain the lease.

KERN RIVER PLC

OPERATIONAL REVIEW (continued)

Steam heating is the most effective means of achieving economic production of these reserves. At the time of placing we indicated our intention to seek long term arrangements with the management of an adjacent co-generation plant but change of ownership at this plant has frustrated efforts to progress matters during the year to 30 September 1997. During this period we have investigated alternative sources, including the purchase and operation of a small steam generator. However, taking a long-term view and seeking to maximise the value of Proven Oil Reserves, the Directors determined that CSV should concentrate negotiations for the supply of steam from the one co-generation plant.

Our latest proposals have reiterated the mutual benefits which could arise by Nukern absorbing the plant's surplus steam and waste water on a long term basis and negotiations have made good progress in recent weeks.

We are currently discussing detailed terms.

Anthony Carroll
General Manager
16 December 1997

KERN RIVER PLC

DIRECTORS' PROFILES

Neville A. Brown

Neville A. Brown, aged 58, 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 is a non-Executive Director of Gall Thomson Environmental plc. He is Chairman of the Remuneration Committee and a member of the Audit Committee.

Anthony Carroll

Anthony Carroll, aged 61, 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 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 the 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 37, 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 through Longcrofts. He joined Villiers Limited in 1989 and became a director of Villiers Group plc in 1992.

Colin Weaver

Colin Weaver, aged 64, 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 period from 11 October 1996 to 30 September 1997. The Company was incorporated on 11 October 1996 and was admitted to the Alternative Investment Market on 29 November 1996. The Company commenced trading from that date.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Group during the period 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 £40,574.

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 abide by the terms of payment agreed with each of its suppliers.

As at 30 September 1997, the outstanding trade creditors represented 30 days purchases for the Group and 21 days purchases for the Company.

DIRECTORS AND INTERESTS IN SHARES

The initial Directors of the Company were Ludgate Nominees Limited and Ludgate Secretarial Services Limited. On 6 November 1996 these Directors resigned and Neville A. Brown, C Weaver, A Carroll and G Butterfield were appointed.

The Directors of the Company at 30 September 1997 and their beneficial interests in the shares, which are required to be disclosed by the Companies Act 1985 were as follows:

	Ordinary shares of £0.25 each	
	30 September 1997	29 November 1996
Neville A. Brown (non-Executive Chairman)	10,000	10,000
Anthony Carroll	613,621	10,000
Garry Butterfield	-	-
Colin Weaver (non-Executive)	30,000	20,000

There has been no movement in the Directors' shareholdings since the balance sheet date.

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:

The AIM Trust	600,000
Churchill U.S.A., Inc.	1,373,179
A.J. Carroll	613,621
Summit Overseas Exploration, Inc.	3,719,362
Villiers Group plc	2,272,499

KERN RIVER PLC

DIRECTORS' REPORT (continued)

CORPORATE GOVERNANCE

The Company complies with the main provisions of the Code of Best Practice published by the committee on the Financial Aspects of Corporate Governance, having regard for the size of the Group and 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.

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 Risk 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.

Going Concern

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.

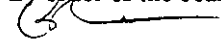
ANNUAL GENERAL MEETING

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

A resolution will be proposed at the Annual General Meeting to re-appoint Moores Rowland as auditors to the Company for the ensuing year.

By order of the board



Garry Butterfield
Secretary

Registered Office
Claremont Works
Claremont Road
Halifax
West Yorkshire
HX3 6AW

16 December 1997

KERN RIVER PLC

REPORT OF THE REMUNERATION COMMITTEE

The remuneration and terms and conditions of service of the Executive Directors are determined by the Board's Remuneration Committee. This committee comprises the two non-Executive Directors and is chaired by Neville A. Brown. From the outset, the Directors consider that the Group has taken due account of the Best Practice Provisions on Remuneration Committees, as annexed to the Listing Rules of the London Stock Exchange. The Remuneration Committee last met in September 1997.

Remuneration Policy

The committee recognises that, over time, it will be necessary to provide remuneration packages which are more competitive. The Group must continue to attract high calibre executives. Schemes will need to be designed in a way which reflects each Executive Director's contribution to the Group's performance. Bonus and/or Share Option schemes will need to be considered.

Meanwhile, at this early stage of the Group's development, the committee sees benefit from maintaining the arrangements made at the time of the Company's flotation on the Alternative Investment Market (November 1996). Accordingly, the remuneration of Executive Directors is currently confined to the payment of fixed fees and the reimbursement of expenses, as incurred.

Fees

The Remuneration Committee recognises that, currently, a low level of fees is paid for engaging the services of the Executive Directors. Although the matter was reviewed during the year, the committee decided not to exercise its discretion to increase fees for the time being.

Directors' Service Contracts

The Company has entered into the following agreements regarding the services of its Directors:-

An exchange of letters dated 18 November 1996 between the Company, Neville A. Brown and Enable Commercial Advice & Services whereby Enable has agreed to provide the services of Neville A. Brown as non-Executive Chairman at a fee of £15,000 per annum. The agreement will terminate when Neville A. Brown ceases to be a Director of the Company.

An exchange of letters dated 18 November 1996 between the Company, Summit Overseas Exploration, Inc. (shareholder of Kern River plc) and Anthony Carroll, whereby Summit has agreed to provide the services of Anthony Carroll for up to 180 days a year as General Manager of the Group at a fee of £10,000 per annum. The engagement is for an initial two year period and terminable thereafter by six months notice on either party.

An exchange of letters dated 18 November 1996 between the Company, Villiers Group plc, (shareholder of Kern River plc) and Garry Butterfield, whereby Villiers has agreed to provide the services of Garry Butterfield for up to 4 days per month as Finance Director and Company Secretary at a fee of £3,000 per annum. The engagement is for an initial two year period and terminable thereafter by six months notice on either party.

An exchange of letters between Colin Weaver and the Company dated 18 November 1996, whereby Colin Weaver has agreed to serve as a non-Executive Director of the Company at a fee of £7,500 per annum. The agreement will terminate when Colin Weaver ceases to be a Director of the Company.

The Company pays no pensions in respect of the directors.

Neville A. Brown
Chairman of the Remuneration Committee
16 December 1997

KERN RIVER PLC

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 16 December 1997

G. Butterfield - Director

KERN RIVER PLC

AUDITORS' REPORT TO THE MEMBERS OF KERN RIVER PLC

We have audited the accounts on pages 12 to 24.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Directors' report the Company's 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.

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 1997 and of the loss of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



MOORES ROWLAND
Chartered Accountants
Registered Auditors

London


16 December 1997

KERN RIVER PLC

CONSOLIDATED BALANCE SHEET
As at 30 September 1997

	Note	£	1997 £	£	1996 £
FIXED ASSETS					
Tangible assets	8		6,103,764		6,000,000
CURRENT ASSETS					
Debtors	10	39,783		3,846	
Cash at bank and in hand		661,272		1,282	
			<u>701,055</u>	<u>5,128</u>	
CREDITORS - amounts falling due within one year	11	124,199		87,179	
NET CURRENT ASSETS/ (CURRENT LIABILITIES)			<u>576,856</u>	<u>(82,051)</u>	
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>6,680,620</u>	<u>5,917,949</u>	
CREDITORS - amounts falling due after more than one year	12		1,547,604		1,602,697
TOTAL NET ASSETS			<u>5,133,016</u>	<u>4,315,252</u>	
CAPITAL AND RESERVES					
Called up share capital	13		2,875,000		2,250,000
Share premium	15		381,325		-
Exchange equalisation reserve	15		(147,987)		-
Merger reserve	15		2,197,944		2,197,944
Profit and loss account	14		(173,266)		(132,692)
EQUITY SHAREHOLDERS FUNDS	16		<u>5,133,016</u>		<u>4,315,252</u>

Approved by the Board on 16 December 1997



G. Butterfield - Director

KERN RIVER PLC

BALANCE SHEET

As at 30 September 1997

	Note	£	1997 £
FIXED ASSETS			
Investments	9		2,250,002
CURRENT ASSETS			
Debtors	10	498,977	
Cash at bank and in hand		518,014	
		<hr/>	
		1,016,991	
CREDITORS - amounts falling due within one year	11	16,001	
		<hr/>	
NET CURRENT ASSETS			1,000,990
			<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES			3,250,992
			<hr/> <hr/>
CAPITAL AND RESERVES			
Called up share capital	13		2,875,000
Share premium	15		381,325
Profit and loss account	14		(5,333)
			<hr/>
EQUITY SHAREHOLDERS' FUNDS	16		3,250,992
			<hr/> <hr/>

Approved by the Board on 16 December 1997



G. Butterfield - Director

KERN RIVER PLC

CONSOLIDATED CASHFLOW STATEMENT
Year ended 30 September 1997

	Note	1997 £	1996 £
NET CASH IN/(OUT) FLOW FROM OPERATING ACTIVITIES	17	28,724	(1,263)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		34,825	641
Interest paid		-	(641)
NET CASH INFLOW FROM RETURNS ON INVESTMENT AND SERVICING OF FINANCE		34,825	-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payment to acquire tangible fixed assets		(409,884)	(1,776,282)
		(409,884)	(1,776,282)
NET CASH OUTFLOW BEFORE FINANCING		(346,335)	(1,777,545)
FINANCING	19		
New share capital subscribed (less expenses)		1,006,325	-
Loan advance		-	1,777,564
		1,006,325	1,777,564
INCREASE IN CASH AND TOTAL NET FUNDS	18	659,990	19

KERN RIVER PLC

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Accounting convention

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

Basis of consolidation

The consolidated accounts include the Company and its subsidiaries. Merger accounting has been used to reflect the acquisition 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.

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 UK Statement of Recommended Practice on Accounting for Oil and Gas Exploration and Development Activities, such net revenues and costs are unescalated and undiscounted, and prices, cost levels and exchange rates are those ruling at the period end. 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%
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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 (\$1.64:£1), and the assets and liabilities at the rate ruling at the balance sheet date (1997:\$1.62:£1), (1996:\$1.56:£1). Differences on exchange arising from the translation of the subsidiary undertakings are taken directly to reserves.

KERN RIVER PLC

NOTES TO THE ACCOUNTS(continued)

1. ACCOUNTING POLICIES (continued)

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

	1997 £	1996 £
Bank loans and overdrafts	-	641

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

Loss on ordinary activities before taxation is stated after charging/(crediting):

	1997 £	1996 £
Auditors' remuneration – audit fees	4,000	-
Auditors' remuneration – non-audit fees	1,000	-
Depreciation of fixed assets	679	-
Depletion of oil and gas reserves	70,896	12,820
Exchange gains	(34,436)	-

Fees paid to Moores Rowland in connection with non-audit services also included £37,428 written off as part of issue expenses charged to the share premium account.

4. DIRECTORS AND OTHER EMPLOYEES

The Group had no employees during the accounting period.

The emoluments of the Directors were as follows:

	1997 £	1996 £
For services as Directors – fees received	30,915	-

No pensions are paid for directors.

Directors fees by individual

Neville A. Brown	13,063	-
Garry Butterfield	2,613	-
Colin Weaver	6,531	-
Anthony Carroll	8,708	-
	<u>30,915</u>	<u>-</u>

KERN RIVER PLC

NOTES TO THE ACCOUNTS (continued)

5. TAX ON LOSS ON ORDINARY ACTIVITIES

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

No US Federal taxes are payable for CSV Holdings, Inc.

6. LOSS FOR THE FINANCIAL YEAR AFTER TAXATION

	1997 £	1996 £
Dealt with in parent Company accounts	(5,333)	-
Loss incurred by subsidiary undertakings	(35,241)	(73,717)
	<u> </u>	<u> </u>
	(40,574)	(73,717)
	<u> </u>	<u> </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 is based on the loss for the period of £40,574 and on the weighted average number of ordinary shares in issue of 11,089,041. (1996: Loss of £73,717, shares in issue 9,000,000).

8. TANGIBLE FIXED ASSETS - GROUP

	Oil reserves £	Motor vehicles £	Total £
Cost			
At 1 October 1996	6,017,948	-	6,017,948
Additions	401,744	8,140	409,884
Translation adjustment	(233,908)	-	(233,908)
	<u> </u>	<u> </u>	<u> </u>
At 30 September 1997	6,185,784	8,140	6,193,924
	<u> </u>	<u> </u>	<u> </u>
Depreciation and depletion			
At 1 October 1996	17,948	-	17,948
Charge for period	70,896	679	71,575
Translation adjustment	637	-	637
	<u> </u>	<u> </u>	<u> </u>
At 30 September 1997	89,481	679	90,160
	<u> </u>	<u> </u>	<u> </u>
Net book value at 30 September 1997	6,096,303	7,461	6,103,764
	<u> </u>	<u> </u>	<u> </u>
Net book value at 30 September 1996	6,000,000	-	6,000,000
	<u> </u>	<u> </u>	<u> </u>

KERN RIVER PLC

NOTES TO THE ACCOUNTS(continued)

8. TANGIBLE FIXED ASSETS – GROUP (continued)

Net Proven Reserves of oil (number of barrels)	Total
At 1 October 1996	2,967,438
Net additions in period	144,908
	<hr/>
At 1 October 1997	3,112,346
	<hr/> <hr/>

The Reserve quantities above represent those confirmed by SAVAGEngineers, Consulting Petroleum Engineers, as at 1 October 1997.

9. FIXED ASSET INVESTMENTS

COMPANY	Subsidiary undertakings £	Total £
<u>Cost:</u>		
Additions	2,250,002	2,250,002
	<hr/>	<hr/>
At 30 September 1997	2,250,002	2,250,002
	<hr/> <hr/>	<hr/> <hr/>

	Nature of business	Effective interest
The subsidiary undertakings are:		
CSV Holdings, Inc. (Incorporated in U.S.A.) This subsidiary operates in the U.S.A.	Oil fields	100%
Kern River Investments Ltd (Incorporated in the United Kingdom)	Dormant	100%

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. The aggregate book value of the net assets of CSV Holdings, Inc. at the date of the merger was £1,555,000. The aggregate book value of the net assets of Kern River plc at the date of the merger was £2.

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.

KERN RIVER PLC

NOTES TO THE ACCOUNTS(continued)

9. FIXED ASSET INVESTMENTS (continued)

An analysis of the loss for the period is shown as follows:

	Company £	CSV Holdings, Inc		Group £
		Pre- merger £	Post merger £	
Turnover	<u>-</u>	<u>41,159</u>	<u>259,302</u>	<u>300,461</u>
Operating loss	<u>(36,666)</u>	<u>(10,329)</u>	<u>(28,404)</u>	<u>(75,399)</u>
Loss before tax	<u>(5,333)</u>	<u>(5,558)</u>	<u>(29,683)</u>	<u>(40,574)</u>

The loss for 1996 is entirely attributable to CSV Holdings, Inc.

10. DEBTORS

	Group 1997 £	Group 1996 £	Company 1997 £
Trade debtors	38,333	1,282	-
Amounts owed by Group undertakings	-	-	497,527
Other debtors	158	-	158
Prepayments and accrued income	1,292	2,564	1,292
	<u>39,783</u>	<u>3,846</u>	<u>498,977</u>

11. CREDITORS – amounts falling due within one year

	Group 1997 £	Group 1996 £	Company 1997 £
Trade creditors	110,814	87,179	2,614
Accruals and deferred income	13,385	-	13,387
	<u>124,199</u>	<u>87,179</u>	<u>16,001</u>

12. CREDITORS - amounts falling due after more than one year

	Group 1997 £	Group 1996 £	Company 1997 £
Secured Loan note	<u>1,547,604</u>	<u>1,602,697</u>	<u>-</u>

KERN RIVER PLC

NOTES TO THE ACCOUNTS(continued)

12. CREDITORS - amounts falling due after more than one year (continued)

The secured loan note is interest free, is repayable in two equal instalments on 20 October 1998 and 20 April 1999 and is secured on Starks oil field. Upon redemption of the note the holders will be entitled to an additional payment dependent on the average price of oil extracted from Starks exceeding \$20 per barrel. Such additional payment will be calculated on an annual basis and will be the equivalent of 2.5% of the balance of the note outstanding from 1 October 1996 to redemption.

13. CALLED UP SHARE CAPITAL

	1997 £
Authorised:	
15,300,000 ordinary shares of £0.25 each	3,825,000
	3,825,000
Allotted and fully paid:	
11,500,000 ordinary shares of £0.25 each	2,875,000
	2,875,000

On incorporation the Company had an authorised share capital of 400,000 ordinary shares of £0.25 each of which 2 were issued.

On 12 November 1996 the Company's authorised share capital was increased to 15,300,000 ordinary shares of £0.25 each. Also the Company allotted 66,666 ordinary shares to each of Churchill U.S.A, Inc., Summit Overseas Exploration, Inc. and Villiers Group plc in consideration of undertakings to pay the Company the sum of £0.25 in respect of each share. Upon Admission to AIM these allotments were cancelled and the undertakings lapsed in accordance with their respective terms.

On 19 November 1996 the Company acquired the entire issued share capital of CSV Holdings, Inc. based on a share for share exchange resulting in the issue of 9,000,000 ordinary shares of £0.25 at their nominal value (£2,250,000). On admission to AIM the Company further issued 2,500,000 ordinary shares of £0.25 each for a price of £0.50.

14. PROFIT AND LOSS ACCOUNT

	Group £ 1997	Group £ 1996	Company £ 1997
Loss for the period	(40,574)	(73,717)	(5,333)
Profit and loss brought forward	(132,692)	(58,975)	-
Deficit at 30 September 1997	(173,266)	(132,692)	(5,333)

KERN RIVER PLC

NOTES TO THE ACCOUNTS(continued)

15. OTHER RESERVES

	Group and Company Share Premium Reserve £	Exchange Equalisation Reserve £	Group Merger Reserve £
At 1 October 1996	-	-	2,197,944
Exchange differences on consolidation	-	(147,987)	-
Share issue	600,000	-	-
Preliminary expenses and share issue	(218,675)	-	-
Reserve on consolidation	-	-	-
At 30 September 1997	<u>(381,325)</u>	<u>(147,987)</u>	<u>(2,197,944)</u>

16. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 1997 £	Group 1996 £	Company 1997 £
Loss for the financial period	(40,574)	(73,717)	(5,333)
Issue of shares	625,000	-	2,875,000
Share premium on issue of shares	381,325	-	381,325
Merger Reserve	-	2,760,764	-
Translation adjustment	(147,987)	-	-
Net addition in shareholders' funds	<u>817,764</u>	<u>2,687,047</u>	<u>3,250,992</u>
Opening shareholders' funds	4,315,252	1,628,205	-
Closing shareholders' funds	<u>5,133,016</u>	<u>4,315,252</u>	<u>3,250,992</u>

17. RECONCILIATION OF OPERATING LOSS
TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 £	1996 £
Operating loss	(75,399)	(73,717)
Depreciation and depletion charges	71,575	12,820
Increase in debtors	(35,937)	(3,846)
Increase in creditors	37,021	63,806
Translation adjustments	31,464	(326)
Net cash inflow/(outflow) from operating activities	<u>28,724</u>	<u>(1,263)</u>

KERN RIVER PLC

NOTES TO THE ACCOUNTS(continued)

18. ANALYSIS OF CHANGES IN CASH

1 October 1996 £	Cash Flow £	30 September 1997 £
1,282	659,990	661,272
<u> </u>	<u> </u>	<u> </u>

19. ANALYSIS OF CHANGES IN FINANCING

	Share capital and premium £	Loan Capital £
At 1 October 1996	2,250,000	1,602,697
Share issue in period (net of expenses)	1,006,325	-
Exchange translation	-	(55,093)
At 30 September 1997	<u>3,256,325</u>	<u>1,547,604</u>

20. RECONCILIATION OF NET CASH FLOW
TO MOVEMENT IN NET FUNDS

	1997 £	1996 £
Increase in cash in period	659,990	19
Cash used to increase liquid resources	-	-
Debt due within 1 year	-	-
Movement in net funds in the year	<u>659,990</u>	<u>19</u>
Net funds at 1 October 1996	1,282	1,263
Net funds at 30 September 1997	<u>661,272</u>	<u>1,282</u>

21. CONTINGENT LIABILITY

CSV Holdings, Inc. is party to a letter of credit arrangement that provides for up to \$100,000 (£61,904) 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 £61,904 included in cash at bank and in hand is secured against this potential liability by bankers of CSV Holdings, Inc.

KERN RIVER PLC

NOTES TO THE ACCOUNTS(continued)

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.

Anthony Carroll, a Director of Kern River plc and CSV Holdings, Inc. held 19.8 percent of the issued share capital of Churchill Energy, Inc. until January 1997 when he sold all his shares.

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.

2000
2001
2002

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the first Annual General Meeting of Kern River plc ("the Company") will be held at 3rd Floor, Crusader House, 145-157 St. John Street, London EC1V 4QJ at 12.00 noon on Wednesday 14 January 1998 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 1997.
2. To re-elect, as a Director, Mr Weaver who retires in accordance with the Articles of Association of the Company and offers himself for re-election.
3. To re-appoint Moores Rowland 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 14 April 1999 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 14 April 1999 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

Garry Butterfield
Secretary

Notes overleaf

Registered Office:
Claremont Works
Claremount Road
Halifax HX3 6AW

16 December 1997

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 14 January 1998

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 12.00 noon on 14 January 1998 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 1997		
2. To re-elect Mr Weaver as a Director		
3. To re-appoint Moores Rowland 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, Penistone Road, 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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