

Company Number 05305345

TOWER RESOURCES PLC

GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2009

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TOWER RESOURCES PLC

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TOWER RESOURCES PLC

DIRECTORS, SECRETARY AND ADVISERS

Directors:	Peter Kingston Peter Taylor Peter Blakey Mark Savage Jeremy Asher	Executive Chairman Non Executive Non Executive Non Executive Non Executive
Company Secretary:	John Bottomley	
Company Number:	05305345	
Registered Office:	One America Square Crosswall London EC3N 2SG	
Nominated Adviser and Broker	Astaire Securities plc 30 Old Broad Street, London EC2N 1HT	
Joint Broker	Westhouse Securities Limited One Angel Court London EC2R 7HJ	
Solicitors:	Watson Farley & Williams LLP 15 Appold Street, London EC2Y 2HB	
Group Auditors:	UHY Hacker Young LLP Quadrant House 4 Thomas More Square London E1W 1YW	
Registrars:	Capita IRG Bourne House 34 Beckenham Road Beckenham Kent, BR3 4TU	
Bankers:	Barclays Bank Plc 50 Pall Mall, London SW1A 1QA	
Investor and Public Relations:	Walbrook Public Relations 4 Lombard Street London EC3V 9HD	

TOWER RESOURCES PLC

CHAIRMAN'S STATEMENT

Dear Shareholder

We have gained new insights into our large licences in Uganda and Namibia as a result of further operations and evaluations carried out during the reporting period. These insights keep us optimistic about the prospects for both areas as your company moves ahead with new plans in Uganda and as the drilling of a first well in Namibia gets closer. There is still every expectation that shareholders will see their investment increase significantly in value in the next two years.

The Company's first Uganda well was drilled in 2009 without any obvious success and a second well has been completed since year end. The information gained from these two wells has confirmed the presence of oil and probable source rocks over a wide area in the EA5 Licence, despite not yet achieving a commercial discovery. The challenge ahead, during the Third Exploration Period, is to determine a drilling prospect where oil has migrated into a structure having better reservoir properties.

Progress in Namibia is behind schedule because the 3-D seismic survey, which was planned for the first quarter of 2010, has been delayed due to problems experienced by the seismic contractor in its operational commitments prior to those in Namibia. Nevertheless, the additional seismic interpretation work undertaken by the operator during 2009 has added weight to earlier studies which predicted multi billion barrel reserve potential in Licence 0010. The focus for the 3-D seismic has changed as a consequence of this work and the Delta prospect, which has recoverable reserve potential of three billion barrels equivalent, is now the most attractive prospect for a first well. Our independent consultant's work is close to completion and is broadly supportive of the operator's interpretation.

The immediate future will see an aero gravity gradiometry survey over the Uganda EA5 Licence, which will provide an excellent data set with which to plan a 2-D seismic programme approaching 500 kilometres in total. The aero survey will be funded by Tower but the seismic programme will require funding from one or more third parties. The "farm out" process is already underway. The aim is to be ready to drill a third well – the commitment well as designated in the Production Sharing Agreement – as early as possible in 2011. This allows time for a follow up well programme if required.

I would also like to pay a special tribute to the Ugandan organisation which comprises almost exclusively Ugandan nationals. The Neptune employees have very effectively supported operations while maintaining excellent relationships with government authorities and the local West Nile people. I am happy that your Company's reputation is safe in their hands.

Financial Highlights

The Company's Operating Loss for the reporting period from 1 January 2009 to 31 December 2009 was \$1,045,779. Capital expenditure on exploration studies, drilling operations, and licence management costs and fees amounted to \$10,054,272 of which \$7,007,192 was contributed by farm-in partners. Cash balances at the year end totaled \$8,581,474 although significant amounts were subsequently required in the first quarter of 2010 to meet the cost of drilling operations.

The Company has sufficient capital to fund its activities until the end of 2010 and expects that new funds can be introduced if necessary to meet commitments during 2011. Tower is not obliged to make any contribution towards the Namibia Licence commitments over the next 12 months and is considering options to fund future exploration plans in Uganda during 2010. Global Petroleum Limited has funded most of the cost of the first Uganda well and 25% of the cost of the second well drilled in February 2010. It is still considering whether it wishes to participate as a 25% Licence interest holder in future activities. A programme to attract a future funding partner to meet the costs of planned seismic and well operations is underway and the Board is confident that funding can be achieved in good time.

Operations Summary to end 2009

Uganda

On 15th June 2009, Tower Resources reported that the Iti-1 well had been abandoned as uncommercial but a full re-evaluation of well and Licence data would be undertaken before choosing a second well location.

The results of the re-evaluation studies supported a more positive conclusion of the well results, indicating significant potential for oil to be present within a 35 metre gross reservoir sequence directly above basement. Independent analyses confirmed the presence of clean reservoir sands, with good porosities but low permeabilities, in the interval.

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just above basement between 540 metres and 575 metres ("the basal reservoir") Palynology analyses pointed to the predominance of alluvial fan deposits which are thought to be analogous to the basin margin edge discoveries elsewhere in the Albertine Graben. This result is consistent with basin modelling studies.

Detailed inspection of wireline pressure data, after undertaking quality control of the raw data and re-evaluation of wireline logs, indicated that the basal reservoir could be oil bearing. Fluid samples taken by a wireline formation fluid sampler produced what had initially appeared to be samples containing only water. Subsequent inspection of the sample chambers showed oil traces, and small quantities of oil were extracted from the rock samples. Analyses of these oil samples indicated that oil could be present above and within the basal reservoir although this could have been consistent with residual non-productible oil in the formations.

Detailed re-examination of seismic data, now calibrated by well data, resulted in the selection of a second well location, Avivi-1. The Iti and Sambia structures no longer seemed analogous to Jobi in EA1 but there was still scope for thick reservoir sands further to the east where the current River Nile has its hinterland. The Sambia structure was thought to be similar to Iti and, although still a possible future prospect, an alternative location was preferred for the second well. The Avivi structure was close to where the main sand fairway might be and on a potential migration path. This location was agreed with the Government of Uganda and detailed well planning began in October 2009. The well was completed after the year-end, and is discussed in more detail below.

Namibia

Interpretation of additional commercially available seismic data, covering each of the three main prospects has confirmed the potential for giant fields. Whereas the earlier focus had been on the most northerly structure, Alpha, integration with the new data identified Delta, a larger prospect than Alpha, having reserve potential, estimated by the Licence Operator, of about three billion bbls of oil equivalent, as the most likely to yield success. The latest interpretation has concluded, however, that there remains a risk in variability of reservoir quality and that a 3-D seismic programme over Delta, before choosing a well location, would be the wisest way forward. The Operator of the Licence, Arcadia Petroleum Limited, agreed this changed approach with the Government of Namibia. The Government have agreed that Arcadia and Tower can continue to the First Exploration Renewal Period but with a variation to the work commitment, replacing a commitment well with a minimum 1000 square kilometres of 3-D seismic. A contract has been signed with CGG Veritas to shoot 1580 sq kms of 3-D seismic and operations were originally expected to begin by the end of 2009 or early 2010.

Other Ventures

There remains no tangible progress in the resolution of political issues in West Sahara so no operational activity is expected in the foreseeable future. The Licence application in Tanzania has lapsed and there are no immediate plans to pursue any other new ventures given the scale of existing activity in Uganda and Namibia.

Since Year-end and Looking Forward

Uganda

The Avivi-1 well was drilled to a total depth of 764 metres but did not encounter oil despite persistent methane gas traces, and tested water from the target reservoir interval using a wireline fluid sampler. Electric logging confirmed the absence of oil and gas and the well was plugged and abandoned on Feb 27th. Although the well failed to encounter hydrocarbons, the Tower Board has concluded that the information from the first two exploration wells on EA5 demonstrates that considerable exploration potential still exists in the Licence.

Avivi-1 encountered thick sequences of organic rich sediments, which are likely to represent good mature source rocks in the deeper areas of the basin. The thick clays should also provide very effective trap sealing properties. Wireline logs and water samples demonstrate that the Avivi structure is water bearing but mid-mature oil was entrained in the sampled water confirming that oil has been generated in the Licence and is currently migrating. The composition of this oil is similar to that of oil recovered from Iti-1 and surface oil samples. Pressure data from Avivi-1, when combined with pressure data from Iti-1, is consistent with a possible oil accumulation at Iti-1 in low permeability reservoir sand. The uncertainty related to generation and migration of oil in the Rhino Camp Basin has, therefore, been significantly de-risked. The lack of good quality reservoir at either well location increases the emphasis on identifying structures in the deepest area of the basin, where the chances of encountering better reservoir are improved. This can only be achieved by substantially increasing seismic coverage in the areas of greatest interest.

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Formal grant for the renewal of the Exploration Area 5 (EA5) Licence has been received from the Minister of Energy and Mineral Development of the Government of Uganda. The Licence area, after relinquishment agreed with the Government, now amounts to 2941 square kilometres. The forward programme, which has been agreed with the Government of Uganda, comprises an aero gravity gradiometry survey over virtually all of the remaining Licence area.

This is an important first step in planning a seismic survey which could approach 500 kilometres, increasing total seismic coverage to nearly 800 kilometres. The seismic interpretation will provide the basis for selecting a third well location. The aero survey is due to begin within the next month and will be funded from available cash resources.

Namibia

The Namibian 3-D seismic survey is now scheduled to begin early in June 2010 but it is still expected that processing and interpretation can be completed early in 2011. There is presently no change to the estimated date for drilling the first exploration well during the favourable weather period of Q4 2011 and Q1 2012. There will likely be growing focus on the northern area of Namibia and the prospectivity of the 0010 Licence during 2010 and 2011. The independent consultants commissioned by Tower to review the technical and economic potential of Licence 0010 and the operator's reserve estimates are close to completing their work and, at first sight, they are confirming the broad conclusions of Licence potential.

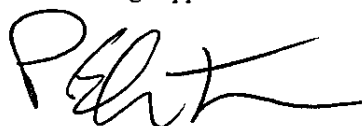
The encouraging drilling results from the Falklands may have very little significance for Namibia however they do at least provide confirmation that source rocks laid down in the Atlantic so far south can generate oil as well as gas.

Corporate Outlook

Your Company has not yet achieved a commercial success from its operations to date, but the potential of both Licences appears to be as significant and promising as at any time. The coming year will see important progress in Uganda and Namibia, including considerable further data regarding our licenses, even though no drilling is currently foreseen until the second quarter of 2011. The Tower Board remains optimistic about the future prospects with everything still to play for in Uganda and the "big one" in Namibia still to come.

Thank you for your continuing support.

Peter Kingston
Chairman
25th May 2010



TOWER RESOURCES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

The Directors present their Annual Report on the affairs of the Group, together with the Accounts and the Independent Auditors' Report, for the year ended 31 December 2009

The Company was registered in England on 6 December 2004 with company number 5305345 as a public company limited by shares. The Company's shares are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange

Principal activity, business review and future development

The Group's principal activity is the exploration for oil and gas in Africa, conducted through operating subsidiaries in Uganda and Namibia. It holds 100% of an onshore Licence in Uganda but this could reduce by 25% should Global Petroleum Limited exercise its option to earn up to 25% of the Licence by continuing to fund its 25% share of Licence costs during the Third Exploration Period. In Namibia, the Group owns 15% of an offshore Licence after agreeing to assign 85% to Arcadia Petroleum Limited in return for that company funding all of the exploration commitments attached to the Production Sharing Agreement. The immediate priority is to continue to meet the licence exploration commitments assumed in both countries within the continuing obligation periods. Full commitments for Uganda, comprising seismic and two exploration wells, have been fulfilled for the first two exploration periods, without achieving commercial success. The Group has elected to continue into the Third Exploration Period, for which the commitment is some seismic (if necessary) and one exploration well. A two year extension to the First Exploration Period for the Namibian licence was agreed in September 2007 after 735km of 2-Dimensional seismic was completed during 2007. Further purchase of seismic data was made in 2008 and interpretation has been completed. Licence commitments for the First Exploration Period were fulfilled during 2009 and Arcadia and Tower elected to continue into the two-year Second Exploration Period in September 2009. A 1600 square kilometre 3-D seismic programme is due to begin shortly.

Oil discoveries were made for the first time in Uganda, by other operating groups, during and since the end of 2006. An intensive programme of further seismic and exploration well drilling has ensued and continues to assess the full potential of their areas. In spite of two uncommercial exploration wells, good prospectivity remains in respect of the Tower Licence. Geochemical sampling in both wells, supplementing the evidence from near surface oil sampling, has been very successful in confirming the presence of oil generation and migration, thereby significantly reducing this area of risk. The current challenge for the forward programme is to locate good reservoir quality in conjunction with clearly defined structures. The first year programme will focus on collection of additional geophysical data as outlined in the Chairman's Statement. The Namibian licence is far from any existing discoveries of oil or gas and is therefore of greater risk. Nevertheless, completion of the interpretation of newly purchased seismic data has confirmed the very large prospects previously identified of potentially commercial scale and strong indications that natural gas may be present.

Considerable technical evaluation work in both countries during 2006 has been followed by completed seismic surveys and extensive interpretation of a wide range of geological and geophysical data. Financial partners were introduced to carry most of the financial investment to meet these licence commitments. The Group is confident that future licence commitments will continue largely to be met by existing or new partners as the situation may dictate. The Group is intending to participate in additional licences so long as financial capacity remains.

Further information on the Group's operations and prospects are set out in the Chairman's Statement.

Changes in share capital

Details of movements in share capital and options during the year are set out in note 16.

Principal risks and uncertainties facing the Group

Exploration for oil and gas is an inherently risky business. Given the Group's achievements in Uganda so far, the chance of future commercial success is quite high, although the disappointing results from the first two wells reinforces the inherent risk of the business. In Namibia, the result of processing and interpretation work has substantially improved the probability of success, and the potential reward is very high - likely to be more favourable than global averages.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

In the case of success in locating oil or gas reservoirs from exploration drilling, there is still uncertainty as to whether recoverable reserves will be high enough to support commercial development. The Uganda licence is far from population centres and natural markets but development of existing discoveries, approximately 80 km to the south and continuing intensive exploration programme within 50km, would allow any discovery to be produced via facilities in that area. This would reduce the volume of recoverable reserves required to prove commerciality. The most prospective structures in Namibia are in deep water, appear to be gas-prone and are far from potential markets. Very large reserves, in the order of 3 trillion cubic feet or more, would be required to justify development, mainly for export to major international markets. Nevertheless, the licence is interpreted to have prospects of the necessary scale.

The other significant risk for oil and gas companies is local and international commodity prices. Both oil and gas prices fell significantly from an historical high during 2008 but oil prices have increased to about \$80/bbl at the present time and this may represent a sustainable long term real price level. Prices will have, however, always behaved cyclically and there is no reason to believe that they will not vary significantly, both up and down, in the future. The present price represents an acceptable level to support continuing development investment in the future. It is also usually the case that, when commodity prices are high, the costs of exploration and development escalate. That was the case up to 2007 but when oil prices reached a subsequent low point in the cycle, operational costs reduced in response, particularly for offshore operations, and availability of equipment became easier. Uganda is a comparatively low cost environment and drilling commitment wells in Namibia is now being funded by a financially strong partner. Success in either country would still provide a favourable environment for third party funding of ongoing costs.

Results and dividends

The Group results for the year are set out in the Financial Statements.

The Group made a loss of \$1,045,779 for the year (2008 \$1,243,808). Included in the Group loss is an exceptional charge of \$335,842 relating to the cost of share-based payments (2008 \$311,378).

The Directors do not propose to recommend any dividend for the year ended 31 December 2009.

Due to the early stage of development of the Group, it is not meaningful to consider a review of financial key performance indicators ("KPIs") in respect of the period under review. Critical non-financial KPIs, at this stage, are the adherence to licence commitments and the availability of funding to meet these commitments.

Use of financial instruments

The Group's operations are funded exclusively by shareholder equity and new equity is issued on the basis of expected commitments. The Directors believe that with funds available at the reporting date and the arrangements recently concluded with operating partners, the raising of any necessary additional funds can be achieved. No other financial instruments are expected to be deployed for the foreseeable future. Other than the above, our use of financial instruments is not material for the assessment of the assets, liabilities, financial position and results of the Group.

Environmental, health, safety and social management policy

A Health Safety and Environmental (HSE) Policy is posted on the Company's website and HSE Management Systems are prepared for each operation. A comprehensive Integrated Management Plan was prepared for the Uganda seismic programme and an update has been prepared for drilling. The Group is committed to best practice, consistent with IFC guidelines and the "Equator Principles" in its management of social issues in its areas of operation. Planning to manage environmental impact is very comprehensive and adherence to the spirit as well as the letter of Environmental Impact Assessment is a fundamental aim. A comprehensive summary of Neptune's social management programme is provided below.

Neptune has wider objectives with respect to health and safety in its area of operations in Uganda. In conjunction with the Company's community consultation process (see below) local community health and safety has emerged as a priority. Specialist scoping studies have evaluated key health needs and this has led to specific emphasis in the health and water sectors. Water well refurbishment projects have been ongoing and will continue into 2009 to increase access to safe water and this is directly linked to the quality of health of the local people. This has been coupled with education of the local communities on disease control and road accident prevention practices, mainly through sensitisation visits, radio talk shows and provision of relevant information at the Arua Visitors Centre. With regard to promoting sanitation, especially among the young school going population, Neptune has supported the construction of improved, eco-friendly and long lasting latrine facilities for selected primary schools in West Nile. In respect of road safety, construction of speed control humps along the busy streets in Arua town has been supported, and as a result, the

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

number of casualties from road accidents has been dramatically reduced. Stringent controls are also being introduced for drivers engaged in Neptune's operations to limit the incidence of road accidents.

Employment Policy

The Tower Resources Group is an equal opportunity employer and does not discriminate on the basis of race, religion, gender or age. All applications for employment are considered solely on the suitability for the position. Of the Group's total employees, 34 are employed full time by the Uganda operating company, of which 32 are Ugandan nationals. Part time consultants are contracted for senior management roles, and temporary consultants are engaged as necessary for specialised services.

Tower is committed to the continuous upgrading of the skills and education of all employees and where possible, promotes from within the work force. The commitment to this employment policy has received recognition from the Ugandan Government and is upheld as an example of how foreign companies should operate within the country.

Community programmes

The Group has continued its programme of communicating with and supporting local communities in the West Nile area. There has been a wide variety of initiatives which can be categorised into five main areas:

- 1: Promote wider awareness of the company and the oil industry.**
At an early stage of its operational activities, Neptune established a Visitor Centre in the Arua main library and this required a major refurbishment programme. This had a major local impact. It is strategically located in central Arua and the improvement and restocking of the library has transformed the reading culture amongst the local communities and especially students in the West Nile region, increasing the daily attendance from 5 in previous years to an average of 140 in 2009. A modest fund has also been committed to support production of educational books on Uganda's oil industry and the Uganda "Oil Calendar" to increase the local community's awareness of the oil industry.
- 2: Establishment of a strong local identity by employing and training Ugandans in Kampala and West Nile to manage important areas of Neptune's business.**
Neptune is now recognised in Uganda for employing a very high percentage of Ugandans in the company compared to other foreign organisations currently operating in the country. The local population will continue to benefit from Neptune's commitment to developing local content participations in the country's oil industry.
- 3: Intensive consultation and communication with local communities in all areas to keep them informed of operations.**
An intensive program of community sensitisation has been carried out since early 2008 to explain the results of the seismic programme and to prepare local people for the advent of the drilling phase, with town hall meetings, school presentations, radio phone-ins and open air meetings in markets and religious venues.
- 4: Gain feedback from consultations to understand community priorities for social investments.**
Through the feedback from these meetings Neptune has been able to design projects relevant and of benefit to most citizens. Further screening through consultations with the local and central government has been undertaken to ensure consolidated support across the relevant government departments. Key initiatives are:
 - **Social investments which improve local access to fresh water and to health and safety awareness.**
Initiatives within the community are described in the previous section.
 - **Work together with local communities to initiate local commercial activities which could develop into sustainable enterprises.**
A number of pilot projects have been initiated including mosquito net fabrication, honey production, and widespread fruit tree and amaranth growing projects. Further assistance in future will be provided to facilitate the marketing of local produce.
- 5: Focus on longer term aspects of local capacity building through use of local labour and contractors and by encouraging local educational initiatives.**
Particular emphasis has been placed on training and employing local labour for many project-related operations as well as company sponsored community programmes such as tree planting and road improvements. Whenever possible, local contractors from the Licence area are employed to ensure that local capacity is developed and that income benefits spread to the impoverished communities. It is expected that

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

exploration success will lead to establishing a long term training and secondary education programme for Neptune's oil operations. Such programmes will need investment partners and, in that context, Neptune is leading an initiative to create, in partnership with Heriot-Watt University in Edinburgh, a Uganda Petroleum Institute, designed to initially provide an international MA in Petroleum Engineering, and subsequently wider skills-based qualifications.

Information to shareholders – website

The company maintains a website (www.towerresources.co.uk) to facilitate the provision of information to both current and potential investors. Management of the website has been contracted to the Company's investor relations adviser, Aquila Financial, to ensure that it is kept up to date and that all announcements are posted in a timely manner.

Political and charitable contributions

The Group does not make political contributions. It has a policy of making social investments in its areas of operations where the investment is directly or indirectly related to its impact on or engagement with communities (see above). Charitable donations would not normally be a large component of such investment.

Directors

The following Directors held office during the year:

Peter Kingston (Chairman)

Peter Taylor

Peter Blakey

Mark Savage

Jeremy Asher

Directors' Interests

The beneficial and non-beneficial interests in the Company's shares of the current Directors and their families were as follows:

	31 December 2009		31 December 2008	
	Ordinary shares of 0.1p each	Share options	Ordinary shares of 0.1p each	Share options
Peter Kingston	2,474,545	7,000,000	1,774,545	7,000,000
Peter Taylor	82,935,772	-	58,869,106	-
Peter Blakey	80,435,772	-	58,869,105	-
Mark Savage	100,000,000	-	100,000,000	-
Jeremy Asher	86,000,000	-	57,800,000	-

The directors' interests in the Company's share warrants are disclosed in note 17 of the financial statements.

Directors' Remuneration and Service Contracts

The service contracts of both Peter Taylor and Peter Blakey continue until the Company's annual general meeting in 2010. Both have indicated their willingness to continue as directors of the Company, and subject to their re-appointments being approved at the forthcoming annual general meeting their contracts will be extended until the next following annual general meeting. They are each entitled to receive £25,000 per annum in view of their active role in seeking new exploration opportunities, although they have waived payment of all fees since 1st November 2008.

In respect of the remaining non-executive directors the standard fee is £12,000 per annum. On 15 May 2009, and in order to reduce overhead costs and to improve working capital, they all agreed to waive fees which would otherwise have been paid or been payable from 1st November 2008.

Peter Kingston is the principal executive director and his service contract is subject to a three month termination period. He agreed to defer 75% of his remuneration between 1st November 2008 and 31st October 2009, since when he has been paid at the rate of £120,000 per annum.

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

The remuneration paid to the Directors during the 12 months ended 31 December 2009 was as follows

	<i>Fees/Salaries</i>	<i>Share based payments</i>	<i>2009 Total</i>	<i>2008 Total</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Peter Kingston	102,027	117,286	219,313	364,765
Peter Taylor	-	66,735	-	35,356
Peter Blakey	-	66,735	-	36,275
Mark Savage	-	32,033	-	32,057
Jeremy Asher	-	32,033	-	21,214
	<u>102,027</u>	<u>314,822</u>	<u>219,313</u>	<u>489,667</u>

Pensions

The Group does not operate a pension scheme for Directors or employees

Substantial shareholders

In accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, the Company has been notified that as at 20 May 2010 the following interests of 3% or more existed in its ordinary share capital

	<i>Number of Ordinary Shares</i>	<i>%</i>
Bayview Investments LLC	100,000,000	9.93
Agile Energy Limited	86,000,000	8.54
Peter Taylor	82,935,772	8.23
TD Waterhouse Nominees (Europe) Limited	81,227,218	8.06
Peter Blakey	80,435,772	7.99
Barclayshare Nominees Limited	61,876,371	6.14
LR Nominee Limited	42,914,714	4.26
HSDL Nominees Limited	39,246,687	3.90

Bayview Investments Limited is controlled by Mark Savage and Agile Energy Limited is controlled by The Asher Family Trust

Suppliers' payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. The Group's average creditors' payment period at 31 December 2009 was 45 days.

Going concern

Having made appropriate enquiries and examining those areas which could give rise to financial exposure, the Directors are satisfied that no material or significant exposures exist and 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.

Internal controls

The Board is responsible for identifying and evaluating the major business risks faced by the Group and for determining and monitoring the appropriate course of action to manage these risks.

TOWER RESOURCES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2009

Audit Committee

The Audit Committee meets twice each year to discuss the half yearly and annual results. For the annual results, the independent auditors, UHY Hacker Young LLP, are invited to discuss the results and their assessment of internal controls. The Chairman of the Audit Committee is Jeremy Asher and the other participating members of the Committee during the year were Peter Taylor and Peter Blakey.

Remuneration Committee

The Remuneration Committee meets on an "as required" basis and met twice during 2009. The Chairman of the Remuneration Committee is Peter Taylor and the other participating members during the year were Mark Savage and Peter Blakey.

Statement of responsibilities of those charged with Governance

The Directors are responsible for preparing the financial statements in accordance with applicable laws and International Financial Reporting Standards. Company Law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the Company and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to

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

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Group and hence for taking steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Statement of disclosure to the auditors

So far as the Directors are aware

- a) there is no relevant audit information of which the Company's auditors are unaware, and
- b) all the Directors have taken steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution proposing that UHY Hacker Young LLP be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be put to the Annual General Meeting.

By order of the board



Peter Kingston

Chairman

25th May 2010

TOWER RESOURCES PLC

DIRECTORS' BIOGRAPHIES

Peter Kingston BA (Hons) – Executive Chairman

Peter Kingston is a Petroleum Engineer having more than 40 years of experience in technical, executive and advisory roles. He has been directly engaged, as a director, in the strategic development of oil companies for over 20 years and has served as executive and non-executive director of UK-based oil and gas companies, including LSE-listed, AIM-listed and private companies. He was Joint-Managing Director of Enterprise Oil Plc from 1984 to 1992. He is currently Deputy Chairman and Senior Independent Director of Soco International Plc, the LSE-listed international E&P oil company, where he also serves as Chairman of the Audit & Remuneration Committees. As an experienced consultant in the field of corporate governance and social responsibility, he has advised various oil and gas companies and organisations on the business dimension of corporate responsibility and sustainability. He became non-executive Chairman of Tower Resources on 1 February 2006 and Executive Chairman on 5 December 2006.

Peter Taylor BSc CEng – Non-Executive

Peter Taylor is Joint Chairman of TM Services Ltd, an international oil and gas consulting company. In 1991 he became a founder member and director of TM Oil Production Ltd, now Dana Petroleum Plc, an oil and gas company listed on the Official List and one of the UK's leading independents, a position he continued to hold until 2001. He was also a founder member and director of Consort Resources Ltd, which became a significant North Sea gas production company, and of Planet Oil Ltd, which was merged with Hardman Resources Ltd in 1998. Mr Taylor was also a founder member and director of Star Petroleum Plc, which was incorporated into Global Petroleum Ltd, a dual ASX and AIM listed company. Mr Taylor was a founder member of Neptune Petroleum Ltd, of which company he remains a director.

Peter Blakey BSc CEng - Non-Executive

Peter Blakey is Joint Chairman of TM Services Ltd, an independent oil and gas consulting company. In 1991 he was founder member and a director of TM Oil Production Ltd, which is now Dana Petroleum Plc, an oil and gas company listed on the Official List and one of the UK's leading independents, a position he continued to hold until 2001. He was also a founder member and director of Consort Resources Ltd, which became a significant North Sea gas production company, and of Planet Oil Ltd, which was merged with Hardman Resources Ltd in 1998. Mr Blakey was a founder member and director of Star Petroleum Plc, which was incorporated into Global Petroleum Ltd, a dual ASX and AIM listed company with significant interest in Kenya and the Falkland Islands. Mr Blakey was a founder member of Neptune Petroleum Ltd, of which company he remains a director.

Mark Savage B.Bus – Non-Executive

Mark Savage was born and educated in the United States of America where he received a business degree from the University of Colorado and was a senior executive for a number of US banks before he joined an Australian based merchant bank. Mr Savage has experience in debt and equity markets as well as in the corporate advisory areas. He has held directorships with a number of public companies. Mr Savage is a director of Global Petroleum Ltd, a dual ASX and AIM listed company and Chairman of CGA Mining Limited which is a dual ASX and TSX listed company.

Jeremy Asher – Non-Executive

Jeremy Asher is Chairman of Agile Energy Limited, a privately held energy investment company and a director of several other energy-related companies including (until April 1st 2010) Gulf Keystone Petroleum Ltd (an AIM-listed company with interests in Algeria and Kurdistan) and Better Place BV and its subsidiary Better Place Denmark A/S (companies developing infrastructure to support mass deployment of electric vehicles). He is also a member of the London Business School's Global Advisory Council. Following several years as a management consultant, he ran the global oil products trading business at Glencore AG and then acquired, developed and sold the 275,000 b/d Beta oil refinery at Wilhelmshaven in Germany. He was CEO of PA Consulting Group between 1998 and 2001 overseeing significant expansion and globalisation of the business.

TOWER RESOURCES PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TOWER RESOURCES PLC

We have audited the Group and Parent Company financial statements of Tower Resources plc for the year ended 31 December 2009 (the "financial statements") as presented on pages 13 – 32, which comprise the Group Income Statement, the Group and Parent Company statements of changes in equity, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements and the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out herein.

This report is made solely to the Company's members, as a body, in accordance with part 3 of Chapter 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of responsibilities of those charged with Governance on page 8 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with relevant law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB) Ethical Standards for auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2009 and of the Group's profit for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

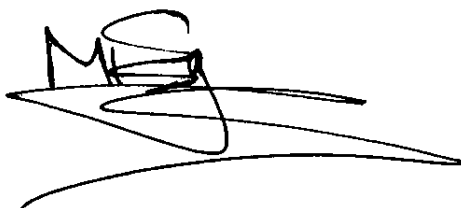
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Michael Egan (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young LLP
Chartered Accountants
Statutory Auditor
25th May 2010



TOWER RESOURCES PLC

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009**

<i>Notes</i>	<i>Year ended 31 December 2009</i>	<i>Year ended 31 December 2008</i>
	\$	\$
Continuing operations		
Revenue	-	-
Cost of sales	-	-
Gross profit	-	-
Administrative expenses before charge for share-based payments	(750,033)	(983,253)
Share-based payments	17 (335,842)	(311,378)
Total administrative expenses	(1,085,875)	(1,294,631)
Group operating loss	2 (1,085,875)	(1,294,631)
Finance income	40,096	50,823
Loss before taxation	(1,045,779)	(1,243,808)
Taxation	3 -	-
Loss for the period	(1,045,779)	(1,243,808)
Attributable to Equity holders of the Company	(1,045,779)	(1,243,808)
Loss per share (cents)	4	
Basic	(0 15) c	(0 23) c
Diluted	(0 15) c	(0 23) c

The results shown above relate entirely to continuing operations

TOWER RESOURCES PLC

GROUP & COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

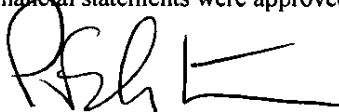
	<i>Share Capital</i> \$	<i>Share Premium</i> \$	<i>Share-based Payments Reserve</i> \$	<i>Retained Losses</i> \$	<i>Total Equity</i> \$
Group					
Balance at 1 January 2008	1,052,505	14,926,206	545,660	(2,435,240)	14,089,131
Share issues	104,443	1,519,042	-	-	1,623,485
Issue costs	-	(54,684)	-	-	(54,684)
Loss for 2008	-	-	311,378	(1,243,808)	(932,430)
Balance at 1 January 2009	1,156,948	16,390,564	857,038	(3,679,048)	14,725,502
Share issues	701,563	13,222,463	-	-	13,924,026
Issue costs	-	(583,467)	-	-	(583,467)
Loss for 2009	-	-	335,842	(1,045,779)	(709,937)
Balance at 31 December 2009	1,858,511	29,029,560	1,192,880	(4,724,827)	27,356,124
Company					
Balance at 1 January 2008	1,052,505	14,926,206	545,660	(1,452,978)	15,071,393
Share issues	104,443	1,519,042	-	-	1,623,485
Issue costs	-	(54,684)	-	-	(54,684)
Loss for 2008	-	-	311,378	(839,629)	(528,251)
Balance at 1 January 2009	1,156,948	16,390,564	857,038	(2,292,607)	16,111,943
Share issues	701,563	13,222,463	-	-	13,924,026
Issue costs	-	(583,467)	-	-	(583,467)
Loss for 2009	-	-	335,842	(526,216)	(190,374)
Balance at 31 December 2009	1,858,511	29,029,560	1,192,880	(2,818,823)	29,262,128

TOWER RESOURCES PLC

**CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2009**

	<i>Notes</i>	<i>31 December 2009</i> \$	<i>31 December 2008</i> \$
ASSETS			
Non-Current Assets			
Plant and equipment	8	142,189	154,491
Goodwill	9	8,023,292	8,023,292
Intangible exploration and evaluation assets	9	10,164,069	7,116,989
		18,329,550	15,294,772
Current Assets			
Trade and other receivables	11	1,023,737	418,794
Cash and cash equivalents		8,581,474	727,028
		9,605,211	1,145,822
Total Assets		27,934,761	16,440,594
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(578,637)	(1,715,092)
Total Liabilities		(578,637)	(1,715,092)
Net Assets		27,356,124	14,725,502
EQUITY			
Capital and Reserves			
Share capital	16	1,858,511	1,156,948
Share premium	15	29,029,560	16,390,564
Share-based payments reserve	18	1,192,880	857,038
Retained losses		(4,724,827)	(3,679,048)
Shareholders' Funds		27,356,124	14,725,502

The financial statements were approved by the Board of Directors on 25th May 2010 and signed on its behalf by



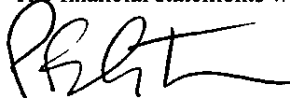
Peter Kingston
Chairman

TOWER RESOURCES PLC

**COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2009**

	<i>Notes</i>	<i>31 December 2009</i> \$	<i>31 December 2008</i> \$
ASSETS			
Non-Current Assets			
Plant and equipment	7	12,001	6,018
Loans to subsidiary undertakings	9	13,814,114	7,598,865
Investment in subsidiary undertakings	9	8,088,545	8,088,545
		21,914,660	15,693,428
Current Assets			
Trade and other receivables	11	545,328	170,024
Cash and cash equivalents		6,948,096	606,584
		7,493,424	776,608
Total Assets		29,408,084	16,470,036
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(145,956)	(358,093)
Total Liabilities		(145,956)	(358,093)
Net Assets		29,262,128	16,111,943
EQUITY			
Capital and Reserves			
Share capital	16	1,858,511	1,156,948
Share premium	16	29,029,560	16,390,564
Share-based payments reserve	18	1,192,880	857,038
Retained losses		(2,818,823)	(2,292,607)
Shareholders' Equity		29,262,128	16,111,943

The financial statements were approved by the Board of Directors on 25th May 2010 and signed on its behalf by



Peter Kingston
Chairman

TOWER RESOURCES PLC

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009**

	<i>Year ended 31 December 2009</i>	<i>Year ended 31 December 2008</i>
	\$	\$
Cash flow from operating activities		
Group operating loss for the year	(1,085,874)	(1,294,631)
Adjustments for items not requiring an outlay of funds		
Depreciation of plant and equipment	33,519	34,753
Share-based payments charge	335,842	311,378
Operating loss before changes in working capital	(716,513)	(948,500)
Decrease/(increase) in receivables and prepayments	(736,487)	1,827,765
(Decrease)/increase in trade and other payables	(1,136,454)	(1,650,039)
Cash used in operations	(2,589,454)	(770,774)
Interest received	40,096	50,824
Net cash used in operating activities	(2,549,358)	(719,950)
Investing activities		
Funds used in exploration and evaluation	(3,047,080)	(6,355,257)
Repayment of equipment deposit	131,541	874,831
Acquisition of subsidiary undertaking	-	(93,935)
Payments to purchase plant and equipment	(21,216)	(82,277)
Net cash from/(used in) investing activities	(2,936,755)	(5,656,638)
Financing activities		
Cash proceeds from issue of shares	13,924,026	1,623,485
Share issue costs	(583,467)	(54,684)
Net cash from financing activities	13,340,559	1,568,801
Increase in cash and cash equivalents	7,854,446	(4,807,787)
Cash and cash equivalents at beginning of period	727,028	5,534,815
Cash and cash equivalents at end of period	8,581,474	727,028

TOWER RESOURCES PLC

**COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009**

	<i>Year ended 31 December 2009</i>	<i>Year ended 31 December 2008</i>
	\$	\$
Cash flow from operating activities		
Operating loss	(560,673)	(860,526)
Adjustments for items not requiring an outlay of funds		
Depreciation of plant and equipment	3,292	3,004
Share-based payments charge	335,842	311,378
Operating profit/(loss) before changes in working capital	(221,539)	(546,144)
Decrease/(increase) in receivables and prepayments	(375,302)	1,889,410
(Decrease)/increase in trade and other payables	(212,140)	(1,964,386)
Cash from/(used in) operations	(808,981)	(621,120)
Interest received	34,458	20,897
Net cash from/(used in) operating activities	(774,523)	(600,223)
Investing activities		
Acquisition of subsidiary undertaking	-	(93,935)
Payments to purchase plant and equipment	(9,275)	-
Loans granted to subsidiaries	(6,215,249)	(5,668,542)
Release of guarantee deposits	-	57,500
Net cash used in investing activities	(6,224,524)	(5,704,977)
Financing activities		
Cash proceeds from issue of shares	13,924,026	1,623,486
Share issue costs	(583,467)	(54,684)
Net cash from financing activities	13,340,559	1,568,802
Increase in cash and cash equivalents	6,341,512	(4,736,398)
Cash and cash equivalents at beginning of period	606,584	5,342,982
Cash and cash equivalents at end of period	6,948,096	606,584

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated below.

1.1 Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS"), including IFRS6 'Exploration for and Evaluation of Mineral Resources' and in accordance with the Companies Act 2006. The Parent Company's financial statements have also been prepared in accordance with IFRS and the Companies Act 2006.

1.2 Going concern

During the year ended 31 December 2009 the Group made a loss of \$1,045,779 (2008 \$1,243,808). At the balance sheet date the Group had net assets of \$27,356,125 (2008 \$14,725,502).

The operation of the Group is currently being financed from funds which the Company raised from private and public placings of its shares together with monies raised under a farm-out agreement with Arcadia Petroleum Limited in respect of its Namibian licence. In addition the Group has an agreement with Global Petroleum Limited to fund the first drilling commitment well (subject to a cap) and subsequently to fund a second well.

The Directors believe that the Group will be able to secure the funds necessary to enable it to comply with its future commitments and, accordingly, are satisfied that the going concern basis remains appropriate for the preparation of these financial statements.

1.3 IFRS Standards and interpretations in issue but not yet effective

The IASB and IFRIC have issued new standards and interpretations with an effective date after the date of these financial statements. The group does not anticipate that the adoption of those standards and interpretations that are effective for the financial year ending 31 December 2010 and beyond will have a material effect on its financial statements on initial adoption, the group is evaluating the effect of those standards and interpretations that are effective subsequently. The standards and interpretations to be adopted include:

International Financial Reporting Standards (IFRS)

IFRS 1 (amended)/	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or
IAS 27 (amended)	Associate
IFRS 3 (revised 2008)	Business Combinations
IAS 28 (revised 2008)	Investments in Associates
IAS 27 (revised 2008)	Consolidated and Separate Financial Statement
Improvements to IFRSs (April 2009)	

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14 - IAS 19	The limit on defined Benefit Asset, Minimum Funding Requirements and their interaction
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a net investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners

1 4 Basis of consolidation

The consolidated financial statements incorporate the accounts of the Company and its subsidiaries and have been prepared by using the principles of acquisition accounting ("the purchase method") which includes the results of the subsidiaries from their date of acquisition. Intra-group sales, profits and balances are eliminated fully on consolidation.

1 5 Goodwill

Goodwill is the difference between the amount paid on the acquisition of the subsidiary undertakings and the aggregate fair value of their separable net assets - of which oil and gas exploration expenditure is the primary asset. Goodwill is capitalised as an intangible asset and in accordance with IFRS3 'Business Combinations' is not amortised but tested for impairment annually and when there are any indications that its carrying value is not recoverable. As such, goodwill is stated at cost less any provision for impairment in value. If a subsidiary undertaking is subsequently sold, goodwill arising on acquisition is taken into account in determining the profit and loss on sale.

1 6 Oil and Gas Exploration and Evaluation Expenditure

All exploration and evaluation costs incurred or acquired on the acquisition of a subsidiary are accumulated in respect of each identifiable project area. These costs, which are classified as intangible assets are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves (successful efforts). Other costs are written off unless commercial reserves have been established or the determination process has not been completed. Thus accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences the accumulated costs for the relevant area of interest are transferred from intangible assets to tangible assets as 'Developed Oil and Gas Assets' and amortised over the life of the area according to the rate of depletion of the economically recoverable costs.

1 7 Impairment of Oil and Gas Exploration and Evaluation Expenditure and Related Goodwill

The carrying value of unevaluated areas and the related goodwill is assessed on at least an annual basis or when there has been an indication that impairment in value may have occurred. The impairment of unevaluated prospects is assessed based on the Directors' intention with regard to future exploration and development of individual significant areas and the ability to obtain funds to finance such exploration and development.

1 8 Impairment of Developed Oil and Gas Assets

When events or changes in circumstances indicate that the carrying amount of developed oil and gas assets included within tangible assets may not be recoverable from future net revenues from oil and gas reserves attributable to that asset, a comparison between the net book value of the asset and the discounted future cash flows from the estimated recoverable oil and gas reserves is undertaken. To the extent that the carrying amount exceeds the recoverable amount, the asset is written down to its recoverable amount and the write off being charged as amortisation in the income statement.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 9 Amortisation of Developed Oil and Gas Assets

Developed oil and gas assets are amortised on a unit of production basis using the ratio of oil and gas production in the period to the estimated quantity of commercial reserves at the end of the period plus production in the period. Changes in estimates of commercial reserves or future development costs are dealt with prospectively.

1 10 Decommissioning costs

Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is recognised. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also created and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

1 11 Plant and equipment

Plant and equipment is stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life as follows:

Computers and equipment	Straight line over 4 years
Fixtures, fittings and equipment	Straight line over 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Profits or losses on disposals of plant and equipment are determined by comparing proceeds with the carrying amount and are included in the income statement.

Plant and equipment are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

1 12 Investments

The Parent Company's investments in subsidiary companies are stated at cost less provision for impairment in the Company's balance sheet.

1 13 Share based payments

The Company made share-based payments to certain directors and advisers by way of issue of share options and warrants. The fair value of these payments is calculated by the Company using the Black Scholes option pricing model. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 14 Foreign currency translation

(i) Functional and presentational currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency") which with effect from 1 January 2007 was considered by the Directors to be the U S Dollar. The effective exchange rate at 31 December 2009 was £1 = US\$1.61 (2008 £1 = US\$ 1.46).

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Transactions in the accounts of individual Group companies are recorded at the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates ruling at the balance sheet date. All differences are taken to the income statement.

1 15 Deferred taxation

Deferred income taxes are provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are determined using tax rates that have been enacted or substantially enacted and are expected to apply when the related deferred income tax asset is realised or the related deferred income tax liability is settled.

The principal temporary differences arise from depreciation or amortisation charged on assets and tax losses carried forward. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

1 16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost and comprise cash in hand, cash at bank, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are included within borrowings in current liabilities on the balance sheet. For the purposes of the cash flow statement, cash and cash equivalents also include the bank overdrafts.

1 17 Receivables

Receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets' carrying amount and the recoverable amount. Provisions for impairment of receivables are included in the income statement.

1 18 Payables

Payables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method.

1 19 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the increase of new shares or options are shown in equity as a deduction from the proceeds.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1 20 Critical accounting judgements and estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. IFRS also require management to exercise its judgement in the process of applying the Group's accounting policies.

The prime areas involving a higher degree of judgement or complexity, where assumptions and estimates are significant to the financial statements, are as follows:

Impairment of intangible assets

Determining whether an intangible asset is impaired requires an estimation of whether there are any indications that its carrying value is not recoverable.

2 Group Operating Loss

The Group's operating loss is stated after charging

	<i>Year ended</i> <i>31 December 2009</i>	<i>Year ended</i> <i>31 December 2008</i>
	\$	\$
Share-based payments charge (note 18)	335,842	311,378
Employee costs, excluding share-based payments	107,254	409,392
Rental of properties	36,225	32,625
Auditors' remuneration - audit services	30,400	29,200
- non audit services	4,100	12,830
Depreciation of plant & equipment	33,519	34,753

Non-audit fees consist of \$4,100 for reviewing the Group's interim results (2008 \$8,850 for reviewing the Group's interim results and \$3,980 for tax services)

3 Segmental reporting of Profit and Loss, Assets and Liabilities

The Group's business involves exploring for hydrocarbon liquids and gas. There are two reportable operating segments: Africa and Head Office. Fixed assets and operating liabilities are located in Africa, whilst the majority of current assets are carried at Head Office.

Each reportable segment adopts the same accounting policies.

In compliance with IFRS 8 the following tables reconcile the operational loss and the assets and liabilities of each reportable segment with the consolidated figures presented in these Financial Statements, together with comparative figures for the year ended 31st December 2008.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Year Ended 31st December 2009

	<i>Africa</i> \$	<i>Head Office</i> \$	<i>Adjustments</i> \$	<i>Consolidated</i> \$
Administration Costs	(138,298)	(578,216)	-	(716,514)
Share Related Payments	(21,020)	(314,822)	-	(335,842)
Deprecation of plant and equipment	(30,227)	(3,292)	-	(33,519)
Interest Income	5,638	34,458	-	40,096
Loss by Reportable Segment	(183,907)	(861,872)	-	(1,045,779)
Total Assets by Reportable Segment	25,160,860	29,493,239	(26,719,338)	27,934,761
Total Liabilities by Reportable Segment	(25,615,945)	(145,955)	25,183,264	(578,636)

Year Ended 31st December 2008

	<i>Africa</i> \$	<i>Head Office</i> \$	<i>Adjustments</i> \$	<i>Consolidated</i> \$
Administration Costs	(40,525)	(907,976)	-	(948,501)
Share Related Payments	-	(311,378)	-	(311,378)
Deprecation of plant and equipment	(31,749)	(3,004)	-	(34,753)
Interest Income	29,927	20,897	-	50,824
Loss by Reportable Segment	(42,347)	(1,201,461)	-	(1,243,808)
Total Assets by Reportable Segment	19,625,528	16,555,192	(19,740,126)	16,440,594
Total Liabilities by Reportable Segment	(19,916,415)	(358,093)	18,559,416	(1,715,092)

The amounts shown under 'adjustments' in the above tables represent the offsetting on consolidation of inter-segmental receivables and payables

TOWER RESOURCES PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

4 Taxation

	<i>Year ended</i> <i>31 December 2009</i>	<i>Year ended</i> <i>31 December 2008</i>
	\$	\$
Current Tax		
UK corporation tax	-	-
Total current tax charge	-	-

The tax charge for the period can be reconciled to the loss per the income statement as follows

Group loss before tax	(1,045,779)	(1,243,808)
Tax at the UK corporation tax rate of 28.5%	(298,047)	(354,485)
<i>Tax effects of</i>		
Expenses not deductible for tax purposes	107,320	93,967
Tax losses carried forward not recognised as a deferred tax asset	190,727	260,518
	-	-

Aggregate tax losses carried forward to future periods amount to approximately \$1.8 million

5 Loss per share

	<i>Year ended</i> <i>31 December 2009</i>	<i>Year ended</i> <i>31 December 2008</i>
	\$	\$
Loss for the year	(1,045,779)	(1,243,808)
Weighted average number of shares in issue	683,122,182	542,709,385
Basic loss per share	(0.15c)	(0.23c)
Diluted loss per share	(0.15c)	(0.23c)

The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basic loss per share, thus being anti-dilutive

6 Parent Company income statement

The Parent Company incurred a loss for the year ended 31 December 2009 of \$861,872 (2008 \$1,201,461) which has been included in the consolidated income statement. In accordance with the provisions of Section 408 of the Companies Act 2006, the Parent Company has not presented an income statement

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

7 Employee costs

The employee costs of the Group, including directors' remuneration, are as follows

	<i>Year ended 31 December 2009</i>	<i>Year ended 31 December 2008</i>
	\$	\$
Wages, salaries and fees	883,400	1,055,708
Social security costs	68,720	53,244
Share-based payments	335,842	311,378
	<hr/> 1,287,962	<hr/> 1,420,330

The above figures include the following amounts capitalised
as Exploration and Evaluation costs

	\$	\$
Wages, salaries and fees	781,372	658,286
Social security costs	63,494	41,274
	<hr/> 844,866	<hr/> 699,560

The total number of employees of the Group, including Directors but excluding personnel in Uganda whose remuneration is capitalised within Exploration and Evaluation costs, was

Office and administration	42	39
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Further information about the remuneration of individual Directors is shown in the Directors' Report

8 Plant and equipment

	<i>Group</i>	<i>Company</i>
Cost	\$	\$
At 1 January 2009	192,238	12,016
Additions during the year	21,217	9,275
At 31 December 2009	<hr/> 213,455	<hr/> 21,291
Depreciation		
At 1 January 2009	37,747	5,998
Provision for the year	33,519	3,292
At 31 December 2009	<hr/> 71,266	<hr/> 9,290
Net book value		
At 31 December 2009	142,189	12,001
At 31 December 2008	<hr/> 154,491	<hr/> 6,018

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

8 Plant and equipment (cont.)

Cost	Group \$	Company \$
At 1 January 2008	109,961	12,016
Additions during the year	82,277	-
At 31 December 2008	192,238	12,016
Depreciation		
At 1 January 2008	2,994	2,994
Provision for the year	34,753	3,004
At 31 December 2008	37,747	5,998
Net book value		
At 31 December 2008	154,491	6,018
At 31 December 2007	106,967	9,022

9 Intangible assets

Group:	Exploration and evaluation assets \$	Goodwill \$	Total \$
Cost			
At 1 January 2009	7,116,989	8,023,292	15,140,281
Additions	3,225,676	-	3,225,676
Amounts receivable from farm-in partners	(178,596)	-	(178,596)
At 31 December 2009	10,164,069	8,023,292	18,187,361
Amortisation and impairment			
At 1 January 2009	-	-	-
Amortisation for the year	-	-	-
Impairment loss for the year	-	-	-
At 31 December 2009	-	-	-
Net book value			
At 31 December 2009	10,164,069	8,023,292	18,187,361
At 31 December 2008	7,116,989	8,023,292	15,140,281

Goodwill arose on the acquisition of the Company's subsidiary undertakings (note 10)

The Group tests goodwill for impairment annually and when there are indicators of impairment

The amounts for intangible exploration and evaluation (E & E) assets represent expenditure incurred in relation to the Group's Ugandan, Namibian and SADR licences. These amounts will be written off to the income statement as exploration expenses unless commercial reserves are established or the determination process is not completed and there are no indicators of impairment. The outcome of ongoing exploration and evaluation, and therefore whether the carrying value of E & E assets will ultimately be recovered, is inherently uncertain.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The Directors have assessed the value of Goodwill and Intangible E & E costs and in their opinion no provision for impairment is currently necessary

10 Investments – subsidiary undertakings

Company	<i>Loans to subsidiary undertakings</i> \$	<i>Shares in subsidiary undertakings</i> \$	<i>Total</i> \$
Cost			
At 1 January 2009	7,598,865	8,088,545	15,687,410
Advances during the year, less amounts written off	6,215,249	-	6,215,249
At 31 December 2009	13,814,114	8,088,545	21,902,659

The loans to subsidiary undertakings have no fixed repayment terms but are repayable in more than one year

Under the terms of the agreement for the purchase during 2008 of Comet Petroleum Ltd (“Comet”), additional consideration may be payable in the future depending upon the success of Comet’s evaluation and exploration activities, although it is not possible at this stage to quantify with any accuracy such additional prospective consideration. Through its wholly owned subsidiary, Comet Petroleum (SADR) Limited, Comet is investigating the possibilities for participation in oil and gas exploration in the Saharawi Arab Democratic Republic in the Western Sahara.

The Company’s directly and indirectly held subsidiary undertakings as at 31 December 2009 are

<i>Subsidiary undertaking</i>	<i>Principal activity</i>	<i>Country of Incorporation</i>	<i>Percentage of ordinary share capital held</i>
Neptune Petroleum Limited	Holding company	England	100%
Neptune Petroleum (Uganda) Limited	Oil and gas exploration	BVI	100%
Neptune Petroleum (Namibia) Limited	Oil and gas exploration	BVI	100%
Comet Petroleum Limited	Holding company	BVI	100%
Comet Petroleum (SADR) Limited	Oil and gas exploration	BVI	100%
Tower Resources (Tanzania) Limited	Oil and gas exploration	BVI	100%

As the fair values of the Company’s licences cannot be measured reliably, the intangible assets purchased have been subsumed within the amount of the purchase price attributable to goodwill. The Directors have assessed the carrying value of the subsidiary company investments and in their opinion no impairment provision is currently considered necessary.

TOWER RESOURCES PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

11 Trade and other receivables

	<i>31 December 2009</i>		<i>31 December 2008</i>	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Other receivables	1,023,737	366,732	287,253	170,024
Equipment deposit	-	-	131,541	-
	<u>1,023,737</u>	<u>366,732</u>	<u>418,794</u>	<u>170,024</u>

12 Trade and other payables

	<i>31 December 2009</i>		<i>31 December 2008</i>	
	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
Payables and accruals	578,637	145,956	632,865	358,093
Withholding tax payable	-	-	1,082,227	-
	<u>578,637</u>	<u>145,956</u>	<u>1,715,092</u>	<u>358,093</u>

Neptune Petroleum (Uganda) Ltd has completed a return of its Ugandan withholding tax liabilities and following a payment of \$596,259 at the end of November 2009 is satisfied that there is no further amount payable. The former farm-in partner in Uganda, ORCA Petroleum Limited, has met its agreed share of that amount (\$178,596) and this has been included in these financial statements.

13 Financial instruments

Interest Rate risk

At 31 December 2009 the Group had US Dollar cash deposits of \$1,698,171, Pound Sterling cash deposits of a US Dollar equivalent of \$6,866,273, Euro cash deposits of a US Dollar equivalent of \$491, and Ugandan Shillings cash deposits of a US Dollar equivalent of \$16,539. The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

	<i>31 December 2009</i>		<i>31 December 2008</i>	
	<i>Floating interest rate</i>	<i>Non - Interest Bearing</i>	<i>Floating interest rate</i>	<i>Non - Interest Bearing</i>
	<i>\$</i>	<i>\$</i>	<i>\$</i>	<i>\$</i>
<i>Financial assets</i>				
Cash at bank	7,807,349	774,125	9,297	157,731

The effective weighted average interest rate received during the year was approximately 2%.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

Financial liabilities

At 31 December 2009, the Group had no debt

Net Fair Value

The net fair value of financial assets and financial liabilities approximates to their carrying amount as disclosed in the balance sheet and in the related notes

Currency Risk

The functional currency for the Group's operating activities, including drilling activities, is the US Dollar. The Group's objective in managing currency exposures arising from its net investment overseas is to maintain a low level of borrowings. The Group has not hedged against currency depreciation but continues to keep the matter under review.

Financial risk management

The Directors recognise that this is an area in which they may need to develop specific policies should the Group become exposed to further financial risks as the business develops.

Capital risk management

The Group considers capital to be its equity reserves. At the current stage of the Group's life cycle, the Group's objective in managing its capital is to ensure funds raised meet the exploration expenditure commitments.

The Group ensures it is meeting its objectives by reviewing its KPIs to ensure its exploration activities are progressing in line with expectations, controlling costs and placing unused funds on deposit to conserve resources and increase returns on surplus cash held.

14 Exploration expenditure commitments

In order to maintain an interest in the oil and gas permits in which the Group is involved, the Group is committed to meet the conditions under which the permits were granted. The timing and amount of exploration expenditure commitments and obligations of the Group are subject to the work programme required as per the permit commitments and may vary significantly from the forecast based upon the results of the work performed. Exploration results in any of the projects may also result in variation of the forecast programmes and resultant expenditure. Such activity may lead to accelerated or decreased expenditure. It is the Group's policy to seek joint operating partners at an early stage so as to reduce its commitments.

All future exploration and evaluation commitments in Namibia continue to be funded by Arcadia Petroleum Limited, with Tower retaining a 15% interest in the Licence.

	31 December 2009		31 December 2008	
	Group \$	Company \$	Group \$	Company \$
Aggregate amount at the Balance Sheet date				
Payable within not more than one year	-	-	12,000,000	-
Payable between one and two years	7,000,000	-	-	-
	<u>7,000,000</u>	<u>-</u>	<u>12,000,000</u>	<u>-</u>

15 Decommissioning expenditure

The Directors have considered environmental issues and the need for any necessary provision for the cost of rectifying any environmental damage, as might be required under local legislation and the Group's license obligations. In their view, no provision is necessary at 31 December 2009 for any future costs of decommissioning or any environmental damage.

TOWER RESOURCES PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

16 Share capital and options

	<i>31 December 2009</i>	<i>31 December 2008</i>
	\$	\$
Authorised		
10,000,000,000 ordinary shares of 0.1p each	19,900,000	19,900,000
Allotted, called up and fully paid		
1,007,162,756 (2008: 589,329,422) ordinary shares of 0.1p each	1,858,511	1,156,948

The share capital issues during 2009 are summarised as follows

	<i>Number of 0.1p shares</i>	<i>Share capital at nominal value \$</i>	<i>Share premium \$</i>
At 1 January 2009	589,329,422	1,156,948	16,390,564
Shares issued for cash	417,833,334	701,563	13,222,463
Cost of share issues	-	-	(583,467)
At 31 December 2009	1,007,162,756	1,858,511	29,029,560

The details of share options outstanding at 31 December 2009 are as follows

	<i>Number of Share options</i>
At 1 January 2009	13,000,000
Granted during the period	-
Exercised during the period	-
Lapsed during the period	-
At 31 December 2009	13,000,000

Date of Grant	Number of options	Option price	Exercisable between
2 February 2006	1,000,000	1.5p	2/02/07 – 2/02/11
2 February 2006	2,000,000	1.5p	2/02/09 – 2/02/11
9 February 2007	1,000,000	3.125p	9/02/07 – 9/02/12
3 May 2007	3,000,000	2.25p	3/05/08 – 3/05/12
20 September 2007	2,000,000	2.75p	20/09/08 – 20/09/12
1 July 2008	1,000,000	4.75p	1/07/08 – 1/07/13
1 October 2008	3,000,000	3.88p	1/10/08 – 1/10/13

The Company's share price ranged between 1.80p and 7.25p during the year. The closing share price on 31 December 2009 was 3.876p per share.

17 Share Warrants

On 15 May 2009, and in order to reduce overhead costs and to improve working capital, the Directors agreed to waive fees which would otherwise have been paid or been payable for the period between November 2008 and April 2010. In consideration of that waiver on 15 May 2009, the Company issued to the Directors 3,966,668 warrants which are exercisable between 20 April 2010 and 20 April 2012 at a price of 3.00p per share, and on 15 December 2009, the Company issued to the Directors 2,235,318 warrants which are exercisable between 15 December 2010 and 15 December 2012 at a price of 2.55p per share.

TOWER RESOURCES PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009**

The fees waived (expressed in US\$ at the rate of exchange of 1.64 – the average of the two rates prevailing at the dates of grant of the warrants) and the warrants issued were as follows

Name	Fees for Period		Total Fees Waived	No of Warrants issued
	Nov 2008 – Oct 2009	Nov 2009 – Apr 2010		
	\$	\$	\$	
Peter Kingston	73,800	32,800	106,600	2,284,318
Peter Blakey	41,000	20,500	61,500	1,323,534
Peter Taylor	41,000	20,500	61,500	1,323,534
Mark Savage	19,680	9,840	29,520	635,300
Jeremy Asher	19,680	9,840	29,520	635,300
	195,160	93,480	288,640	6,201,986

In addition, 333,334 warrants were issued to Marilyn Hill, the General Manager of the Group's Uganda operations, in consideration of her waiving remuneration in respect of the period May 2009 through October 2009 totalling \$16,400. These warrants are also exercisable between 20 April 2010 and 20 April 2012 at 3.00p per share.

18 Share-based payments

	2009	2008
	\$	\$
The Group recognised the following charge in the income statement in respect of its share based payment plans		
IFRS 2 charge	335,842	311,378

The above charge is based on the requirements of IFRS 2 on share-based payments. For this purpose, the weighted average estimated fair value for the share options and warrants granted was calculated using a Black-Scholes option pricing model in respect of options. The volatility measured at the standard deviation of expected share price return is based on statistical analysis of the share price over the year ended 31 December 2009 and this has been calculated at 131%. The risk free rate has been taken as 0.5%. The estimated fair values and other details which have been processed into the model are as follows:

Number of options	Grant date	Option price	Fair value	Expected exercise dates
3,000,000	2/02/06	1.5p	2.23p	2/02/11
1,000,000	9/02/07	3.125p	3.3p	9/02/12
3,000,000	3/05/07	2.25p	2.14p	3/05/12
2,000,000	20/09/07	2.75p	2.78p	20/09/12
1,000,000	1/07/08	4.75p	4.50p	1/07/13
3,000,000	1/10/08	3.88p	4.20p	1/10/13
Number of warrants	Grant date	Warrant price	Fair value	Expected exercise dates
4,300,002	20/04/09	3.00p	4.26p	20/04/12
2,235,318	15/12/09	2.55p	1.78p	15/12/12

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

19 Related party transactions and compensation of key management personnel

TM Services Limited ("TM") is controlled by two directors of the Company, Mr Peter Blakey and Mr Peter Taylor. Included in the Group's operating loss is an amount of \$122,744 (2008 \$112,447) paid to TM in respect of charges for office accommodation, secretarial and administration charges.

Key management of the Group are considered to be the Directors of the Company. There are no transactions with the Directors other than their remuneration and interests in shares and share options. The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is shown in the Directors' Report.

	<i>Year ended</i> <i>31 December 2009</i>	<i>Year ended</i> <i>31 December 2008</i>
	\$	\$
Short-term employee benefits	102,027	340,890
Share-based payments	314,822	148,777
	<hr/>	<hr/>
	416,849	489,667
	<hr/>	<hr/>

20 Control

The Company is under the control of its shareholders and not any one party.

21 Post Balance Sheet Events

As set out in the Chairman's Statement, the Company's second well drilled in Uganda failed to encounter hydrocarbons and was plugged and abandoned on 27 February 2010. However, the Directors have concluded that the information obtained from the two wells demonstrates considerable exploration potential in the Licence. The Company has therefore made formal application for renewal of its Exploration Area 5 Licence and this has been granted by the Minister of Energy and Mineral Development of the Government of Uganda.

The Company has commenced planning a new aerial gravity gradiometry survey, the interpretation of which will provide the basis for selecting the location for a third well. This survey is due to begin within the next month and the cost will be funded from available cash resources.