

TOWER RESOURCES PLC

GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

TOWER RESOURCES PLC

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TOWER RESOURCES PLC

DIRECTORS, SECRETARY AND ADVISERS

Directors:	Peter Kingston	Executive Chairman
	Peter Taylor	Non-Executive
	Peter Blakey	Non-Executive
	Mark Savage	Non-Executive
	Jeremy Asher	Non-Executive

Company Secretary: John Bottomley

Company Number: 05305345

Registered Office: One America Square
Crosswall
London EC3N 2SG

Nominated Adviser and Broker: Northland Capital Partners
60 Gresham Street
London EC2V 7BB

Joint Broker: Evolution Securities Ltd
100 Wood Street,
London, EC2V 7AN

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
Level 27
1 Churchill Place
London E14 5HP

TOWER RESOURCES PLC

CHAIRMAN'S STATEMENT

Dear Shareholders

The next twelve months are going to be the most exciting in the Company's history, building up to the definitive test of the Namibia project potential with the drilling of the first well scheduled for early in 2012. As announced on 8 July 2010, an independent Competent Person Report (CPR) on the Namibia venture, based on 2-D seismic data, confirmed the world class scale and quality of the Licence and concluded that the Delta structure, currently being prepared for drilling, has a 26% chance of finding 2.4 billion barrels of oil equivalent ("boe") gross recoverable resources from the most clearly defined reservoir horizon. The report also confirmed significant prospective resources in less well defined horizons in the Delta structure and in the Alpha and Gamma structures. In combination, the latter two leads would hold about 5 billion boe of un-risked gross recoverable resources. Such potential represents truly exciting exploration targets. The interpretation of 3-D seismic data has further confirmed that potential, and an updated CPR is expected to be completed in mid-June 2011.

While Namibia will provide the greatest excitement, a third well is also planned in Uganda which could create significant additional shareholder value. This well appears to have a better chance of success than the first two, based on interpretation of the cumulative evidence to date. A high resolution aero gravity gradiometry ("GGI") survey was completed during July 2010, with final interpretation finalised in December. The interpreted data clearly indicates an area where basin depth plunges to about 2,500 metres and this is expected to be favourable for the generation of hydrocarbons. It also highlighted a clearly defined structural high not too far from the newly defined kitchen. This interpretation has provided the basis for a focused seismic programme, which is about to begin.

Meaningful progress with prospective farm-in partners for the Uganda Licence was delayed whilst discussions about completion of the Heritage/Tullow transaction and the subsequent sale of assets by Tullow to Total and CNOOC remained unresolved. To avoid serious delay to the commitment programme and to meet the budgeted cost of the seismic programme which is due to begin shortly, the Company raised approximately £4.28 million by way of a share placing in February 2011. The tax negotiation has now been sufficiently well resolved to allow development of the substantial reserves discovered in the Albertine Graben to date to continue, and a farm in partner is now being actively sought for the EA5 commitment well.

Financial Highlights and Going Concern

The Group's loss for the year ended 31st December 2010 was \$1,311,453, an increase of \$265,674 over the corresponding period for 2009. Capital expenditure on exploration studies, drilling operations, licence management costs and licence fees amounted to \$7,966,961 after receiving \$1,851,180 from farm-in partners. Cash balances at 31 December 2010 totalled \$1,213,428.

All operational expenditure for the Namibian project during the year was met by the Licence operator, Arcadia Petroleum and Tower's financial carry will continue until completion of the first well and, if this is successful, a second well. The Group continues to operate in Uganda and is liable to meet the ongoing operating costs of its local operating subsidiary until funding for forward operational commitments is secured. The remaining commitment is a well which needs to be started before 27 March 2012. The current strategy remains to reach agreement with third parties to fully fund this well, which the current programme calls to be drilled before the end of 2011. The Company is part way through a farm-out process coordinated by ENVOI, a consultancy specialising in identifying funding partners for exploration programmes. Global Petroleum Plc retains, but has not yet exercised, an option under agreed terms to become a 25% licensee and to participate in future operations. If it elects to participate in the current seismic and the commitment well it will be liable for its share of costs incurred since completing Avivi-1.

In February 2011, and in advance of securing external funding for Uganda operations, the Company raised cash of \$6,882,745 net of costs via a share placement. This funding will enable it to meet the projected cost of the seismic project and working capital requirements for the next 12 months. The Board is confident that the Uganda commitment well can be funded within the remaining duration of the Licence term.

Operations Summary to end 2010

Namibia

The seismic vessel, "Geowave Master", arrived on location on Monday 28 June 2010 to begin the 3-D seismic acquisition programme and completed the survey on 6 September 2010. The data quality is excellent and processing was completed early in 2011.

TOWER RESOURCES PLC

CHAIRMAN'S STATEMENT *Continued*

The Company commissioned an independent review of its interest in Namibia Licence 0010 by Oilfield International Limited ("OIL") in mid-2009 and, after receiving an interim report early in 2010, asked for the study to be upgraded into a full Competent Persons Report. This was completed and a summary was published on 8 July 2010. The assessment by OIL has been undertaken in compliance with the SPE Petroleum Resources Management System (SPE-PRMS). OIL reviewed the work undertaken by Arcadia and Tower and where relevant, undertook technical analysis of their own to accommodate their own wide and relevant experience, particularly of the Brazilian basins, which may be analogous in certain respects to those in northern Namibia. OIL have calculated prospective resources based on seismic data, well data from two wells drilled on the Licence in the early 1990s and the judgement of its relevant specialists.

OIL confirmed the main structural features as Delta (at two separate levels, Maastrichtian and Palaeocene) and Alpha and Gamma (at the Palaeocene level only) but, also, some significant, high risk resource potential in stratigraphic features between the main 4-way dip closed anticlines. The main conclusions were as follows:

- The Delta structure at Maastrichtian level ("DeltaM") is classified as a prospect, which, in a technical sense, means it is suitable to drill without further information – the Delta, Gamma and Alpha structures at Palaeocene level are classified as leads, which require further information to raise them to prospect level.
- OIL has used the seismic data, the two Namibian discoveries and regional data to evaluate the likelihood that the reservoirs would be predominantly light oil-bearing with a possible gas cap; gas condensate-bearing or dry gas-bearing. For Delta, OIL concludes probabilities of 50%, 40% and 10% respectively. All other structures are rated 45%, 44% and 11% respectively.
- Prospective resources for the prospect and leads at the 50% probability level have been estimated as follows:
 - In the event of light oil, gross recoverable resources amount to 7.55 billion barrels and 12.4 trillion scft of natural gas. Net figures for Tower are 1.08 billion barrels and 1.8 trillion scft of natural gas.
 - In the event of gas condensate, gross resources amount to 765 million barrels and 28.5 trillion scft of natural gas. Net figures for Tower are 109 million barrels and 4.1 trillion scft natural gas.
 - In the event of dry gas, gross resources amount to 67 million barrels and 27.8 trillion scft natural gas. Net figures for Tower are 10 million barrels and 3.9 trillion scft natural gas.
- OIL have engineered the most likely development approach and associated capital cost, operating cost and production profiles for each case together with currently traded oil and gas prices (gas into Europe), escalated to 2020 first production and beyond. They have calculated NPV 10% after-tax values on that basis for each case. Each has been valued on an independent standalone basis to avoid trying to determine economies of shared facilities.
- The final step has been to estimate a geological chance of success ("COS") for each structure. This has made use of all basic technical information but also an intensive review of the AVO data, in particular interpretations prepared by consultants to Arcadia. DeltaM has been assessed as having a 26% COS; DeltaP 8% COS; GammaP a 12% COS; and AlphaP a 20% COS. An economic confidence factor of about 85% was then applied to the geological COS's to calculate the economic COS used in the EMV calculations.

OIL have estimated that the net risked prospective resources attributable to Tower's 15% working interest of Namibia Licence 0010 is 170 million barrels of oil equivalent, having an EMV of US\$696 million (UK£0.38 per share).

Uganda

On 1 March 2010 the Company announced that it had completed operations on the Avivi-1 exploration well in Uganda Licence EA5. The well was plugged and abandoned and the rig released on 27 February. The well, which was drilled to a total depth of 764 metres, did not encounter oil, but persistent methane gas traces were encountered. Water was recovered from the target reservoir interval using a wireline fluid sampler and electric logging confirmed the absence of oil and gas.

Avivi-1 demonstrated a thick interval of organically rich clays which could be good quality source for oil generation, if present at greater depth. It could also provide an effective seal where covering a viable structural trap. Laboratory analysis of the water sample indicated evidence of hydrocarbon signatures. The GGI survey confirmed a potential hydrocarbon kitchen beyond the coverage of existing data which is large enough to supply a commercial scale oil accumulation. A working petroleum system has therefore now been confirmed based on independent analysis of all available geochemical and geophysical data and this represents a significant de-risking of the presence of hydrocarbons. The quality of reservoir sands at the Avivi-1 location was poor but reservoir characteristics were more consistent with the objective river channel facies than reservoirs encountered at the first well. The lack of good quality reservoir at either well location increases the emphasis on identifying structures close to the deepest area of the basin, where the chances of encountering better reservoir are improved.

Wireline pressure data from Avivi-1 has also given a reliable aquifer pressure and pressure gradient in the aquifer. This matches exactly with the equivalent data in EA1 indicating that there may be regional connectivity at reservoir target level. The water sample and pressures obtained from Avivi-1, when combined with Iti-1 well data, confirm the likelihood that Iti-1 contains oil to a possible structural spill point in poor quality reservoir. The water analyses have allowed reinterpretation of Iti-1 electrical logs and this confirms the possible presence of some hydrocarbons in the Iti-1 basal sand. This could be consistent with effective, connected porosity being much lower than the total porosity. These conclusions do not imply any commercial significance at Iti-1 but are positive for the potential of a future oil discovery elsewhere in EA5.

Sedimentology studies also indicate that the basin history is consistent with acceptable reservoir quality being present within the Licence and that the poor quality reservoirs located in the first two wells may not prove to be the norm. Results from the GGI survey are consistent with the conclusion that both well locations may not have been ideal for preservation of reservoir quality.

Since Year End and Looking Forward

Namibia

The 3-D seismic interpretation was largely completed by mid-April 2011 – this work evaluated structural mapping, prospect definition and mapping of AVO anomalies. Clear structural closure, sustained reservoir thickness and direct hydrocarbon indicators – AVO anomalies and pock marks - have been confirmed at the main Maastrichtian prospect level. Additional potential is confirmed at the Palaeocene horizon (defined as a lead in the Competent Persons Report (CPR)) but also at two other formations deeper than the Maastrichtian, viz the Campanian and Albian. The remaining interpretation work focusing on detailed fine tuning of the AVO attributes to get the best possible understanding of the significance of hydrocarbon indicators in determining optimum well locations and estimating a chance of success. The interpretation is sufficiently complete to begin an updated CPR and for Arcadia to begin funding activities. A farm out programme is underway but alternative funding options are being considered. There is scope to share a drilling rig with operators of nearby Licences and relevant discussions have been held. At present, it appears that suitable rigs will be available when required, early in 2012.

Uganda

A contract for the 2-D seismic programme of 150-200 kms has been signed with TESLA-IMC International Limited - line clearance is due to begin shortly. Completion of acquisition and processing is targeted for mid-July 2011, by which time a well location can be selected. A high density geochemical survey, conducted by GORE Geochemical Surveys, was completed at the end of April over the prospect area together with focussed sampling around the two existing wells and an oil-bearing well in EA1. Interpretation is scheduled for completion by the end of June. The Environmental Impact Assessment and early operational planning for a third well have begun.

With the uncertainty with respect to long term development planning in Uganda having been resolved, a final phase of the farm out programme has been initiated. The Company has raised additional equity capital to undertake the seismic programme in time for a well to be drilled in October 2011, subject to rig availability.

Future Outlook

The next year will determine Tower's future. Our Namibian Licence is independently confirmed to have world class potential, having three giant simple structures, with areas between 350 and 950 square kilometres, and strong hydrocarbon indications from seismic data. Such prospects are extremely rare in our industry. The drilling of a well in Namibia is planned for early in 2012 and success would transform the value of your Company. Uganda still has genuine potential and there is good reason to believe that a location can be found for a well to be drilled within six months to test potential resources of about 100 million barrels. A discovery of that scale could add significant shareholder value.

Thank you for your continuing support.

Peter Kingston
Chairman

May 17th 2011

TOWER RESOURCES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and the independent auditors' report, for the year ended 31 December 2010.

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 Tower Group's (Tower's) principal activity is the exploration for oil and gas in Africa, conducted through operating subsidiaries in Uganda and Namibia, Neptune Petroleum (Uganda) Limited and Neptune Petroleum (Namibia) Limited respectively (more generally referred to as Neptune). 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, Tower 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. Tower has elected to continue into the Third Exploration Period, for which the commitment is some seismic and one exploration well. A two year extension to the First Exploration Period for the Namibian licence was agreed in September 2007 after 735 km 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 has been completed and processed data is in the final stages of interpretation. Plans, including funding activities by Arcadia, are currently underway so that a first well can be drilled by March 2012. It is intended to apply to continue into the Second Exploration Renewal Period, effective from the end of August 2011.

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 EA5. 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. An aero gravity gradiometry survey completed in 2010 has confirmed the probable presence of an oil generation kitchen and a prospective structurally high area which could be sourced by that kitchen. Seismic operations are underway to confirm a well location. Total and CNOOC have each purchased one third of the enlarged Tullow Licences and are contributing technical expertise and funding to future development operations. This infrastructure should be available to any oil discovered in EA5. The Namibian licence is far from any existing discoveries of oil or gas and may require a very large discovery to meet the threshold of commerciality. 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. An independent Competent Persons Report (CPR) has supported this expectation. Any significant discovery would require extensive infrastructure development and production would be unlikely to commence before 2020.

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. Tower is confident that future licence commitments will continue largely to be met by existing or new partners as the situation may dictate. Tower is intending to participate in additional licences so long as financial capacity remains.

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

TOWER RESOURCES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Changes in share capital

Details of movements in share capital, share options and share warrants during the year are set out in notes 16 and 17.

Principal risks and uncertainties facing the Group

Exploration for oil and gas is an inherently risky business and is subject to risks including discovery of economic resources, delays in work programme plans and schedules, changes in market conditions affecting the oil and gas industry or price levels, the outcome of commercial negotiations and technical or operating factors, political, environmental and regulatory controls and approvals, and availability and retention of suitable employees and consultants. Any one or more of these risk factors could have a materially adverse impact on the value of the Group.

Based on the Group's achievements in Uganda so far, the chance of future commercial success remains reasonable 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.

Results and dividends

The Group results for the year are set out on page 15.

The Group made a loss of \$1,311,453 for the year (2009: \$1,045,779). Included in the Group loss is an exceptional charge of \$180,921 relating to the cost of share-based payments (2009: \$335,842).

The Directors do not recommend a dividend for the year ended 31 December 2010 (2009: Nil).

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 those 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 the Uganda social management programme is provided below.

The Group has wider objectives with respect to health and safety in its area of operations in Uganda. In conjunction with its community consultation process (see below) local community health and safety has emerged as a priority. Water well refurbishment projects have increased 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. In respect of road safety, "road safety days" are being introduced at which Neptune funds the rehabilitation of bicycles (the major local personal transport tool) and sensitises the local communities on road safety. With regard to promoting sanitation, especially among the young school going population, Neptune Uganda has supported the construction of improved, eco-friendly and long lasting latrine facilities for selected primary and secondary schools in West Nile.

Community programmes

The Group has continued its programme of communicating with and supporting local communities in the West Nile area of Uganda. Below is a brief overview of our main community programmes.

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2010**

1: Promoting oil industry focused training programmes and wider awareness of the company.

In addition to information dissemination to grass root communities through radio talk shows, meetings and the brochure information provided at the Arua Visitors Centre, Neptune is working with several corporate groups to increase development focused understanding of the oil industry. Some of the key groups include the Uganda Chamber of Mines and Petroleum, the American Chamber of Commerce in Uganda, the British High Commission UK Trade and Investment and the Uganda Presidential Investors Round-table at which Neptune has made industry awareness presentations. Participation and presentation of papers at international conferences is also a strong avenue for information dissemination and Neptune participated fully at the 5th East African Petroleum Conference and Exhibition that was held in Kampala in February 2011, presenting two oral papers and one poster presentation.

Particular emphasis has been placed on encouraging local and international service providers in the upstream oil industry to introduce and subsidise customised capacity building training courses and setting up local offices and employing Ugandans. Although Neptune's early efforts to encourage the establishment of the Petroleum Institute through a partnership with Heriot-Watt University in Edinburgh did not lead to the establishment of the institute, the feasibility study that was largely funded by Neptune for that partnership was a significant tool that was used to successfully attract a private entity that has now set up the International University of East Africa which, among other courses, is designed to offer degrees related to the petroleum discipline and could be a centre of excellence for training in petroleum studies in East Africa.

2: Maintaining a strong local identity through promoting local content development, national participation in the industry and communal benefit social investments

Neptune is well recognised in Uganda for spearheading national participation in the industry through employing and training Ugandans to participate in senior positions in the company's structure and through supporting and funding relevant training opportunities for company employees and contractor workers contributing to the overall national capacity building strategy for the local oil industry. Overall, Neptune's Uganda operation is 95% Ugandan employees.

Our regular meetings with the local communities have continued to provide an important avenue for obtaining feedback on the impact of the selected social projects in improving the livelihoods of the local people particularly those living nearest to our areas of operation. Social investments which improve access to fresh water, sanitation facilities, security for important health and education infrastructure and health and safety awareness campaigns have remained high on the lists of priorities.

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). The Board believes that such investment is effective in facilitating its operations. Charitable donations would not normally be a large component of such investment.

TOWER RESOURCES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

Directors

The following Directors held office during the year:

Peter Kingston (Chairman)
 Peter Taylor (Non-executive)
 Peter Blakey (Non-executive)
 Mark Savage (Non-executive)
 Jeremy Asher (Non-executive)

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 2010		31 December 2009	
	<i>Ordinary shares of 0.1p each</i>	<i>Share options</i>	<i>Ordinary shares of 0.1p each</i>	<i>Share options</i>
Mark Savage	100,000,000	-	100,000,000	-
Jeremy Asher	87,500,000	-	86,000,000	-
Peter Taylor	85,985,772	-	82,935,772	-
Peter Blakey	83,485,772	-	80,435,772	-
Peter Kingston	2,474,545	7,000,000	2,474,545	7,000,000

In addition to the Directors' interests in share options shown above, their interests in share warrants are disclosed in note 17 to the financial statements.

Directors' remuneration and service contracts

The service contract of Peter Kingston continues until the Company's annual general meeting in 2011. He has indicated his willingness to continue as a director of the Company, and subject to his re-appointment being approved at the forthcoming annual general meeting his contract will be extended until the next following annual general meeting.

Peter Blakey and Peter Taylor 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 the major part of their fees since 1 November 2008 in consideration of the grant to them of share warrants. From the same date, each of the other non-executive Directors has agreed to waive their standard fee of £12,000 per annum which would otherwise have been paid or been payable from 1st November 2008 in consideration for the allotment of share warrants (see note 17 to the financial statements).

Peter Kingston is the principal executive director and his service contract is subject to a three month termination period. During the year ended 31 December 2010 his fees payable were £120,000 per annum. He agreed that fees for four months were waived with the grant of share warrants (see note 17).

The remuneration paid to the Directors during 2010 is shown below.

	<i>Fees/Salaries</i>	<i>Share based payments</i>	<i>2010 Total</i>	<i>2009 Total</i>
	\$	\$	\$	\$
Peter Kingston	122,750	29,000	151,750	219,313
Peter Taylor	-	29,000	29,000	66,735
Peter Blakey	-	29,000	29,000	66,735
Mark Savage	-	17,400	17,400	32,033
Jeremy Asher	-	17,400	17,400	32,033
	<u>122,750</u>	<u>121,800</u>	<u>244,550</u>	<u>416,849</u>

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

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 12th May 2011 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	8.91
Agile Energy Limited	87,500,000	7.80
Peter Taylor	85,985,772	7.66
Peter Blakey	83,485,772	7.44
TD Waterhouse Nominees (Europe) Limited	82,946,424	7.39
Barclayshare Nominees Limited	57,834,406	5.15
LR Nominee Limited	47,408,989	4.22

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 2010 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 access to adequate resources to enable it to continue its operations for at least the next 12 months from the date of approval of this report. For this reason the Directors continue to adopt the going concern basis in preparing the accounts. Further discussion on going concern is included within note 1.2 on page 21.

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.

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 once during 2010. 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;

TOWER RESOURCES PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2010

- 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 all 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

17 May 2011

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 Pacific Drilling SA and (until 1 April 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.

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 2010 (the "financial statements"), which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, together with 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 under 'Statement of Responsibilities of those charged with Governance' on pages 11 and 12 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the Group's affairs.

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/private.cfm

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 2010 and of the Group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1.2 to the financial statements concerning the Group's and Company's ability to continue as a going concern. The Group incurred a loss of \$1,311,453 during the year ended 31 December 2010 and is still incurring losses. Along with similar sized exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches. As discussed in note 1.2 the Company will need to raise further funds in order to meet its budgeted operating, seismic and drilling costs for the next year. These conditions, along with other matters discussed in note 1.2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

**INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF TOWER RESOURCES PLC (CONTINUED)**

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Colin Wright (Senior Statutory Auditor)

For and on behalf of UHY Hacker Young LLP

Chartered Accountants

Statutory Auditor

17 May 2011

TOWER RESOURCES PLC

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Notes</i>	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
		\$	\$
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit			
Administrative expenses before charge for share-based payments		(1,171,593)	(750,033)
Share-based payments	18	(180,921)	(335,842)
Total administrative expenses		(1,352,514)	(1,085,875)
Group operating loss	2	(1,352,514)	(1,085,875)
Finance income		41,061	40,096
Loss before taxation		(1,311,453)	(1,045,779)
Taxation	4	-	-
Loss for the period		(1,311,453)	(1,045,779)
Other comprehensive income		-	-
Total comprehensive income		(1,311,453)	(1,045,779)
Attributable to: Equity holders of the Company		(1,311,453)	(1,045,779)
Loss per share (cents)	5		
Basic		(0.13)c	(0.15) c
Diluted		(0.13)c	(0.15) c

The results shown above relate entirely to continuing operations.

TOWER RESOURCES PLC

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Share Capital</i> \$	<i>Share Premium</i> \$	<i>Share-based Payments Reserve</i> \$	<i>Retained Losses</i> \$	<i>Total Equity</i> \$
CONSOLIDATED					
Balance at 1 January 2009	1,156,948	16,390,564	857,038	(3,679,048)	14,725,502
Share issues less costs	701,563	12,638,996	-	-	13,340,559
Total comprehensive income for the year	-	-	335,842	(1,045,779)	(709,937)
Balance at 1 January 2010	1,858,511	29,029,560	1,192,880	(4,724,827)	27,356,124
Share issues less costs	38,900	1,017,660	-	-	1,056,560
Total comprehensive income for the year	-	-	180,921	(1,311,453)	(1,130,532)
Balance at 31 December 2010	1,897,411	30,047,220	1,373,801	(6,036,280)	27,282,152
COMPANY					
Balance at 1 January 2009	1,156,948	16,390,564	857,038	(2,292,607)	16,111,943
Share issues less costs	701,563	12,638,996	-	-	13,340,559
Total comprehensive income for the year	-	-	335,842	(526,216)	(190,374)
Balance at 1 January 2010	1,858,511	29,029,560	1,192,880	(2,818,823)	29,262,128
Share issues less costs	38,900	1,017,660	-	-	1,056,560
Total comprehensive income for the year	-	-	180,921	(743,957)	(563,036)
Balance at 31 December 2010	1,897,411	30,047,220	1,373,801	(3,562,780)	29,755,652

TOWER RESOURCES PLC

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

	<i>Notes</i>	<i>31 December 2010</i>	<i>31 December 2009</i>
		\$	\$
ASSETS			
Non-Current Assets			
Plant and equipment	8	170,677	142,189
Goodwill	9	8,023,292	8,023,292
Intangible exploration and evaluation assets	9	18,131,030	10,164,069
		26,324,999	18,329,550
Current Assets			
Trade and other receivables	11	274,947	1,023,737
Cash and cash equivalents		1,213,428	8,581,474
		1,488,375	9,605,211
Total Assets		27,813,374	27,934,761
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(531,222)	(578,637)
Total Liabilities		(531,222)	(578,637)
Net Assets		27,282,152	27,356,124
EQUITY			
Capital and Reserves			
Share capital	16	1,897,411	1,858,511
Share premium	16	30,047,220	29,029,560
Share-based payments reserve	18	1,373,801	1,192,880
Retained losses		(6,036,280)	(4,724,827)
Shareholders' Funds		27,282,152	27,356,124

The financial statements were approved by the Board of Directors on 17 May 2011 and signed on its behalf by:

Peter Kingston
Chairman

Company Number: 05305345

TOWER RESOURCES PLC

**COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

	<i>Notes</i>	<i>31 December 2010</i> \$	<i>31 December 2009</i> \$
ASSETS			
Non-Current Assets			
Plant and equipment	8	7,858	12,001
Loans to subsidiary undertakings	10	21,048,497	13,814,114
Investment in subsidiary undertakings	10	8,088,546	8,088,545
		29,144,901	21,914,660
Current Assets			
Trade and other receivables	11	52,319	545,328
Cash and cash equivalents		806,506	6,948,096
		858,825	7,493,424
Total Assets		30,003,726	29,408,084
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(248,074)	(145,956)
Total Liabilities		(248,074)	(145,956)
Net Assets		29,755,652	29,262,128
EQUITY			
Capital and Reserves			
Share capital	16	1,897,411	1,858,511
Share premium	16	30,047,220	29,029,560
Share-based payments reserve	18	1,373,801	1,192,880
Retained losses		(3,562,780)	(2,818,823)
Shareholders' Equity		29,755,652	29,262,128

The financial statements were approved by the Board of Directors on 17 May 2011 and signed on its behalf by:

Peter Kingston
Chairman

Company Number: 05305345

TOWER RESOURCES PLC

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Year ended 31 December 2010</i>	<i>Year ended 31 December 2009</i>
	\$	\$
Cash flow from operating activities		
Group operating loss for the year	(1,352,514)	(1,085,874)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	38,535	33,519
Share-based payments charge	180,921	335,842
Operating loss before changes in working capital	(1,133,058)	(716,513)
Decrease/(increase) in receivables and prepayments	748,789	(736,487)
Decrease in trade and other payables	(47,414)	(1,136,454)
Cash used in operations	(431,683)	(2,589,454)
Interest received	41,061	40,096
Net cash used in operating activities	(390,622)	(2,549,358)
Investing activities		
Funds used in exploration and evaluation (net of farm-in receivables)	(7,966,961)	(3,047,080)
Repayment of equipment deposit	-	131,542
Payments to purchase plant and equipment	(67,023)	(21,217)
Net cash used in investing activities	(8,033,984)	(2,936,755)
Financing activities		
Cash proceeds from issue of shares	1,095,000	13,924,026
Share issue costs	(38,440)	(583,467)
Net cash from financing activities	1,056,560	13,340,559
(Decrease)/increase in cash and cash equivalents	(7,368,046)	7,854,446
Cash and cash equivalents at beginning of period	8,581,474	727,028
Cash and cash equivalents at end of period	1,213,428	8,581,474

TOWER RESOURCES PLC

**COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010**

	<i>Year ended</i> <i>31 December 2010</i>	<i>Year ended</i> <i>31 December 2009</i>
	\$	\$
Cash flow from operating activities		
Operating loss	(770,675)	(560,673)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	4,143	3,292
Share-based payments charge	180,921	335,842
Operating loss before changes in working capital	(585,611)	(221,539)
Decrease/(increase) in receivables and prepayments	493,010	(375,302)
Increase/(decrease) in trade and other payables	102,116	(212,140)
Cash from/(used in) operations	9,515	(808,981)
Interest received	26,718	34,458
Net cash from/(used in) operating activities	36,233	(774,523)
Investing activities		
Payments to purchase plant and equipment	-	(9,275)
Loans granted to subsidiaries	(7,234,383)	(6,215,249)
Net cash used in investing activities	(7,234,383)	(6,224,524)
Financing activities		
Cash proceeds from issue of shares	1,095,000	13,924,026
Share issue costs	(38,440)	(583,467)
Net cash from financing activities	1,056,560	13,340,559
(Decrease)/increase in cash and cash equivalents	(6,141,590)	6,341,512
Cash and cash equivalents at beginning of period	6,948,096	606,584
Cash and cash equivalents at end of period	806,506	6,948,096

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 IFRS 6 '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. The Group and Company financial statements are presented in US Dollars.

1.2 Going concern

During the year ended 31 December 2010 the Group made a loss of \$1,311,453 (2009: \$1,045,779). Included in this loss is a share based payments charge of \$180,921 (2009: \$335,842). At the year end date the Group had net assets of \$27,282,152 (2009: \$27,356,124) and cash balances of \$1,213,428 (2009: \$8,581,474). Subsequent to the year end in February 2011 the Company raised \$6,882,745 from the issue of new ordinary shares (note 21).

The Group currently has cash balances of approximately \$5.6 million and therefore will not require further funds to meet its remaining budgeted operating and Uganda seismic costs of about \$5.6 million (including appropriate contingency) for the period ending 31 May 2012 (being approximately 12 months from approval of these financial statements) whether or not Global elects to continue in Uganda. In the event that Global exercises its option to participate in future Uganda operations, it would be liable to repay approximately \$1 million in back costs and contribute another \$1.5 million to forward operations excluding drilling. The final well commitment is estimated to cost \$7,500,000. In the most likely case that Global will meet their 25% share of costs, the Group would need to contribute up to \$4 million to the cost of this well but if Global do not contribute, the Group would be responsible for meeting the full cost from other external sources. The Directors are confident that they will be able to raise the additional funds and continue to meet their final Uganda well funding obligation as it falls due. In coming to this conclusion, the Directors noted the continued interest of several potential farminees and previous recent capital raisings reflecting the continued support being received from its shareholders including the Directors.

The operations of the Group are currently being financed from funds which the Company raised from private and public placings of its shares. The Group has not yet earned revenue as it is still in the exploration phase of its business. The Group is reliant on the continuing support from its existing and future shareholders.

The Board believes that the Group will have sufficient cash and other resources to fund its activities and to continue its operations for the foreseeable future and for the Group to continue to meet its liabilities as they fall due, and for at least the next twelve months from the date of approval of these financial statements. The financial statements have, therefore, been prepared on the going concern basis.

1.3 IFRS Standards and interpretations in issue but not yet effective

At the date of approval of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective. These new Standards, Amendments and Interpretations are effective for accounting periods beginning on or after the dates shown below:

<i>International Financial Reporting Standards (IFRS/IFRIC)</i>		<i>Effective date</i>
IAS 24	Related Party Disclosure (revised)	1 January 2011
IAS 32	Amendments to IAS 32: Classification of Rights Issues	1 February 2010
IFRIC14	Amendment: Prepayments of a Minimum Funding Requirement	1 January 2011
IFRS 9	Financial Instruments	1 January 2013
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

The Group has not early adopted these amended standards and interpretations. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the periods of initial application.

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 is not amortised but tested for impairment 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 assets**

The Group applies the requirements of IFRS 6 'Exploration for and Evaluation of Mineral Resources' and where additional guidance is needed IAS 16 'Property, Plant and Equipment' and IAS 36 'Impairment of Assets' noting that several items in the latter two standards are exempted for assets at the exploration and evaluation stage due to the application of IFRS 6.

1.7 **Oil and gas assets: Exploration and evaluation**

The Group follows the successful efforts method of accounting whereby costs for unsuccessful exploration and development activities are expensed. All exploration and evaluation ("E&E") costs incurred are initially capitalised as intangible assets in cost centres by identifiable field or exploration area, as appropriate, pending determination of commerciality of the relevant area. Directly attributable administrative costs are capitalised insofar as they relate to specific exploration activities.

E&E assets relating to each exploration license/area are not amortised but are carried forward until the existence or otherwise of commercial reserves has been determined. If commercial reserves have been discovered, the related E&E assets are assessed for impairment on a cash generating unit basis as set out below and any impairment loss is recognized in the income statement. The carrying value of the E&E assets, after any impairment loss, is then reclassified as 'development and production assets' in property, plant and equipment and amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. Costs of unsuccessful exploration efforts are expensed at the time that a determination is made that the exploration has failed to locate commercially recoverable hydrocarbons.

1.8 **Impairment of exploration and evaluation assets**

E&E assets (and any related goodwill) are assessed for impairment on a cash generating unit basis when facts and circumstances suggest that the carrying amount may exceed its recoverable amount. Such triggering events in respect of E&E assets include the point at which determination is made as to whether commercial reserves exist for any license area as well as the Directors' intention with regard to future exploration and development of individual areas and the ability to obtain funds to finance such exploration and development.

Where there has been an indication of a possible impairment, management assess the recoverability of the carrying value of the cash generating unit by comparison with the estimated discounted future net cash flows based on management's expectation of the future production, hydrocarbon prices and costs. Any identified impairment is charged to the Income Statement.

Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Income Statement, net of any depreciation that would have been charged since the impairment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1.9 **Impairment of development and production assets**

When events or changes in circumstances indicate that the carrying amount of development and production 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 statement of comprehensive income.

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 made. 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 year end. Profits or losses on disposals of plant and equipment are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income. 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 statement of financial position.

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 either using the Black Scholes option pricing model or by reference to the fair value of any fees or remuneration settled by way of granting of warrants. 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.

1.14 **Foreign currency translation**

(i) Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency") which is considered by the Directors to be the U.S Dollar. The effective exchange rate at 31 December 2010 was £1 = US\$1.57 (2009: £1 = US\$ 1.61).

(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 statement of comprehensive income.

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 year end. All differences are taken to the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

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 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 statement of financial position. 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 statement of comprehensive income.

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

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 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, the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Recoverability of inter-company balances

Determining whether inter-company balances are impaired requires an estimation of whether there are any indications that their carrying values are not recoverable.

Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including i) likely commerciality of assets, ii) future revenues and costs pertaining and the discount rate to be applied for the purpose of deriving a recoverable value, and iii) the recoverability of the E&E asset through sale. Factors which could impact the future recoverability include the level of proved, probable and inferred resources, future technological changes which could impact the cost of drilling and extraction, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1.20 Critical accounting judgements and estimates (continued)

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Share-based payment transactions

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined either by using a Black Scholes model, using the assumptions detailed in note 18, or by reference to the fair value of any fees or remuneration settled by way of granting of warrants.

2. Group operating loss

The Group's operating loss is stated after charging:

	<i>Year ended</i> <i>31 December 2010</i>	<i>Year ended</i> <i>31 December 2009</i>
	\$	\$
Share-based payments charge (note 18)	180,921	335,842
Employee costs, excluding share-based payments (note 7)	156,813	107,254
Rental of properties	62,150	36,225
Auditors' remuneration - audit services	39,400	38,400
- non audit services	29,470	11,250
Depreciation of plant & equipment (note 8)	38,535	33,519
Losses on foreign currency	177,603	18,966

Non-audit fees consist of \$6,220 for reviewing the Group's 2010 half year results and \$21,000 for tax services provided by the Parent Company auditor.

Included in "Auditors' remuneration – audit services" is an amount of \$8,000 (2009: \$8,000) and in "Auditors' remuneration – non-audit services" is an amount \$2,250 (2009: \$7,150) relating to the subsidiary auditors. The Parent Company audit fee was \$31,400.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

3. Operating segments

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. The Group has not yet commenced production and therefore has no revenue. Each reportable segment adopts the same accounting policies.

In compliance with IFRS 8 'Operating segments' 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 31 December 2009.

Year ended 31 December 2010

	<i>Africa</i>	<i>Head Office</i>	<i>Adjustments</i>	<i>Consolidated</i>
	\$	\$	\$	\$
Administration costs	(29,877)	(1,103,182)	-	(1,133,059)
Share related payments	(59,121)	(121,800)	-	(180,921)
Depreciation of plant and equipment	(34,391)	(4,143)	-	(38,534)
Interest income	14,343	26,718	-	41,061
Loss by reportable segment	(109,046)	(1,202,407)	-	(1,311,453)
Total assets by reportable segment	32,599,268	29,924,818	(34,710,713)	27,813,374
Total liabilities by reportable segment	(32,700,795)	(83,591)	32,253,164	(531,222)

Year ended 31 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)
Depreciation 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	(578,637)

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

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

4. Taxation

	<i>Year ended</i> 31 December 2010	<i>Year ended</i> 31 December 2009
	\$	\$
Current Tax		
UK corporation tax	-	-
Total current tax charge	-	-

The tax charge for the period can be reconciled to the loss for the year as follows:

Group loss before tax	(1,311,453)	(1,045,779)
Tax at the UK corporation tax rate of 28%	(367,207)	(298,047)
<i>Tax effects of:</i>		
Expenses not deductible for tax purposes	55,010	107,320
Tax losses carried forward not recognised as a deferred tax asset	312,197	190,727
	-	-

Factors that may affect future tax charges

At the year end date, the Group has unused tax losses available for offset against suitable future profits of approximately \$2 million (2009: \$1.8 million). A deferred tax asset has not been recognised in respect of such losses due to uncertainty of future profit streams.

5. Loss per share

	<i>Year ended</i> 31 December 2010	<i>Year ended</i> 31 December 2009
	\$	\$
Loss for the year	(1,311,453)	(1,045,779)
Weighted average number of shares in issue	1,011,677,824	683,122,182
Basic loss per share	(0.13c)	(0.15c)
Diluted loss per share	(0.13c)	(0.15c)

For the purposes of the diluted loss per share the weighted average number of shares in issue and to be issued is 1,020,753,084. The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basis loss per share, thus being anti-dilutive.

6. Parent Company income statement

The Parent Company incurred a loss for the year ended 31 December 2010 of \$743,957 (2009: \$526,216) which has been included in the consolidated statement of comprehensive income. In accordance with the provisions of Section 408 of the Companies Act 2006, the Parent Company has not presented a statement of comprehensive income.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

7. Employee costs

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

	<i>Year ended</i> <i>31 December 2010</i>	<i>Year ended</i> <i>31 December 2009</i>
	\$	\$
Wages, salaries and fees	834,712	883,400
Social security costs	97,622	68,720
Share-based payments (note 18)	180,921	335,842
	<hr/> 1,113,255	<hr/> 1,287,962

Employee costs (excluding share-based payments) expensed to administrative expenses totalled \$156,813 (2009: \$107,254) with the following costs included within exploration and evaluation assets (note 9):

	\$	\$
Wages, salaries and fees	683,353	781,372
Social security costs	92,168	63,494
	<hr/> 775,521	<hr/> 844,866

The total number of employees of the Group, including Directors, at 31 December 2010 was:

Office, administration and operational	32	42
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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 2010	213,455	21,291
Additions during the year	67,023	-
At 31 December 2010	<hr/> 280,478	<hr/> 21,291
Depreciation		
At 1 January 2010	71,266	9,290
Charge for the year	38,535	4,143
At 31 December 2010	<hr/> 109,801	<hr/> 13,433
Net book value		
At 31 December 2010	170,677	7,858
At 31 December 2009	142,189	12,001

TOWER RESOURCES PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

8. Plant and equipment (continued)

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

9. Intangible assets

Group:	<i>Exploration and evaluation assets</i> \$	<i>Goodwill</i> \$	<i>Total</i> \$
Cost			
At 1 January 2010	10,164,069	8,023,292	18,187,361
Additions	9,818,141	-	9,818,141
Amounts receivable from farm-in partners	(1,851,180)	-	(1,851,180)
At 31 December 2010	18,131,030	8,023,292	26,154,322
Amortisation and impairment			
At 1 January 2009	-	-	-
Amortisation for the year	-	-	-
Impairment loss for the year	-	-	-
At 31 December 2010	-	-	
Net book value			
At 31 December 2010	18,131,030	8,023,292	26,154,322
At 31 December 2009	10,164,069	8,023,292	18,187,361

Goodwill arose on the acquisition of the Company's subsidiary undertakings (note 10) in prior years. The Group tests goodwill for impairment annually and when there are indicators of impairment.

The Group's exploration and evaluation ("E&E") assets at 31 December 2010 consist entirely of capitalised expenditure in relation to the Group's Ugandan (\$17,283,863), Namibian (\$697,054) and SADR (\$150,113) licences. These amounts have not been written off to the statement of comprehensive income as exploration expenses because commercial reserves have not yet been established or the determination process has not been completed.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

9. Intangible assets (continued)

The outcome of ongoing exploration and evaluation, and therefore whether the carrying value of E&E assets will ultimately be recovered, is inherently uncertain. The Directors have assessed the value of the E&E expenditure carried as intangible assets, and in their opinion, no further impairment is necessary. This assessment includes a review of the expiry dates of licenses and the likelihood of their renewal, available funds and the intention to continue exploration and evaluation.

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	6,215,249	-	6,215,249
<hr/>			
At 31 December 2009	13,814,114	8,088,545	21,902,659
<hr/>			
At 1 January 2010	13,814,114	8,088,545	21,902,659
Formation of new subsidiary during the year	-	1	1
Advances during the year	7,234,383	-	7,234,383
<hr/>			
At 31 December 2010	21,048,497	8,088,546	29,137,043

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

During the year the Company incorporated a new wholly-owned subsidiary called Tower Resources (Uganda) Limited. This company had not commenced trading or undertaken any commercial transactions at the year end.

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 2010 were:

<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%
Tower Resources (Uganda) Limited	Oil and gas exploration	England	100%

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 2010

11. Trade and other receivables

	31 December 2010		31 December 2009	
	Group	Company	Group	Company
	\$	\$	\$	\$
Other receivables	274,947	52,319	1,023,737	545,328

12. Trade and other payables

	31 December 2010		31 December 2009	
	Group	Company	Group	Company
	\$	\$	\$	\$
Payables and accruals	531,222	248,074	578,637	145,956

13. Financial instruments

Interest rate risk

At 31 December 2010 the Group had US Dollar cash deposits of \$415,421, Pound Sterling cash deposits of a US Dollar equivalent of \$788,813, Euro cash deposits of a US Dollar equivalent of \$459, and Uganda Shillings cash deposits of a US Dollar equivalent of \$8,735. 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:

	31 December 2010		31 December 2009	
	Floating interest rate	Non - Interest Bearing	Floating interest rate	Non - Interest Bearing
	\$	\$	\$	\$
<i>Financial assets:</i>				
Cash at bank	887,334	326,094	7,807,349	774,125

The effective weighted average interest rate received during the year was approximately 1.5%.

Financial liabilities

At 31 December 2010, 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.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

13. Financial instruments (continued)

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 2010		31 December 2009	
	Group	Company	Group	Company
	\$	\$	\$	\$
Aggregate amount at the year end				
Payable within not more than one year	7,500,000	-	-	-
Payable between one and two years	-	-	7,000,000	-
	-	-	7,000,000	-

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 2010 for any future costs of decommissioning or any environmental damage.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

16. Share capital and options

	2010 \$	2009 \$
Authorised		
10,000,000,000 ordinary shares of 0.1p each	19,900,000	19,900,000
Allotted, called up and fully paid		
1,032,162,756 (2009: 1,007,162,756) ordinary shares of 0.1p each	1,897,411	1,858,511

The share capital issues during 2010 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 2010	1,007,162,756	1,858,511	29,029,560
Shares issued for cash	25,000,000	38,900	1,056,100
Cost of share issues	-	-	(38,440)
At 31 December 2010	1,032,162,756	1,897,411	30,047,220

The details of share options outstanding at 31 December 2010 are as follows:

	<i>Number of share options</i>
At 1 January 2010	13,000,000
Granted during the year	1,000,000
Exercised during the year	-
Lapsed during the year	-
At 31 December 2010	14,000,000

Date of grant	Number of options	Option price	Exercisable between
2 February 2006	1,000,000	1.5p	2/02/07-2/02/13
2 February 2006	2,000,000	1.5p	2/02/09-2/02/13
9 February 2007	1,000,000	3.125p	9/02/07 – 9/02/14
3 May 2007	3,000,000	2.25p	3/05/08 – 3/05/14
20 September 2007	2,000,000	2.75p	20/09/08 – 20/09/14
1 July 2008	1,000,000	4.75p	1/07/08 – 1/07/15
1 October 2008	3,000,000	3.88p	1/10/08 – 1/10/15
28 May 2010	<u>1,000,000</u>	1.325p	28/05/11 – 28/05/18
	<u>14,000,000</u>		

Peter Kingston has interests in 7,000,000 of the above share options.

The Company's share price ranged between 1.20p and 5.20p during the year and the closing share price on 31 December 2010 was 5.125p per share.

17. Share warrants

On 28 May 2010, the Company granted:

(a) 1,509,434 warrants to Peter Kingston exercisable between 28 May 2011 and 28 May 2013 at a price of 1.325p per share in lieu of waiving his Directors' fees totalling £20,000 (equivalent to \$29,000 at the prevailing rate of exchange at that date of 1.45) in respect of the period May 2010 to October 2010.

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

17. Share warrants (continued)

(b) 4,830,188 warrants exercisable between 28 May 2011 and 28 May 2013 at 1.325p to the remaining Directors in lieu of waiving their fees totalling £64,000 (equivalent to \$92,800 at the prevailing rate of exchange at that date of 1.45) otherwise payable in cash in relation to the period May 2010 to April 2011.

On 13 October 2010 the Company granted 712,784 warrants to Marilyn Hill, the General Manager of the Uganda operations, in lieu of waiving her remuneration in respect of the period October 2010 through March 2011 totalling \$42,000. These warrants are exercisable at 3.72p between 14 October 2011 and 14 October 2013.

The total number of warrants outstanding at 31 December 2010 is as follows:

	<i>Number of warrants</i>
At 1 January 2010	6,535,320
Granted during the year	7,052,406
At 31 December 2010	13,587,726

The interests of the Directors in the warrants in issue at 31 December 2010 and 31 December 2009 were as follows:

	<i>31 December 2010</i>	<i>31 December 2009</i>
Peter Kingston	3,793,752	2,284,318
Peter Blakey	2,832,968	1,323,534
Peter Taylor	2,832,968	1,323,534
Mark Savage	1,540,900	635,300
Jeremy Asher	1,540,900	635,300
	12,541,488	6,201,986

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

18. Share-based payments

	<i>2010</i>	<i>2009</i>
	\$	\$
The Group recognised the following expense in the Statement of comprehensive income in respect of its share based payment plans:		
IFRS 2 charge	180,921	335,842

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 2010 and this has been calculated at 155.4%. 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	Grant date	Price	Fair Value	Expected exercise dates
7,339,622	28/05/10	1.325p	1.89p	28/05/13
712,784	13/10/10	3.72p	5.89p	14/10/13

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 \$194,990 (2009:\$122,744) paid to TM in respect of charges for office accommodation and administration.

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, share options and share warrants. 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 2010</i>	<i>Year ended</i> <i>31 December 2009</i>
	\$	\$
Short-term employee benefits	122,750	102,027
Share-based payments	121,800	314,822
	244,550	416,849

20. Control

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

TOWER RESOURCES PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

21. Subsequent events

Since the end of 2010, \$6,882,745 was raised in February, via an equity placing of 90,000,000 new ordinary shares, to meet the cost of the Uganda seismic programme which is currently underway and which is due to be completed around the end of June 2011. A drilling consultancy firm has been appointed to manage the programme for a third Uganda commitment well, currently targeted for October 2011, subject to rig availability. Interpretation of the Namibia 3-D seismic is in its final stages and an updated Competent Persons Evaluation is underway with a final report (CPR) expected before the end of June 2011. Arcadia Petroleum, which is obliged to fund Tower's share of a first exploration commitment well, is making progress towards meeting its funding requirements and the selection of a drilling vessel in good time. The current objective is to drill the well in the first quarter of 2012.

Further information is provided in the Chairman's Statement.

