Tower Resources (TRP)

BUY

Initiated

6 February 2009

Current Price:	2.5p	52-wk Range:	2.4-10.8p
12 month target	15p	Market Cap (M):	13.99 GBP

Oil & Gas

Tower Rising to New Heights in Africa

Key Metrics

EV (M):	--
EV/EBITDA:	--
Shares Outstanding (M):	614.3
Current Price (GBP):	2.25p
52-week Change:	8%
Resources (MMboe):	--
2P Reserve (MMboe):	--
Fully Diluted Shares (M):	619.3
Production (boepd):	--
EV/NAV:	--
EV/Unrisked NAV:	--
Momentum:	++

Contact

Stephane Foucaud
+44 (0)207 936 5241
Stephane.Foucaud@fdcap.com

Initiating Coverage

Summary

High Impact Near Term News: Tower Resources has established an attractive set of prospects in Uganda, a region that has benefited from the recent discoveries of Heritage and Tullow which have transformed regional prospectivity. Tower is focusing its efforts on Block EA5 within the Albertine rift basin where it holds a 75% working interest. With drill targets identified and a rig secured, the company is intending to spud the first exploration well by late March 2009 targeting 100mmbbl. Tower is free carried through the first well. According to the company the block could contain over 225mmbbl of prospective resources.

Significant Exploration Upside: In Namibia, Tower is free carried on its 15% equity on a resource potential of 9.2bnbbl offshore prospects. Imminent catalysts include the commencement of seismic in Q1 2009 with a view to spudding its first well in Namibia by Q2 2010.

Experience Counts: The management draws a wealth of experience from previous operating companies such as Enterprise Oil, Soco and Dana Petroleum and has a proven track record of transforming exploration opportunities into attractive acreage for potential farminees, as well as delivering a pipeline of comparable opportunities in frontier exploration regions.

Limited Financial Risk: Having successfully mitigated financial obligations by farming down to meet its work obligations in both Uganda and Namibia the company is not financially exposed to capital intensive work programs in the current economic climate. Tower currently has no debt and has a cash position of approximately $1.8m.

Value Transformation: We value the company against an African pure exploration play comparative peer group on net acreage, net risked prospective acreage and implied value on recent transactions and recommend a target price of £0.15/share. The company's near term newsflow and upside makes for a very compelling case for investors with an appetite for exploration plays in Africa to secure a position in a stock with limited downside and that trades at almost an 85% discount to our target price.

Disclaimer

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Investment Summary

- High Impact Near Term News: Tower holds an attractive set of exploration assets in Uganda, a region that has benefitted from the recent discoveries of Heritage and Tullow which have transformed regional prospectivity. In the immediate near term, Tower is focusing its efforts on the Uganda Albertine rift basin Block EA5 where it holds a 75% working interest following farm down to Global Petroleum. According to the company the block could contain over 225mmbbl prospective resources. Having undertaken seismic survey and identified drill targets, gained access to a rig and benefitting from a recent third party independent audit on Block EA5, the company along with its farm-in partner Global Petroleum expect to commence spudding by late March 2009. Tower is free carried through the first well. According to the company the block could contain over 225mmbbl of prospective resources.
- Significant Exploration Upside: In Namibia, where the company retains a 15% interest in three blocks along the Walvis Ridge it is free carried through exploration by Arcadia Petroleum, a well capitalized commodity trading company. The total unrisked prospective resources from three leads equate to 9.2bn bbl. With seismic expected to be completed by mid 2009 the company anticipates a first exploration well to be spudded by earliest Q2 2010.
- Experience Counts: Management adheres to a simple strategy to acquire assets in unexplored geologically prospective regions within stable geopolitical regimes to secure acreage, prove up resources and then farm-out to be carried through exploration. Management draws a wealth of experience from previous operating companies such as Enterprise Oil, Soco International and Dana Petroleum and has a proven track record of transforming exploration opportunities into attractive acreage for potential farminees, as well as delivering a pipeline of comparable opportunities in frontier exploration regions.
- Limited Financial Risk: Having successfully mitigated financial obligations by farming down a proportion of its interests to meet its work obligations to financially robust partners in both Uganda and Namibia, ensures that Tower is not financially exposed to capital intensive work programs in the current economic climate. Tower currently has no debt and has a cash position of approximately $1.8m.
- Value Transformation: We value the company against an African pure exploration play comparative peer group on net acreage, net risked prospective acreage and implied value on recent transactions and recommend a target price of £0.15/share. In addition to this the Board has indicated a willingness to inject cash to cover ongoing administrative costs which are low. The company's early stage exploration phase in prospective acreage coupled with the near term newsflow makes for a very compelling case for investors to secure a position in a pure exploration play situated in a prolific region with limited downside and that trades at almost an 85% discount to our target price.

Background - Adherence to a Proven Strategy

Preferred Geographic Presence

Tower is an AIM listed oil & gas pure African exploration play operating in Uganda and Namibia. Over the last three years subsequent to its AIM listing in August 2005, Tower Resources has built a high impact asset portfolio through the acquisition of 100% of Neptune Petroleum Limited for £4m in August 2005. The company further broadened its exploration portfolio through its successful application of acreage in North East Tanzania in 2007 as well as acquiring 100% ownership of Comet Petroleum with interest in SADR (Saharawi Arab Democratic Republic).

Following the decision of Tower's partner on block EA5, Orca Exploration, not to pursue a two well drilling programme, Tower secured exclusive exploration rights on the block before farming down an initial 25% to AIM and ASX listed Global Petroleum for one firm commitment well. In Namibia Tower retains a 15% working interest following farm out to Arcadia Petroleum.

As a region Uganda has become a focal point of interest for companies seeking to build upon the early success of Hardman Resources and more recently the discoveries of Tullow Oil and Heritage Oil. Indeed it would appear from geological analogues that the Albertine Rift Basin trend extends along Block 3 and Block 1 to the north into the Rhino Basin within Block EA5. We believe that in the context of regional drilling activity it is highly likely in the immediate term that encouraging results from drilling activity on the blocks from Heritage and Tullow could add considerable interest and momentum to Tower's share price.

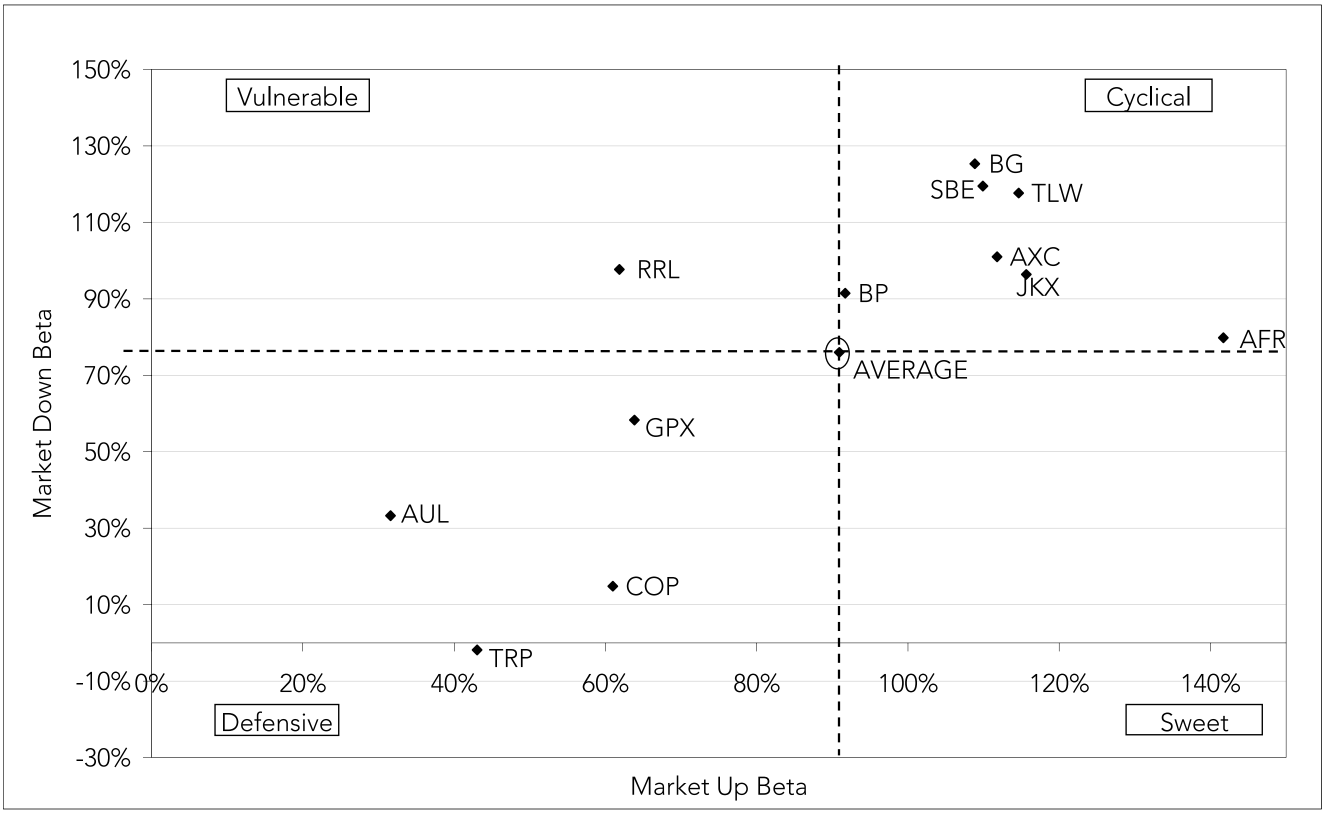
Exhibit 1: Sector Performance by Geographic region over the past 12 months

Source: FDC, Fidessa

This theme is supported through our analysis on a geographic regional basis which presented Southern African region to be defensive for those investors seeking shelter from precipitous falls in commodity prices, Exhibit 1. We observe that that Southern African region has experienced a 42% fall in contrast to Russian and FSU regions which have experienced share price falls of between 65% and 80%. We attribute this defensive characteristic to the high degree of prospectivity and low cost base within a region that has recently experienced sizeable commercial discoveries on Blocks 1, 2 and 3. Most recently Heritage Oil announced that the Buffalo-1 and Giraffe-1 discoveries, in which it is partnered with Tullow Oil, could be among the largest onshore light oil discoveries in East Africa. In the context of these finds both companies have publicly announced that the resources threshold has been reached to merit commercial development of the region.

We extend this analysis to observe the impact on Tower's share price as compared against the AIM oil and gas market index and segregating the quadrants relative to the universe average, Exhibit 2. The analysis shows those early stage exploration plays and near term producers to be defensive reinforcing their relative independence from the effects of short term oil price volatility. We also observe Tower's relative location in the defensive quadrant exhibiting a strong positive reaction with the market index under a rising market while the effect on share price under a falling market is mitigated.

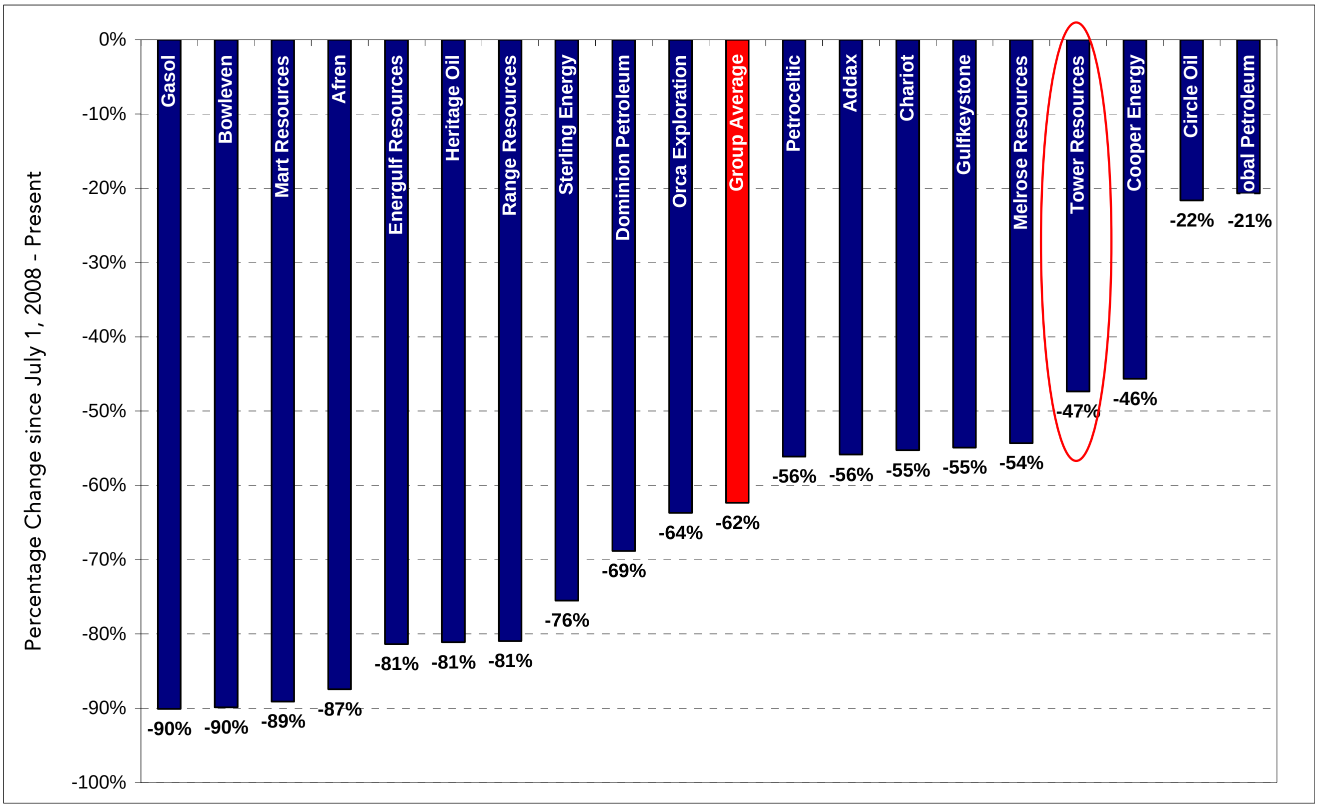
Exhibit 2: Share Price Sensitivity against AIM market index AXOIG (over the last 6 months from August)



Source: FDC, Bloomberg

To further support our view of the defensive nature of Southern Africa and in particular Tower, we drew a comparison of share price performance over the previous six months against an African centric peer group, Exhibit 3. This showed Tower to have fallen the least compared with other pure African exploration plays and in some cases performed better than a proportion of African producers.

Exhibit 3: African Peer Group E&P relative performance since 1st July 2008



Source: FDC, Bloomberg

Asset Portfolio

Tower has focused its efforts primarily in two regions, Northern Uganda and Northern offshore Namibia. Within Uganda, Tower has secured a 100% working interest in Block EA5 at the northern region of the Albertine Rift basin covering an area of over 6,000km2. In Namibia under the operatorship of Arcadia Petroleum, Tower has a 15% working interest and is free carried through exploration phase.

In addition to these interests, Tower has been awarded successfully secured an Exploration Licence in the north east of Tanzania covering Lakes Eyasi, Wembere, Natron and Manyara although substantive negotiations on the licence terms are yet to commence. For the purposes of the report no valuation has been assigned to SADR (Sawari Arab Democratic Republic). A summary of the two assets together with the work commitments are presented in Tables 1 and 2.

Table 1: Company Asset & License Summary

Country	Block/ Prospect	WI pre farmout	E&P Phase	Area (km2)	Operator	Partner	Net Potential Recoverable Resources
Uganda	Block EA5	100%	Expl	6040	Tower	Global Petroleum	225mmbbl
Namibia	Offshore 1910A, 1911, 2011A	15%	Expl	22,000	Arcadia	Arcadia	9.2 bn bbl
SADR	Offshore Guelta	50%	Expl	15,760	Tower	--	--
SADR	Offshore Bojador	50%	Expl	44,298	Tower	--	--

Source: FDC

A summary of the licence in respect of the company's work commitment obligations across the portfolio is presented in Table 2, which shows the terms for Uganda are not onerous and have already been met while for Namibia Tower has limited exposure to well commitment through a 15% free carry to exploration thus making the case for limited financial downside. Notwithstanding, Tower has only sufficient capital to cover G&A costs until late 2009 under its current monthly cash burn rate of $150k/month. Notwithstanding, the Board has recently demonstrated its willingness to inject more funds to cover these ongoing costs. The geographic spread of the company's interests is detailed in Exhibit 4. A more detailed overview of the assets and the region is presented in Appendix 1.

Exhibit 4: Tower Resources geographic spread of interests

Source: FDC

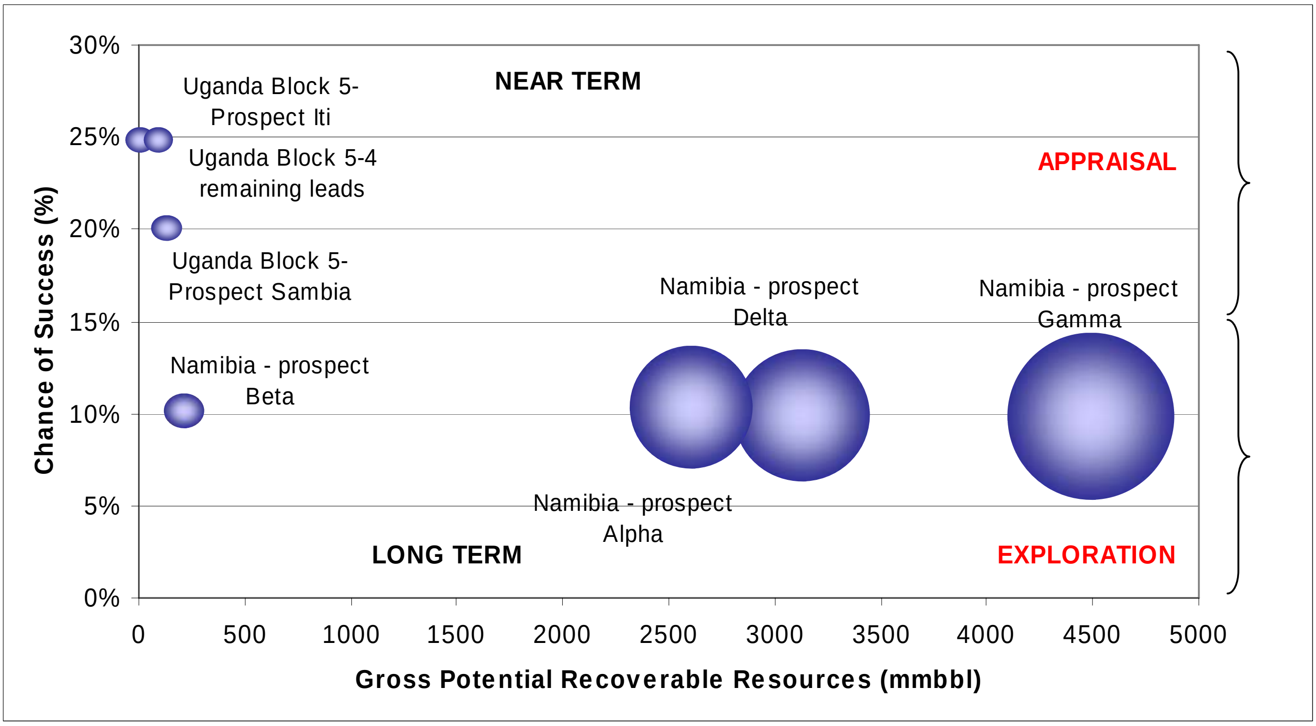
Table 2: Work Program and License terms

	Uganda	SADR	Namibia
Licence type	PSC	-	Tax / Royalty
License commencement	Sept 2005	March 2006	8 years from 2006
License Period	Three 2year periods		Three 2year periods
Commitment 1st period	1st period 250km seismic, geology and $0.7m ended 27 March 2008+6mth extension		TRP free carried through exploration
Commitment 2nd period	2 exploration wells (1 contingent) by March 2010 and minimum spend $1.5m		Commit to 1 exploration well by Sept 2009 (TRP free carried)
Commitment 3rd period	Seismic spend $1m drill 1 firm well commitment min $3m		Spud 1 exploration well by Sept 2011 (TRP free carried)
Development period	Development period lasts for 25yr		25 years

Source: Tower Resources

The company has also been awarded a licence in Tanzania but will not assume ownership of the licence and terms until the terms of the PSC fiscal structure are formally agreed with the government. We have attempted to show within Exhibit 5 the company's near term opportunities and the longer term exploration upside prospects using the lower end of the GCoS risk profile range as might be independently reported.

Exhibit 5: Near term and Long Term Exploration prospects using likely geological chance of success



Source: FDC, Tower Resources

We present two values for estimates of GCoS, one internally generated and the other determined independently that bounds the geological risk range, Table 3.

Table 3: Prospect Geological Chance of Success Estimates

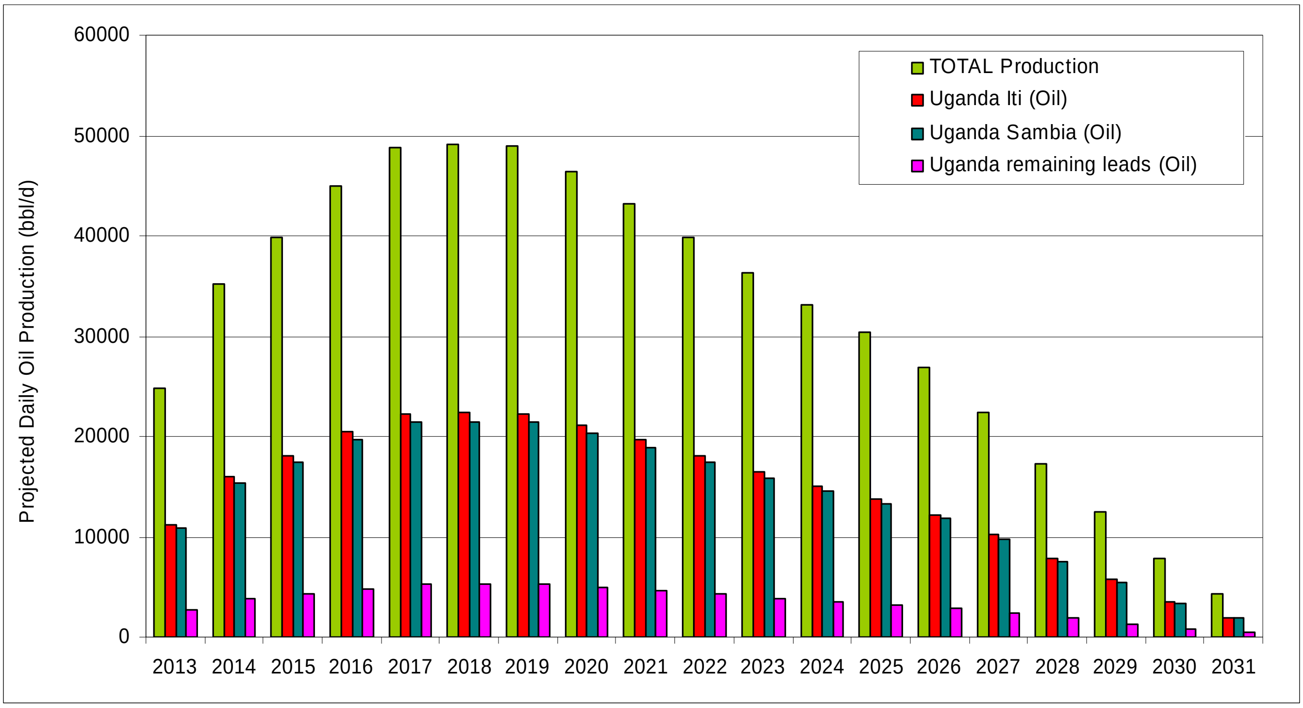
	Likely Independent reported estimates for GCoS	Internal company generated estimates for GCoS
Uganda Iti Prospect	25%	50%
Uganda Sambia Prospect	20%	40%
Block EA5 remaining 5 leads	25%	25%
Namibia Prospect (Beta)	10%	20%
Namibia Prospect (Alpha)	10%	20%
Namibia Prospect (Delta)	10%	20%
Namibia Prospect (Gamma)	10%	20%

Source: Tower Resources

Anticipated Production Profile

Tower Resources anticipates first production from its Ugandan operation to commence in 2013-2014. At the same time it is envisaged that a pipeline infrastructure can be commissioned to enable oil to be transported through the proposed Kampala-Mombasa pipeline and on the assumption that adequate capacity exists. On a commercial discovery from Iti and Sambia, both have been assigned an approximate 100mmbbl recoverable resource with the balance of 25mmbbl held by remaining leads. Initial production is expected to be in the order of 11,000bbl/d from each of the two main leads rising to slightly under 50,000bbl/d by 2016, Exhibit 6. This peak production is expected to remain flat for three years. While these rates are still considered hypothetical long term projections they do provide some insight into the potential of the assets and do not include the significant upside from a commercial find in Namibia. According to the company's net share of likely production levels from Namibia, in the event of a significant commercial discovery of 2bn bbl could be in the order of 60,000bbl/d rising to 300,000bbl/d by 2025 from its three prospects to include Alpha, Gamma and Beta.

Exhibit 6: Anticipated Provisional Production Profile for Uganda only (2013 -2030)



Source: FDC, Tower Resources

Effective Management Team

This lean but experienced management team of industry professionals leverages off its ability to deliver high impact frontier exploration plays within geopolitically stable environments and with less than onerous work commitment programs. Management adhere to a simple but nonetheless effective strategy as is evidenced by its ability to source farminees for worked up acreage on attractive terms and advantageous work obligations.

Corporate Strategy

Management adheres to a simple strategy of acquiring high impact prospects in frontier exploration regions of Africa that support stable geopolitical regimes in highly prospective regions before the acreage becomes much sought after. The company's objective is to prove up potential resources on the acreage before then engaging potential farminees for a free carry through the exploration phase. While the strategy is not unique among comparable players the track record and background of the management ensures the high degree of success of this strategy in contrast to other less successful regional players.

Financial Commitments are covered

The company operates under a low cost structure base and endeavours to limit its exposure to high impact exploration projects which we consider to be particularly favourable in this current volatile economic climate amid lack of access to available capital and falling commodity prices. The company's current cash position as at the 1st December 2008 was $0.7m with a further $0.4m, expected from back costs on signature bonus and the recent capital raising of £0.5m bringing the total to approximately $1.8m. With no financial obligations on its blocks due to successful farm downs Tower's monthly cash burn rate of $150k ensures the company can meet ongoing G&A costs until the end of 2009.

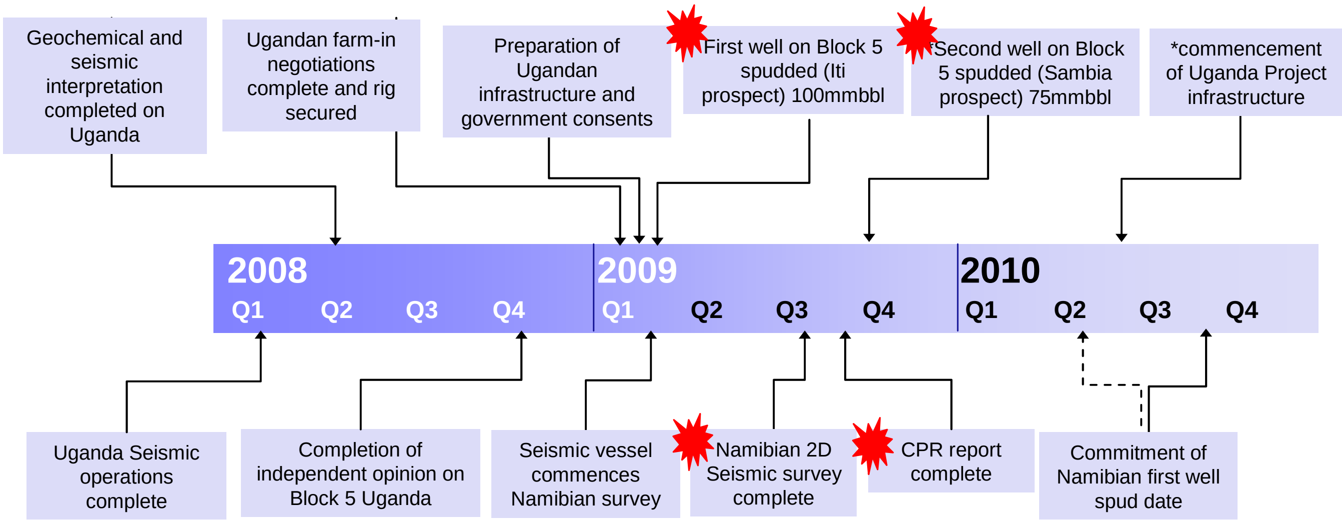
High Impact Newsflow over the next 4 months

Over the next four months Tower will commence its drilling programme of two back to back wells following the engagement of a farm-in partner on the Ugandan block.

The key high impact news items are presented in Exhibit 7.

- Tower intends to spud the first exploration well targeting the Iti prospect on Block EA5 by late March 2009. If successful this could unlock access to almost 100mmbbl. On a commercial discovery this could be immediately followed by spudding of Sambia prospect and Logbo prospects.
- Completion of the Namibian seismic survey and interpretation is expected in mid-2009 could provide a better understanding of the scale of resources.
- Interpretation of Namibia seismic program to identify drill targets for spudding in 2011.
- Finalization of a CPR is expected in Q3 2009.
- Greater clarity on a decision to sanction the Kampala- Mombasa pipeline could provide the basis for unlocking the commercial value of resources.

Exhibit 7: Event Timeline (2008 -2010)



Source: FDC, Tower Resources

Notes :

1. The second exploration well on Block EA5 is contingent on a successful first exploration well on Iti prospect as commencement of project infrastructure.
2. Commitment of the first well spud date in Namibia could occur any time between Q2 and late Q3 2010
3. A CPR report is expected to be finalized in Q3 2009

Valuation – Building the Tower

In our valuation for Tower Resources we employed a number of methods to determine a representative valuation for this pure exploration play to include comparable multiples compared to an African universe on both acreage and area, as well as implied value from recent partner farm-in transactions. We also advance a hypothetical discounted cash flow model populated with expected resource estimates and CAPEX projections supplied for Uganda and incorporating the risked upside for Namibia.

Implied Valuation: (£0.03 – £0.05/share)

Given the early exploration stage of the company we have attempted to derive an implied valued based on the terms of the farm-in deal from Tower's partners on its Uganda block and its Namibia acreage. Although Orca exploration has withdrawn from the terms of the farm-in we have assumed the same terms at the time of the agreement in September 2007.

Table 4: Implied Valuation Summary

	Orca Exploration (USD $mm)	Global Petroleum (USD $mm)	Arcadia Petroleum (USD $mm)	Notes
	Uganda	Uganda	Namibia	
Transaction Date	28-Aug-07	22-Dec-08	20-Sep-07	
Past Costs	0.6	-	1.6	Net past costs met by farminee partner
Interpretation & seismic survey	5.0	-	6	
Exploration well (s)	15.0	6.5	100	Arcadia deal secures two wells at $50m each in Namibia. While in Uganda Orca farm-in was for 1 well
Working interest farminee	50%	25%	85%	
Implied asset valuation	30.6	24.4	36.2	
Number of shares (mil)	536.7	589.3	537.1	
Per share value (£/share)	0.040	0.029	0.047	USD/GBP 1.42

Source: FDC, Tower Resources

The implied value from the summation of both farm-out deals equates to approximately £0.05p/share which represents a premium of approximately 100% to the current share price.

Peer Group Comparison Valuation: (£0.03 – £0.26/share)

We selected a pure African exploration universe to derive comparison multiples for EV to net licence acreage and EV to net prospective resources. The mean for our selected data set in Table 5 was GBP £0.13/mmbloe and GBP£1K/km^2. Based on the current number of outstanding fully diluted shares of 619m and Tower's net acreage and net prospective resources we estimated a value ranging from GBP£0.03/share to £0.26/share respectively.

Table 5: African Pure Exploration Comparatives

Company	Net Area (km2)	Net Risked Resources (mmbbloe)	Market Cap ($mm)	Implied EV based on risked resources ($mm)	Implied EV based on area ($mm)
Tower Resources	9340	1260	21.99	245.3	29.2
Bowleven	3,654	116	55.83	22.7	11.4
Providence Resources	--	112	107.6	21.8	--
Dominion Petroleum	28,447	82	39.12	16.0	88.9
Circle Oil	128,231	1078	100.33	78.3	357.3
Africa Oil Corp	12,960	344	15.3	67.0	40.53
Chariot Oil & Gas	4,385	629	126.5	122.4	13.71
Petroceltic	10,442	965	60.90	187.8	32.66
Aminex	8,192	80	22.05	15.6	25.6

Source: FDC

Risked Valuation: (£0.14 – 1.05/share)

For the anticipated production profile we also attempted to derive a hypothetical DCF valuation for the company assets under the fiscal terms outlined in Appendix 3 and within the assumptions listed in Appendix 2. We approached our estimate of a hypothetical DCF in two stages, firstly considering the contribution to valuation of Uganda and the two Namibian prioritized prospects namely Alpha and Gamma. Secondly, as an extension to the first stage we also considered the contribution to valuation from all the Namibian prospects. The results for our hypothetical risked valuation are shown in Table 6. Furthermore we identified an oil price profitability threshold under these assumptions which we present in Table 10. To be conservative we also used the independently determined lower range of the GCoS estimate of 1 in 10 chance of success for the company's Namibian interests to assign a value to the exploration upside.

Table 6: DCF Valuation Summary

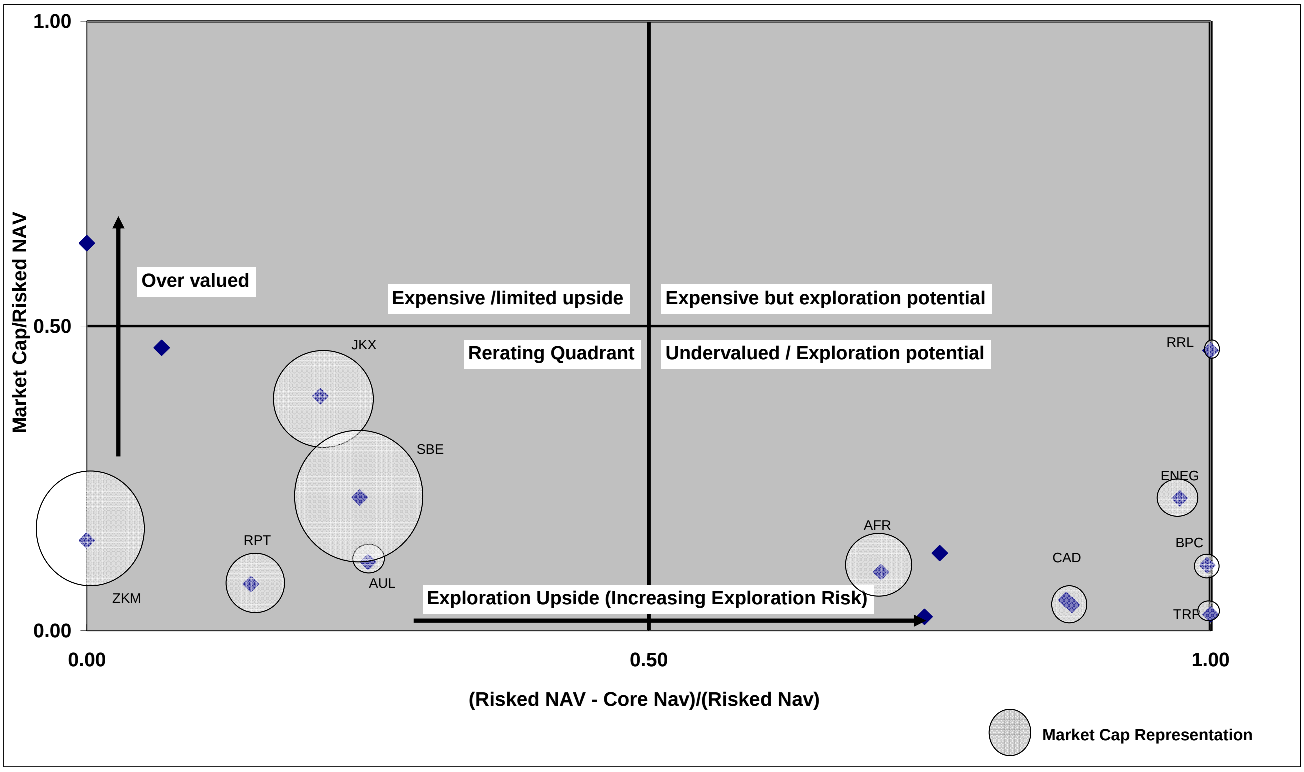
	TOTAL risked NAV
Risked NAV ($mm) Uganda only	121
Risked NAV per share (GBP/share)	0.14
Risked NAV ($mm) Uganda discovery only	516
Risked NAV per share (GBP/share)	0.57
Risked NAV ($mm) Uganda & 2 principal Namibia leads	579
Risked NAV per share (GBP/share)	0.65
Risked NAV ($mm) Uganda discovery & Namibia	970
Risked NAV per share (GBP/share)	1.05

Notes : USD/GBP FX rate 1.46 Source: FDC

In arriving at our risked DCF valuation we considered only the contribution from a commercial find in Uganda. We opted not to consider within our hypothetical risked NAV any contribution from Tower's Namibian assets until greater clarity exists following this year's seismic programme. Under our long term Brent oil price of $80/bbl for the current size of resources considered, we estimate each barrel to be worth $3.20. We recognise that this is very much dependent on the CAPEX estimate which at this early stage will be subject to change. We also determined that the project discounts at a Brent price of slightly under $35/bbl and the approximate contractor take is 57%.

We found that a commercial discovery on block EA5 could de-risk the other prospects on the block and provide significant momentum, adding over 40p/share thereby increasing our risked DCF valuation to £0.57/share. In Exhibit 8 we compared Tower against our coverage universe which as expected highlighted Tower Resources as having exploration upside as well as being undervalued. Given the potential size of the resources it is evident that Namibia remains a company maker for Tower even under the low GCoS estimate assumption.

Exhibit 8: Tower Resources Valuation Comparison against Peer Group

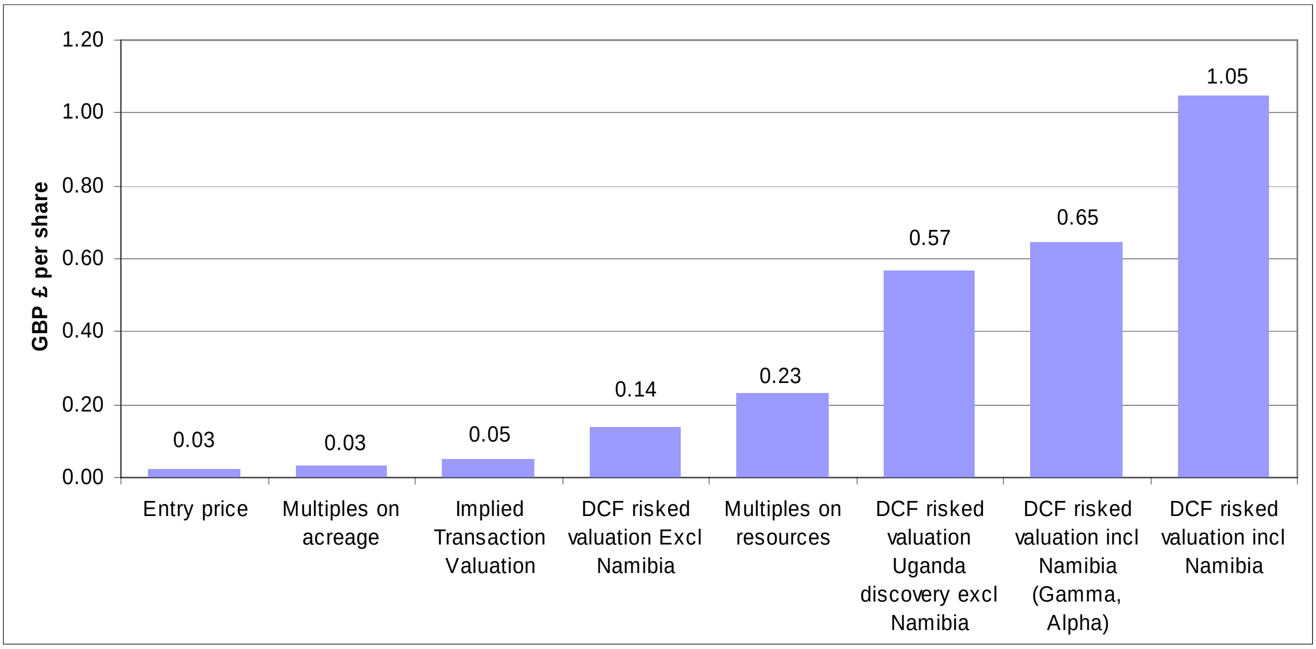


Source: FDC

Summary :

Our approaches to valuation are summarized in Exhibit 9 highlighting the significant upside should a commercial discovery be made in Uganda. Our recommended target price relies on our DCF valuation, comparison multiples on net acreage and working interest resources which support a 12 month target price of £0.15/share.

Exhibit 9: Valuation Summary



Source: FDC

Management Team:

The company has assembled an impressive board that is drawn from similar early stage start-up ventures that can claim successful track records in creating and transforming prospective acreage into enhanced shareholder value in Soco International, Enterprise Oil and Dana Petroleum. The company has also established a 12 person team in country within Uganda and experienced drilling manager to head up in-country operations.

Board of Directors

Peter Kingston, 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 and Remuneration Committees. As an experienced consultant in the field of corporate governance and social responsibility, he has advised various oil and gas companies and organizations on the business dimension of corporate responsibility and sustainability. He became Chairman of Tower Resources on 1st February 2006.

Peter Taylor, Non Executive Director
Peter Taylor is Joint Chairman of TM Services Ltd, an international oil and gas consulting company. In 1991, he was a founding member and 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. Mr Taylor was a director of Dana until 2001. He was also a founding member and director of Consort Resources Ltd, which became a significant North Sea gas production company, and of Planet Oil Limited, which was merged with Hardman Resources Limited in 1998. Mr Taylor was a founding member and director of Star Petroleum PLC, which was incorporated into Global Petroleum Ltd, which is dual ASX and AIM listed and which has significant interests in Kenya and the Falkland Islands. Mr Taylor is a founding member and director of Neptune.

Peter Blakey, Non-executive Director
Peter Blakey is Joint Chairman of TM Services Ltd, an international oil and gas consulting company. In 1991, he was a founding member and 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. He was also a founding member and director of Consort Resources Ltd, which became a significant North Sea gas production company, and of Planet Oil Limited, which was merged with Hardman Resources Limited in 1998. Mr Blakey was a founder member and director of Star Petroleum PLC, which was incorporated into Global Petroleum Ltd, which is dual ASX and AIM listed and which has significant interests in Kenya and the Falkland Islands. Mr Blakey is a founding member and director of Neptune.

Mark Savage, Non-executive Director
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 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 area. He has held directorships with a number of public companies. Mr Savage is a director of Global Petroleum Ltd which is dual ASX and AIM listed and which has significant interests in Kenya and the Falkland Islands.

Jeremy Asher, Non-executive Director
Jeremy Asher is Chairman of Agile Energy Limited, a privately held energy investment company; and a director of several non-energy-related companies. Following several years consulting with Mercer Management Consulting, Jeremy 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. As CEO of PA Consulting Group, he oversaw PA's globalisation and growth from 2,500 to nearly 4,000 staff. Jeremy is a graduate of the London School of Economics and the Harvard Business School.

Shareholding, Capital Structure and Capital Raising History

The current cash position is approximately $1.8m. A full listing of current shareholders is presented in Table 7 and the company's corporate structure and ownership is presented in Exhibit 10.

Tower does not expect to pay dividends in the immediate future. The company's cash burn monthly was $400k/month until the end of Q4 2008 which the company incurred on Environmental Impact Assessment submissions and drilling consents, thereafter it G&A costs equate to approximately $150k/month.

Table 7: Principal Shareholders

	Number of shares	% Holding
Bayview Investments LLC	100000000	17.0%
Credit Suisse Clients Nominees (UK) Limited	65966667	11.2%
Mr Peter Taylor	53069106	9%
Mr Peter Blakey	53069105	9%
Forest Nominees Limited	52310000	8.9%
Mr Ronald Bruce Rowan	25000000	4.2%

Source: Tower Resources

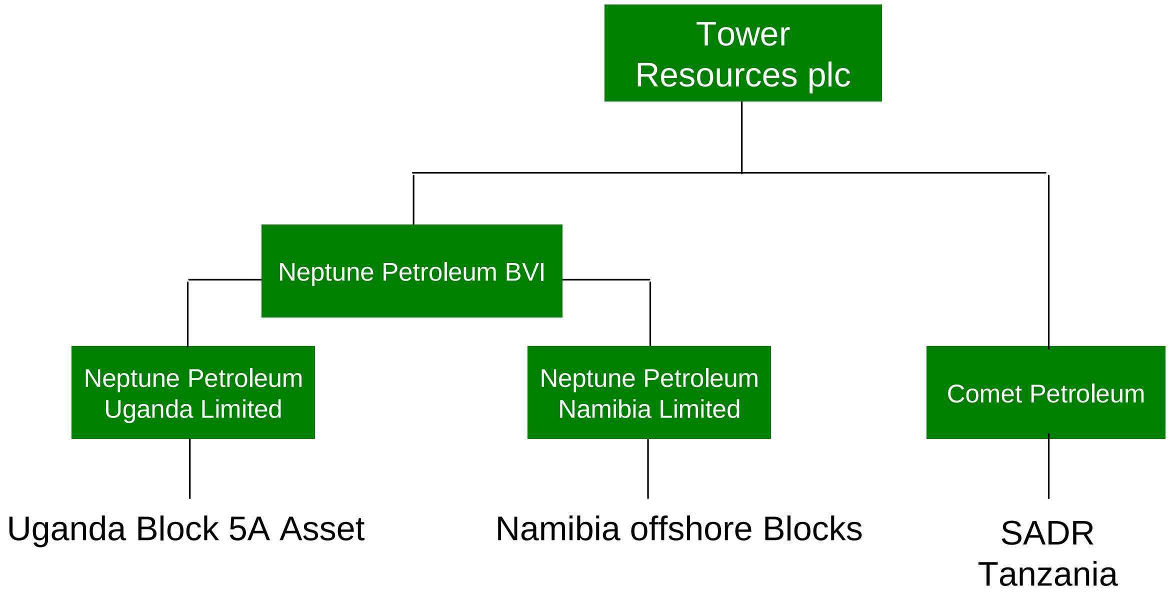
The company currently has 614,329,422 outstanding shares as at 14 November 2008. Management holds 7.9% of the total issued shares.

Table 8: Capital Structure

	Strike Price (p)	Expiry period	Number
Shares			
Total number of shares in issue			614,329,422
Options			
Options (issued 2-Feb-06)	1.5	2-Feb-11	1,000,000
Options (issued 2-Feb-06)	1.5	2-Feb-09	2,000,000
Options (issued 9-Feb-07)	3.125	9-Feb-08	1,000,000
Options (issued 3-May-07)	2.25	3-May-08	1,000,000
Options (issued 20-Sep-07)	2.75	20-Sep-08	1,000,000
Options (issued 1-Oct-08)	3.88	1-Oct-09	2,000,000
Options (issued 3-May-07)	2.25	3-May-12	1,000,000
Options (issued 1-Oct-08)	3.88	1-Oct-13	1,000,000
Options (issued 20-Sept-07)	2.75	20-Sept-12	1,000,000
Options (issued 1-July-08)	4.75	1-July-13	1,000,000
Options (issued 1-May-07)	2.25	1-May-12	1,000,000
Total number of options			13,000,000
Total number of fully diluted shares			619,329,422

Source: Tower Resources

Exhibit 10: Group Corporate Structure and Licence ownership



Source: Tower Resources

Table 9: Capital Raising History (2006-2009)

Date	Share issued	Amount Raised (GBP)	Price(p)
16 January 2006	133,333,333	2000000	1.5
05 February 2007	52,000,000	1040000	2.0
22 October 2008	51,500,000	1030000	2.0
12 January 2009	18,000,000	360000	2.0
15 January 2009	7,000,000	140000	2.0

Source: Tower Resources

Risks & Mitigation

Across the cycle from exploration phase through to the development we have identified a selection of risks which we address under commercial, environmental, geological and licensing risks.

Commercial

The ability to fully monetize its Block EA5 Ugandan potential resources and that of other regional players is very much dependent on the sanctioning of the proposed 500,000bopd 1200km Kampala-Mombasa pipeline that will transport oil to the Kenyan coast. The recent discoveries on Block 1, 2 and 3 between Heritage Oil and Tullow Oil which represents a gross upside of approximately 1000mmbbl has led both companies to declare that the commercial resources threshold has been reached and we understand that work leading up to a full development plan for the pipeline is expected to commence soon. Previously Heritage had indicated that a 350-400mmbbl threshold at $80/bbl represented the commercial threshold. Additionally, given the location of Block EA5 assets and the need to tie-into block 1 future processing hub, is heavily dependent upon the presence of commercial quantities of oil and this remains the greatest uncertainty.

On a successful discovery from either of its high impact prospects Tower could face further dilution when development capital is required. Given the recent ruling by the Ugandan Finance Minister on the withdrawal of tax breaks for early stage oil exploration companies highlights the propensity for a possible change in fiscal terms which would undoubtedly affect the economics. However, this is mitigated for existing discoveries as we understand this is not to be applied retrospectively. Furthermore, Uganda currently does not have a revenue management law to regulate how future oil revenues will be managed which if not managed efficiently may lead to lack of transparency on misallocations and ultimately civil and economic instability.

It must be noted that Tower has incurred previous delays to its anticipated first well in Uganda due to time consuming procedural issues with both government and partners. Tower has sufficient funds to cover G&A costs until the end of 2009 and having secured a rig and been granted Environmental Impact Assessment approval it is not expected that the anticipated spud date will be delayed beyond late March/April 2009. Given the recent unrest along the borders of Uganda, security remains a predominant theme for investors although the concerns are somewhat mitigated if tensions are localized. Nevertheless, this could pose a problem if unrest becomes widespread and could influence investor confidence in the wider region. Similarly, in Namibia between April and October a weather window applies due to sea swell and hence no seismic work in offshore Namibia can be undertaken.

Although the company expends a relatively low monthly cash burn rate of $150k, it is valid to assume that should spudding of the first well be phased over a longer period there exists the possibility that, given the cash balance of approximately $1.8m, this would only serve to meet care and maintenance operations for 12 months until end of 2009. However, the board has indicated its willingness to inject more funds to cover administrative costs which are typically low.

It is understood that the Ugandan government is endeavouring to encourage oil production from Lake Albert within the next 12 months. This theme is reinforced by the recent announcement of regional players, Tullow, to establish an early oil production facility to meet the needs of a local domestic market. The Ugandan government hopes to establish the country as a regional energy hub among the neighbouring countries of Rwanda, DRC, Southern Sudan, and Burundi all of which depend on imports from neighbouring Kenya. While this naturally raises some questions on much how production might be allocated for regional domestic consumption on account of the governments right of first refusal, we understand that an obligation exists for the government to purchase the crude at international prices.

Environmental

In respect of its Block EA5 Ugandan acreage, Tower expects the imminent approval of the Environmental Approval for its drilling operations. However, a separate environmental approval process much later in the field development cycle must be lodged and any delays may impact first production.

Geological

Within the Namibian prospects large gas reserves would be needed to justify commercial development. However, the likelihood of a free gas find is somewhat lessened by the geological survey data on the Namibia licence blocks which confirms subsurface oil seeps. Nevertheless, there still remains the question of whether charge risk exists on Block EA5. To some extent this is mitigated by a recent geochemical analysis of surface samples in the basin.

Based on similar regional seismic anomalies between Block 1 and Block EA5 there is strong evidence to suggest that a hydrocarbon kitchen exists, however, the presence of a seal still remains. The greatest geological risk was whether conditions for oil generation and entrapment existed in the reservoir. The recent seismic survey has confirmed that similarities with that encountered in Block 1 are present which to some extent de-risks the opportunity. Notwithstanding, if the Iti well is dry or of a size or scale that it is deemed to be non-commercial then sourcing external finance for a second well may prove difficult.

Licensing

Uganda has been relatively stable although the recent tensions along the border, in particular Lake Albert witnessed last year with Heritage Oil where an oil worker was fatally injured, underlines the regional tensions and the counter claims to potential resources beneath lake Albert.

One mitigating feature of this risk is that the company’s acreage in Block EA5 is not located alongside the border with the Democratic Republic of Congo unlike that of some of the other regional players. Recent LRA activity is currently taking place some distance from West Nile and could become an issue in the event of a major escalation, however this is presently considered by the company as unlikely.

Appendix 1 – Country & Assets Overview

Uganda

Country Background

Over the most recent period in its history Uganda has enjoyed a relatively stable geopolitical structure and offers an attractive fiscal regime which has attracted the calibre of Tullow Oil and Heritage Oil in Blocks 1, 2 & 3, while more recently Dominion Petroleum has secured an interest in Block 4A. One of the greatest drawbacks of the region is the landlocked nature of the country and this poses an obstacle to the monetization of resources in the near term. Uganda confirmed its first commercial oil reserves within Lake Albert in 2006.

However, recent hostilities have occurred between Uganda and the Democratic Republic of Congo particularly along Lake Albert which straddles the border and divides the basin. To some extent Tower remains relatively unaffected by any escalation in regional tensions given its acreage location is some distance from the border. Recent LRA activity is currently taking place some distance from West Nile area although the company considers that this mitigates the risk and that through its involvement with local authorities a major escalation is viewed as unlikely.

Asset & Geology Description

Tower's Ugandan licence is situated in Block EA5 at the northern end of the Albertine Rift basin adjacent to acreage operated by regional players such as Heritage Oil and Tullow Oil which have interests in Block 1, 2 and 3 as well as Dominion Petroleum which retains exclusive exploration rights in Block 4B.

Following the PSA agreement and licence award in 2006 Tower completed interpretation of a gravity magnetics survey across its licence situated along the prolific Albertine rift basin in Uganda which revealed several leads. Following interpretation this highlighted the potential for each prospect having 100mmbbl potential as well as a large number of smaller leads and prospects. This was supplemented and confirmed by a new 300km 2D seismic programme in late Q4 2007 entirely funded by its farminee partner Orca Exploration, a TSX-V listed company. Structures and prospects have been enhanced by the proximity of oil micro-seeps and recent work indicates evidences of a mature source rock in the Rhino Camp Basin that has generated and expelled oil. Following Orca Energy's relinquishment of its 50% interest on the block, Tower now holds a 75% working interest in Block EA5 on which it has farmed out 25% to be free carried by Global Petroleum (AIM:GBP ASX:GBP) through one firm commitment well.

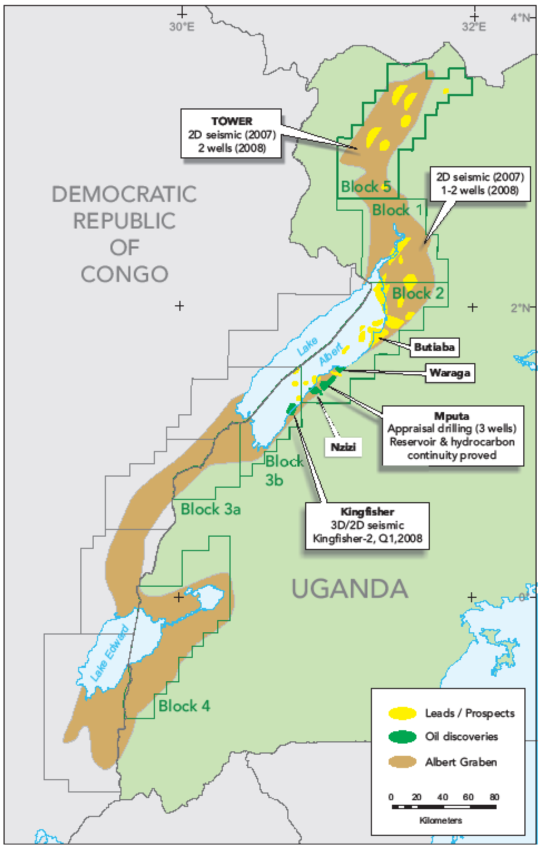
Within Block EA5 in the Rhino Camp basin there are three principal prospects, two of which have identifiable drill targets, the northern prospect Iti with 100mmbl prospective resources, and Sambia containing 100mmbbl to the south, while the remaining 3 leads, including Logbo, amount to 25mmbbl. The company's intention is to prioritize drilling on the northern prospect, Iti, and it has secured a rig for a projected spud date of March/April 2009. On successful commercial discovery on Iti the company may then commence drilling on the Sambia prospect.

Two well locations in Block EA5 have been selected and following approval by the Uganda Government two wells are planned within Q1 and Q2 2009. The company's recent geochemical survey has confirmed a mature active oil source and migration system within the Rhino Camp. This was always the greatest aspect of exploration uncertainty and the result thus significantly de-risks the area.

Management have secured a drilling rig for Q1 2009 to commence its potential back to back two well programme and have farmed down 25% to partner Global Petroleum for the forthcoming drilling program of one firm commitment well. Within Block EA5 Tower expects the time to reach the 700m target depth is only 7-10days excluding mobilization. The dry well cost is expected to be $6m with a further $1m for testing and completion while development wells estimated at approximately $4m each.

Tower has established good working relationships in country as it seeks to maximize its local workforce content which will auger well for efficiently expediting future work programmes. Tower, under its wholly owned subsidiary Neptune Petroleum, will operate the licence under a PSC with a brief outline of the terms presented in Appendix 3.

Exhibit 11 : Tower Ugandan Assets and Regional Discoveries

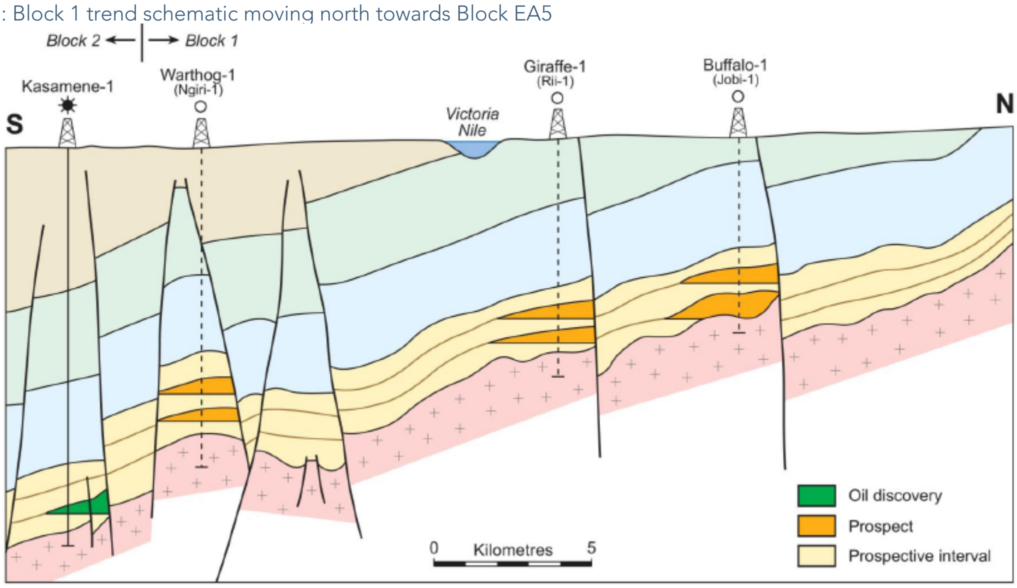


Source: Tower Resources

The region has witnessed much activity over the past three years since the entry of Tullow Oil, Heritage Oil and Dominion Petroleum with a succession of discoveries across Blocks 1, 2 and 3 making the area a region of high prospectivity, Exhibit 11. The blocks all lie along the Albert graben that straddles Lake Albert and the border with Democratic Republic of Congo.

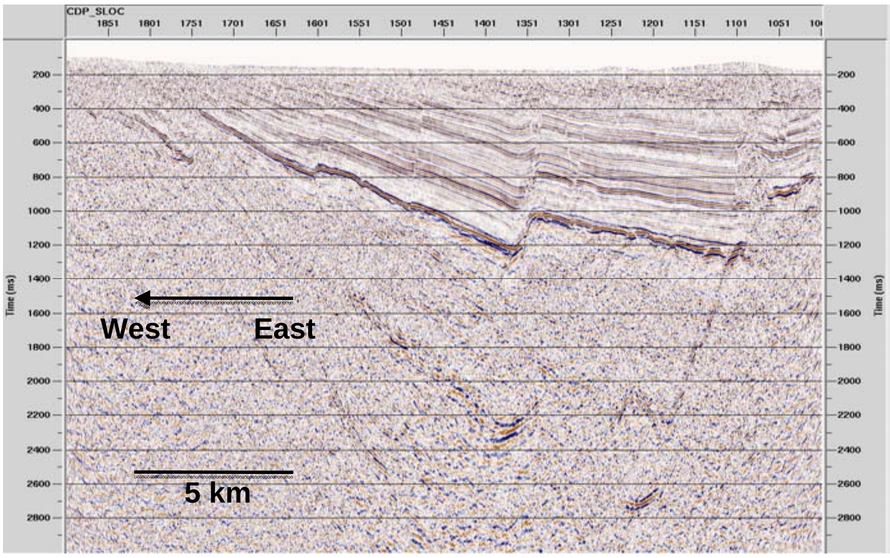
Geologically Block EA5 exhibits seismic similarities to that of Block 1 operated by Heritage, Exhibit 12, 13 and the northern part Block 2 where Tullow has achieved success with recent discoveries such as Kingfisher-2 on Block 2 along with the Warthog-1, Buffalo-1 and Giraffe-1 discoveries on Block 1. It is believed that Tower's acreage is similar to this trend indicating continuity at the time of deposition of reservoirs and source rock along the Albertine Rift Basin.

Exhibit 12 : Block 1 trend schematic moving north towards Block EA5



Source: Heritage Oil

Exhibit 13: Seismic of Block EA5 Graben Section confirming depression and uplift

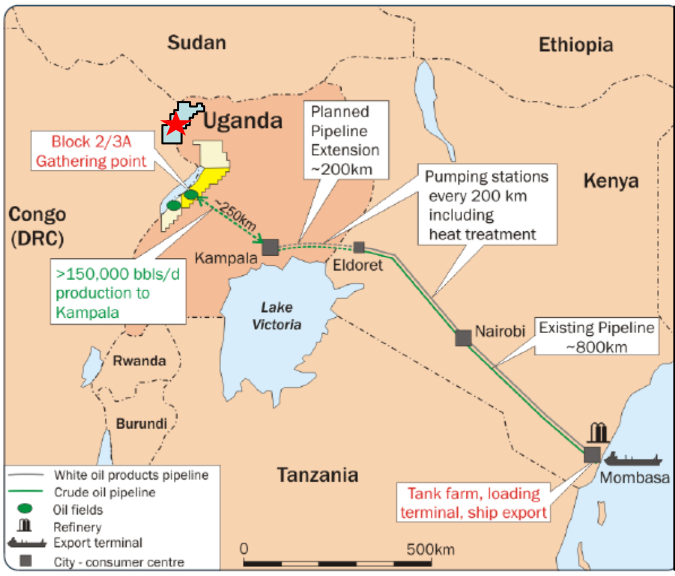


Source: Tower Resources

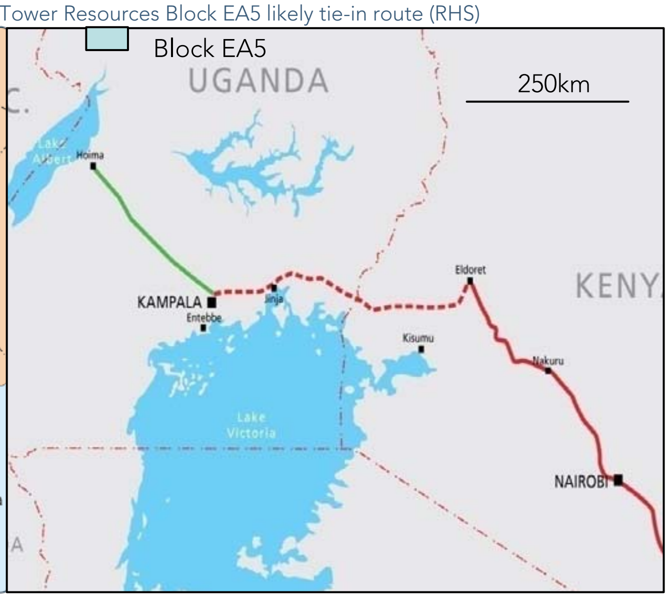
Development Strategy

Management has recently successfully secured the farm down of Block EA5 enabling it to be free carried by its partner Global Petroleum to drill one firm well and one contingent well to each earn 25% interest respectively by the end of Q1 2009. The initial focus will be on the block's two largest structures, Iti and Sambia. On a commercial discovery each well will be drill stem tested at a later date in an attempt to minimize the rig day rate. The potential 2 well back to back drilling programme may then be followed by a further exploration well on the Logbo prospect. In the event of success a further intensive well exploration and appraisal well programme is planned over the next 2-3 years before an extensive development well program and infrastructure facilities, Exhibit 14. The intent is for the crude to be delivered to a regional production centre east of Lake Albert to link up with the planned Kampala-Mombasa projected route in readiness for first oil in Q1 2013. Heritage Oil estimates that the cost of the 500,000bopd 1200km pipeline could be as much as $1.5-2.0bn and could be commissioned as early as 2012. Heritage Oil also provide an estimate on the required reserves threshold of between 350 and 400mmbbl at $80/bbl to make this commercial viable. Tullow had previously indicated a 400 million barrel of oil equivalent reserves threshold at $80/bbl that would make an export pipeline from Lake Albert to the East African coast economic, however they indicated that under falling oil price environment a higher threshold of 500 million barrels at $60/bbl would be required. To date heritage Oil and Tullow have discovered over 2.0bn bbl of gross upside between blocks 1, 2 and 3.

Exhibit 14: Tullow concept for export option (LHS)



Tower Resources Block EA5 likely tie-in route (RHS)



Source: Heritage Oil, Tullow Oil

Namibia

Country Background

The country is characterized by large vast unexplored acreage with a reliable contract environment where operators such as Tower and its partner have ownership of production and export rights and benefit from a stable democratic government. Namibia does not yet produce its own hydrocarbon energy, nor have any significant discoveries of oil or gas been made onshore or offshore despite some positive geological outlook efforts which have achieved limited interest among international industry players. Most recent interest has come from Hunt Oil that have explored offshore in 2000-3000m water while US player Vanco acquired seismic on Block 1711 close to the Angolan border but failed to source a farm-in partner for proposed drilling activity. Sonangol is also heavily involved in exploration efforts in eight offshore licence blocks in the Namibe basin. To date large gas discoveries have been made offshore in southern Namibia on the Kudu Field that straddles the Namibia and South African borders. Prospects were dashed when Chevron opted to relinquish its interest in the acreage, undeterred however Tullow Oil's subsidiary Energy Africa in conjunction with the Namibian government is investigating the technical feasibility of exporting gas from Kudu field in the form of Compressed Natural Gas. July 2008 witnessed the highest ever electricity consumer tariff increase of over 18% for the proceeding 12 months by the Namibian Electricity Control Board and with the highest ever demand of 450MW expected to increase 10 to 20% during the southern hemisphere winter, the energy deficit would appear to be worsening. To compound matters Eskom which previously fed an average of 120MW is itself struggling to meet its own local demand.

Namcor the country's national operating company has recently embarked on a drive to attract foreign direct investment within the upstream oil and gas sector on attractive basis. To achieve this Namcor has taken equity positions in several exploration prospects operated by international operating companies in the region.

Asset & Geology Description

Tower holds a 15% working interest in Blocks 1910A, 1911 and 2011A offshore Namibia, Exhibit 15, covering an area of almost 22,000km2 in water depths ranging from 200 to 3000m. Over the last two years Tower and its funding and operating partner Arcadia have undertaken much work on its Namibian licences with the interpretation during 2006 of 10,000km of existing 2D seismic across all its licences revealing strong direct hydrocarbon indicators. To supplement this data Tower and Arcadia acquired a further 700km of new 2D seismic data over its three offshore licences 1910A, 1911 and 2011A in Q3 2007 in water depths ranging from 1000-1500m. This seismic data set revealed giant structures that according to the company could contain up to 10bn bbl along with large volumes of associated gas. Tower and Arcadia have employed AVO analysis on the Alpha structure to confirm the seismic data which has provided strong indication that the geologists chance of success is high in relation to other early stage global exploration companies. Seismic data over the Gamma lead is sparse while the Delta lead has 2D seismic but no high resolution seismic.

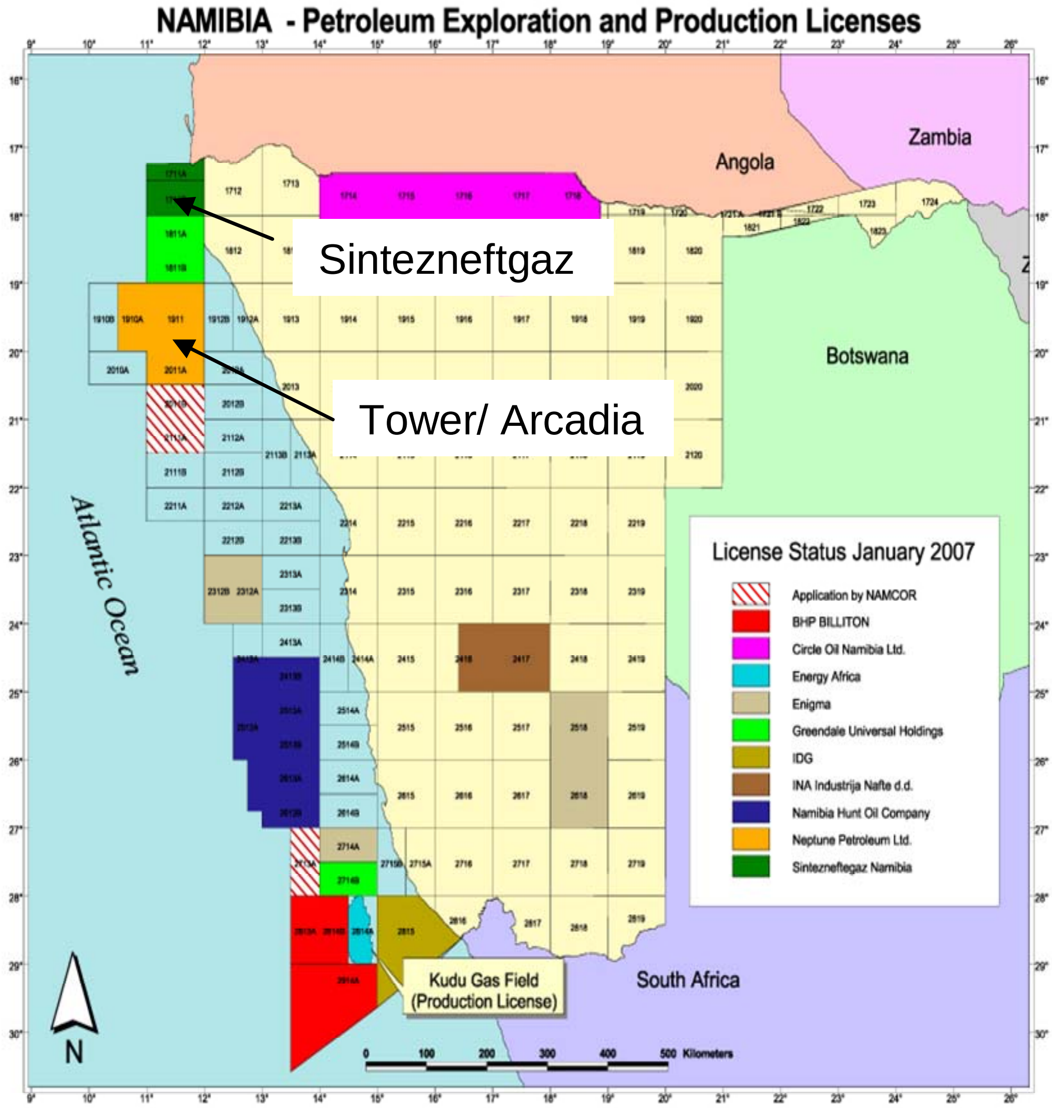
This potential enabled Tower to successfully engage in farm out discussions with potential farminees which it completed in Q3 2007 with the farm-out to Arcadia Petroleum to fund a 3D seismic program, drilling of 1 exploration well and 1 appraisal or exploration well and 85% reimbursement of previous costs up to $6m. It is anticipated that the dry hole cost in Namibia could cost in the region of between $50-75m and the time taken to reach target reservoir depth of 1500m is 45days.

A further programme of seismic acquisition and interpretation is currently underway to thoroughly evaluate the geological chance of success with drilling in Namibia now expected to occur in 2010. Tower retains a 15% working interest on the blocks in which Arcadia Petroleum is the operator. The operator Arcadia is funding all exploration activities on block for one firm well and a possible second contingent well thus eliminating the financial risk and downside for Tower. Arcadia Petroleum is a well funded commodity trading company that is adequately capitalized to meet its obligations on the block and which has also farmed into Desire Petroleum's North Falkland Basin licence in August 2008.

To a large extent the area remains mostly unexplored with the exception of Kudu field in the south which Tullow Oil is investigating the technical feasibility of exporting compressed natural gas. The current exploration activity in country has seen Sintezneftegaz drill the Kunene #1 well on Block 1711 in Namibia's most northern offshore blocks. It is understood that the well cost was $79m and took approximately 50days to reach a target depth of 4,400m. Recent reports on the well performance have indicated that the well failed to test in commercial quantities despite the discovery of a long gas column, although the precise reasons for this currently are currently being evaluated.

Tower has negotiated and agreed a concession fiscal structure. A summary of which is presented in Appendix 3.

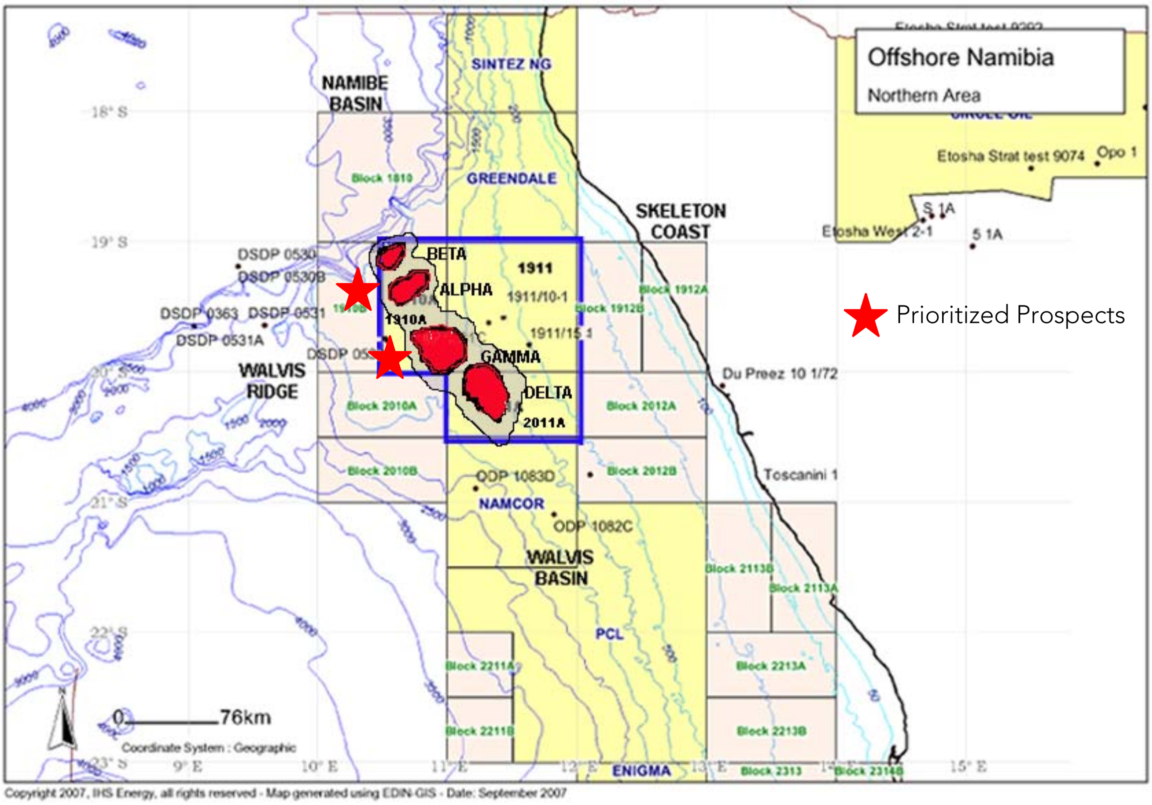
Exhibit 15 : Tower's three Namibian Licence Areas (under joint venture partner Arcadia Petroleum)



Source: Tower Resources

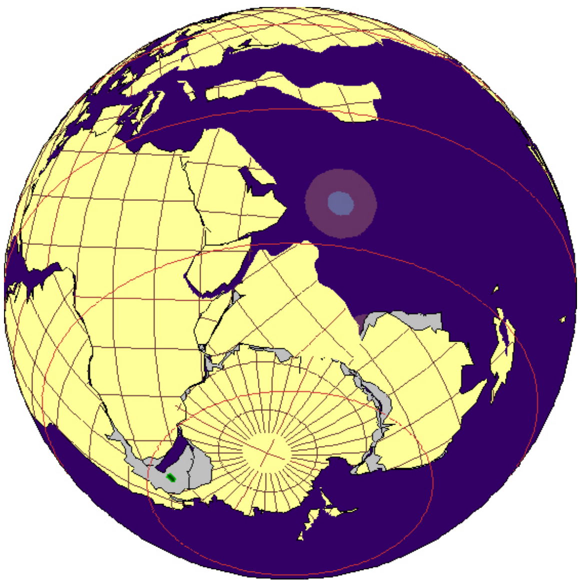
Tower's three prospects are situated at the structural high point of the Walvis ridge situated between Angola and South Africa and are believed to have been formed 200 million years ago upon the opening of the South Atlantic, Exhibit 17. The geology would appear to support the presence of two mature source kitchens on the Namibe basin and Walvis basin that straddle the Walvis Ridge. Early interpretation of the seismic data suggests that Alpha, Delta and Gamma leads are likely to be oil dominated on the basis of migration from the north, Exhibit 16.

Exhibit 16: Tower's offshore Namibia prospects on the Walvis Ridge



Source: Tower Resources

Exhibit 17: South Atlantic formation inception



Source: Tower Resources

Development Strategy

Tower is free carried through exploration phase through the operatorship of Arcadia in a two exploration well commitment with a second exploration well being optional on the outcome of a hydrocarbon discovery on the first well. To supplement the existing previous data set of seismic data Arcadia plans to shoot 3,000km of 2D seismic data by Q1 2009 in an attempt to more precisely identify potential drill targets. The terms of the licence stipulate the requirement to complete and interpret an exploration well before mid 2012 and it is anticipated that the partners will meet the objective. Of the three leads, the partners intend to prioritise Alpha and Gamma prospects.

Other Interests

Tower also has through its 100% ownership of Comet Petroleum, a 50% interest in two offshore exploration licences (Guelta and Bojador) in the Saharawi Arab Democratic Republic in water depths ranging from 100 to 2,800m although the most prospective acreage is known to be located in 200-500m. The basin has limited exploration history and lies along the North Atlantic margin of Northwest Africa and adjacent to the proven petroleum systems of Mauritania and remains one of the few basins that is still unexplored. The company incurs a $30k/annum charge for the optimality to keep open the licences. In the latest licensing round in SADR for which the closing period has been extended in Q1 2009 Tower has applied for a prospective block.

Tower has also been conditionally awarded an Exploration licence covering onshore acreage close to Lakes Eyasi, Wembere, Natron and Manyara in the north east of Tanzania, however the award of the licence is subject to completion and agreement of the terms of PSA which would be subject to discussions with Tanzania Petroleum Development Corporation which have not yet begun.

Both acquisitions are consistent with the company's corporate strategy. Due to the early stage nature of these projects and the dearth of data and development these have been excluded from our risked valuation.

Given the strong relationships that key shareholders and existing directors enjoy within the sector, further opportunities are being generated, ensuring a steady delivery of potential assets and acreage.

The directors of the company are continually engaged in ongoing negotiations to secure frontier acreage in stable geopolitical environments that could further strength the company's exploration profile

Appendix 2 - Modelling Assumptions & Sensitivity Analysis

In our approach to deriving a hypothetical DCF for Uganda and risked exploration upside for Namibia we have relied upon the projected annual CAPEX spend supplied by the company, taking into account the following considerations.

- We have used the FDC price deck for our long term oil price of $80/bbl with a -5% correction to Brent for Ugandan crudes which are known to have an oil quality of 33-37API and a sulphur content of 0.09%
- Fiscal terms according to Appendix 3 are applicable
- Expected oil transportation tariff is estimated at $2.00/bbl from Block 5 to Block 1 Uganda, while a $9/bbl allowance was considered for the transportation cost from Kampala to Mombasa.
- In line with our valuation methodology we have considered a real discount factor of 12.5% for Uganda.

Table 10: Projected net CAPEX spend for Uganda 2009-2014 ($m)

	2009	2010	2011	2012	2013	2014
Uganda Block EA5	3.5	26.5	26.5	55.0	136.5	83.5

Source: Tower Resources

Table 11: Sensitivity Analysis NPV (12.5) For a Ugandan discovery excl Namibia

Discount rate @ $80/bbl	10%	12.5%	15%	17.5%	20%
Risked NAV GBP/share	0.74	0.58	0.45	0.36	0.29
Brent Price ($/bbl)	35	50	65	80	100
Risked NAV GBP/share	0.07	0.30	0.44	0.58	0.76

Notes : USD/GBP FX rate (1.46)

Source: FDC

Appendix 3 - Fiscal Terms

Tower has negotiated and secured the terms for its licences in Uganda and Namibia. In Namibia the terms are covered under that of a concession agreement comprising of a simple tax and flat rate royalty structure, while for Uganda a PSC agreement governs. Due to the confidential nature of the fiscal terms for Uganda we can only describe the broad framework of the regime for Namibia as indicated in Table 12.

Table 12: Basic overview of fiscal terms across assets

Country	Licence Block	Working interest %	Royalty	Cost Recovery	Tax	Notes
Namibia	Offshore 1910A, 1911, 2011A	15%	5%	---	42%	Carried through exploration

Source: Tower Resources

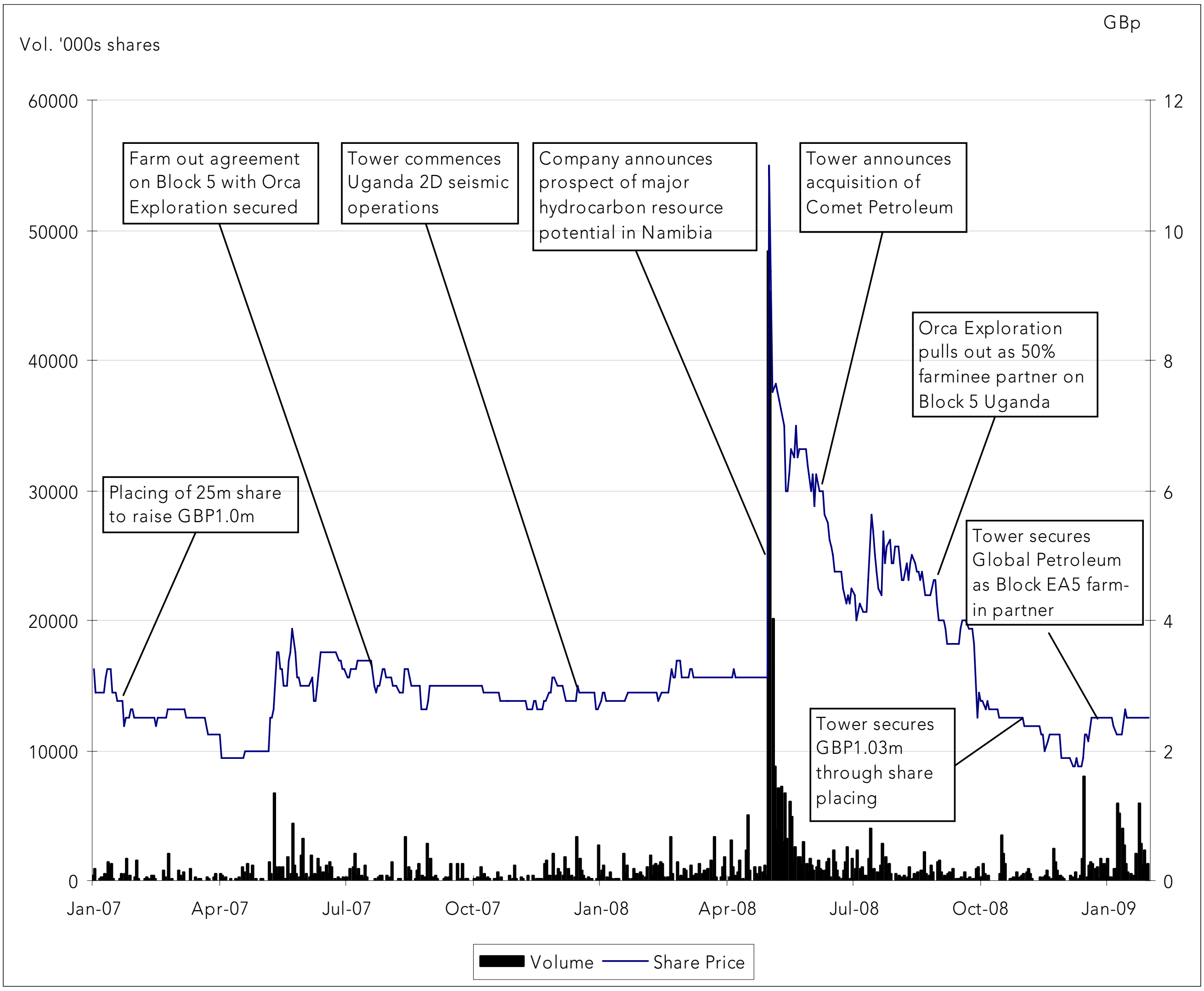
The Namibian fiscal terms are a simple tax and flat rate royalty structure, however in addition there will be an additional profits tax levied which is determined by formula, equivalent to 25%.

In addition to the PSC the Ugandan government applies a field rental payment structure dependant upon the current phase of exploration.

Appendix 4 - Share Price Performance Catalysts

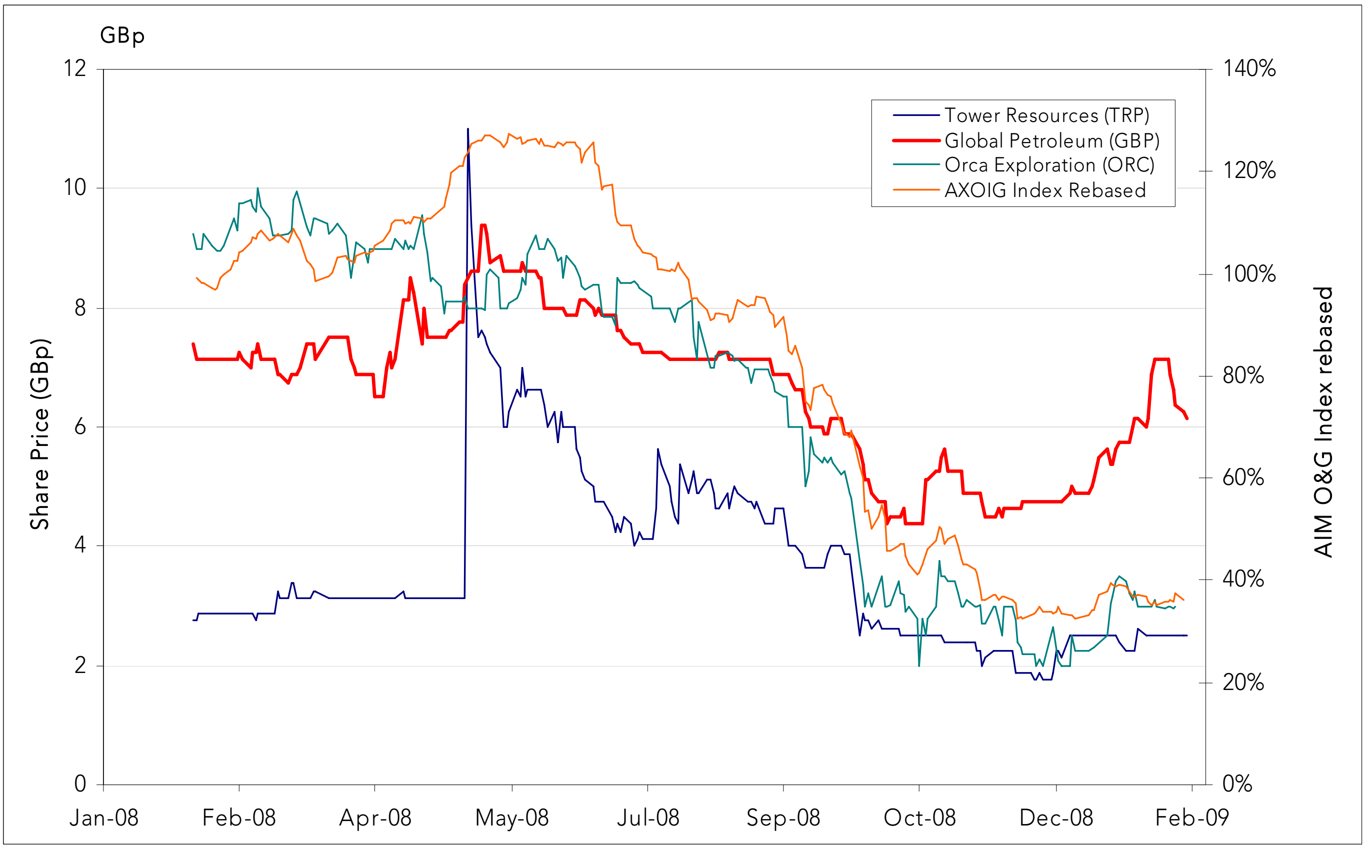
Within Exhibit 18 we present a profile of the company's recent share price performance over the last two years to provide a high level overview of the impact share price catalysts. We also present the performance of Tower's 12month share price performance against previous and current farminee partners, Exhibit 19, which we believe does not reflect the positive news of the farm-in and the impact of an imminent drilling profile in comparison with its recent farm-in partner Global Petroleum.

Exhibit 18: Share Price and Trading Volume History with key catalysts (Jan 2007 – Jan 2009)



Source: FDC, Bloomberg

Exhibit 19: Comparison of Tower Resources annual share price performance against farminee partners and AIM O&G index



Source: FDC, Bloomberg

Appendix 5 - Profit and Loss Statement / Balance Sheet

Table 13: Tower Resources P&L ($)

	FY2007	FY2006
Revenue	-	-
Cost of Sales	-	-
Administrative expenses		
Admin expenses before charge of share based payments	(913,652)	(954,399)
Share based payments	(370,819)	(174,841)
Total Administrative expenses	(1,284,471)	(1,129,240)
Group Operating Loss	(1,284,471)	(1,129,240)
Finance Income	164,668	122,518
Operating Loss before taxation	(1,119,803)	(1,006,722)
Taxation	-	-
Loss for the period	(1,119,803)	(1,006,722)
Loss for share Basic	(0.21)	(0.30)
Loss for share Diluted	(0.21)	(0.30)

Source: Tower Resources

Table 14: Tower Resources Consolidated Balance Sheet ($)

	FY2007	FY2006
ASSETS		
Non Current Assets :		
Plant and equipment	106,967	3,339
Goodwill	7,979,502	7,979,502
Intangible exploration and evaluation assets	711,590	1,408,868
	8,798,059	9,391,709
Current Assets :		
Trade & other receivables	3,121,389	55,116
Cash & Cash equivalents	5,534,815	2,456,825
	8,656,204	2,511,941
TOTAL ASSETS	17,454,263	11,903,650
LIABILITIES		
Current Liabilities :		
Trade and other payables	(3,365,132)	-
Total Liabilities	(3,365,132)	(133,473)
NET ASSETS	14,089,131	11,770,177
EQUITY		
Capital and Reserves	1,052,505	897,874
Share Capital	14,926,206	12,012,899
Share-based payment reserve	545,660	174,841
Retained Losses	(2,435,240)	(1,315,437)
Shareholders' Funds	14,089,131	11,770,177

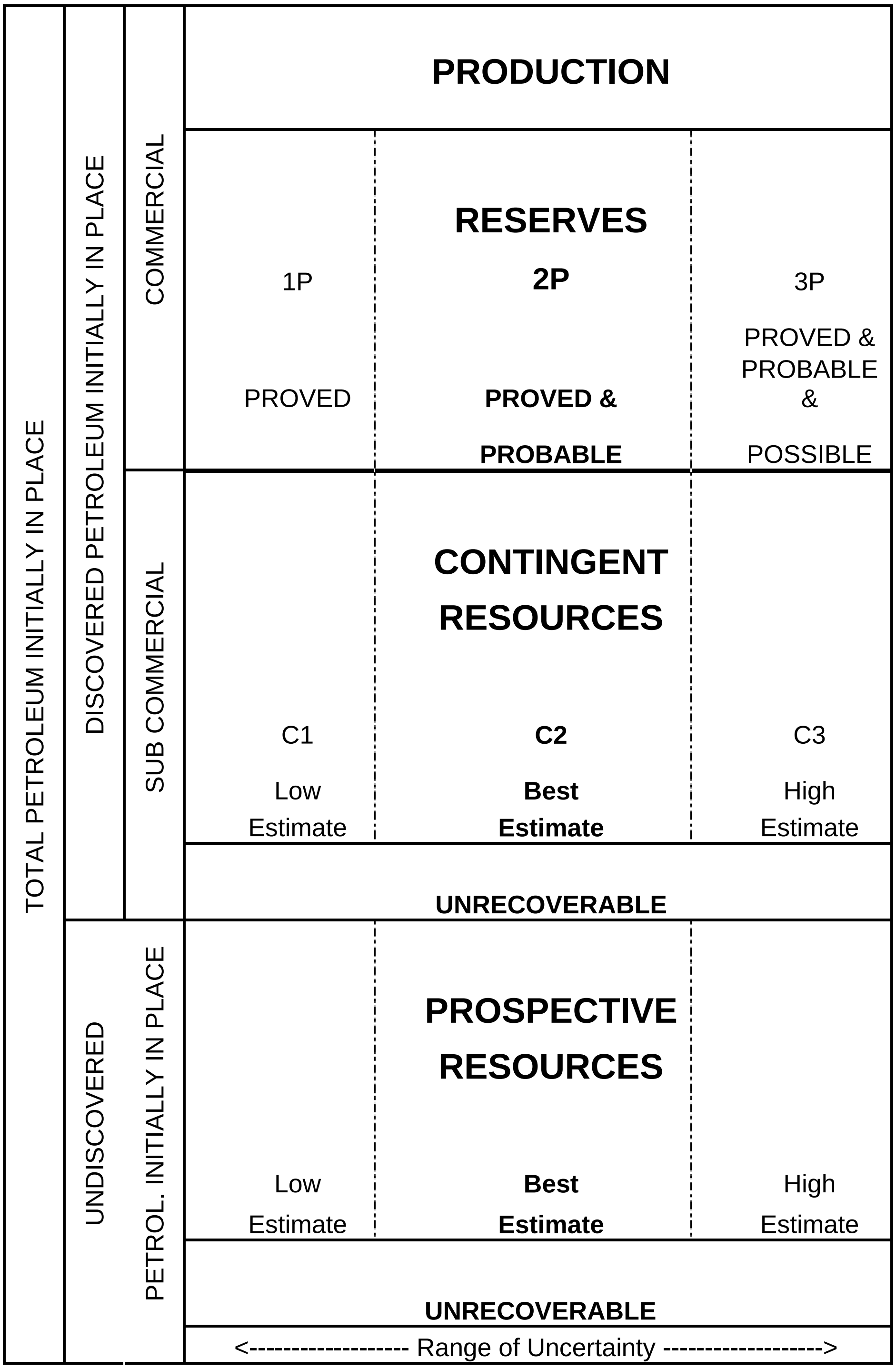
Source: Tower Resources

Glossary

API	American Petroleum Institute
bbl(s)	barrel(s)
bcf	billion cubic feet
bcm	billion cubic metres of gas (1 cubic metre = 35.31 cubic feet)
bcpd	barrels of condensate per day
bn	billion
boe	barrels of oil equivalent (1bbl = 6,000cf of natural gas)
bopd	barrels of oil per day
cfd	standard cubic feet per day
chg	change
CoS	chance of success, or risk factor
EMV	expected monetary value
EV	enterprise value
ft	feet
GIIP	gas initially in place
in	inches
IPO	initial public offering
IRR	internal rate of return
km	kilometres
lead	potential area where one or more accumulations are currently poorly defined and require more data acquisition and/or evaluation in order to be classified as a prospect
m	metres
MCap	market capitalisation
mcf	thousand cubic feet
mD	milidarcy
mmbbls	million barrels of oil
mmboe	million barrels of oil equivalent
mmcf	million cubic feet
mmcfd	million cubic feet per day
MM	million
NAV	net asset value
NGL	natural gas liquids
NOMAD	nominated advisor
NPV	net present value
OGIP	original gas in place
OOIP	original oil in place
P1	proven reserves (reserves considered to have at least 90% chance of being recovered)
P2	probable reserves (reserves considered to have at least 50% chance of being recovered)
P3	possible reserves (reserves considered to have at least 10% chance of being recovered)
2P	Sum of proven plus probable reserves
3P	Sum of proven plus probable reserves plus possible reserves
Play	recognised prospective trend of potential prospects, but which requires more data acquisition and /or evaluation to define specific leads and prospects
Prospect	potential accumulation that is sufficiently well defined to represent a viable drilling target
psi	pounds per square inch
q-o-q	quarter-on-quarter
SPO	secondary public offering
strip	an arithmetic average of forward prices over a given number of months
t	tonne (1t = 7.33 barrels of crude oil)
t/d	tonnes per day
y-o-y	year-on-year

Petroleum Resources Classification System

Exhibit 20: Petroleum Resources Classification System



Source: Society or Petroleum Engineers and World Petroleum Congress (WPC)

Research Disclosures

Stephane Foucaud – Head of Oil & Gas Research

Stephane Foucaud was a senior Oil and Gas Analyst at Société Générale in London where he covered Royal Dutch Shell, BP, BG Group, StatoilHydro and Cairn Energy. Stéphane has also worked for Schlumberger for 7 years in various technical, operational management and corporate strategy roles. His previous experience includes working as a field engineer with Geoservices SA. Stéphane has an MSc in Engineering from the National School of Electrical and Mechanical Engineering of Nancy and an MSc in Exploration Production from the French Petroleum Institute and an MBA from INSEAD in Paris.

T +44 (0)20 7936 5241
E stephane.foucaud@fdcap.com

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Research disclosure as of 06 February 2009

Company Name	Disclosure
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5. As of the month end immediately proceeding the date of publication of this report, or the prior month end if publication is within 10 days following a month end, Fox-Davies Capital Limited and / or its affiliates beneficially owed 1% or more of any class of common equity securities of the Relevant Issuer.
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The Investment Analyst who is responsible for the preparation of this Investment Research has received (or will receive) compensation linked to the general profits of Fox-Davies Capital Limited.

Research recommendations

Fox-Davies Capital uses a five-tier recommendation system for stocks under coverage:

Buy	Recommendation implies that expected total return of at least 15% is expected over 12 months between current and analysts' target price.
Trading Buy	Recommendation implies that the analysts' expected total return over the short term compared against the target price is positive.
Hold	Recommendation implies that expected total return of between 15% and zero is expected over 12 months between current and analysts' target price.
Trading Sell	Recommendation implies that the analysts' expected total return over the short term compared against the target price is negative.
Sell	Recommendation implies that expected total return expected over 12 months between current and analysts' target price is negative.

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FDC enjoys a successful track record in advising and undertaking fundraising transactions for its clients from private equity to IPO and secondary offerings and works with over 350 specialised institutional resource and emerging markets funds worldwide.

FDC provides professional advice based on effective analysis and research to assist its corporate clients in presenting their proposals to the investment community. Our strength lies in the oil & gas and mining sectors where as a company we have advised clients on AIM and ASX.

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Fox-Davies Capital Coverage

Fox-Davies corporate client & coverage universe as of 06 February 2009:

Company	Ticker	Recommendation	Date	Target Price	Last Price
Afren	AFR	BUY	21.11.08	£1.00	£0.20
Aurelian Oil and Gas	AUL	BUY	10.11.08	£0.75	£0.16
BPC Ltd	BPC	BUY	04.11.08	£0.13	£0.02
Cadogan Petroleum	CAD	BUY	15.01.09	£1.45	£0.17
Enegi Oil	ENEG	BUY	03.12.08	£1.50	£0.68
JKX	JKX	BUY	13.11.08	£3.85	£2.18
Range Resources	RRL	HOLD	04.11.08	£0.06	£0.02
Regal Petroleum	RPT	BUY	14.11.08	£3.40	£0.39
Sibir Energy	SBE	HOLD	14.01.09	£2.85	£1.58
Tower Resources	TRP	BUY	06.02.09	£0.15	£0.03
Zhaikmunai	ZKM	BUY	09.12.08	$13.10	$2.11

Date	Recommendation	Target Price (p)
6 February 2009	Set target price (initiation of coverage)	15.0

Disclaimer - Important Information

Tower Resources

Sales

Oliver Stansfield +44 (0)20 7936 5222
oliver.stansfield@fdcap.com

Christiane Katzer +44 (0)20 7936 5226
Christiane.katzer@fdcap.com

Corporate Broking

David Poraj-Wilczynski +44 (0)20 7936 5226
David.poraj-wilczynski@fdcap.com

Inna Lozinskaya +44 (0)20 7936 5261
Inna.lozinskaya@fdcap.com

Research

Peter Rose +44 (0)20 7936 5246
peter.rose@fdcap.com

Stephane Foucaud +44 (0)20 7926 5241
stephane.foucaud@fdcap.com

Andy Davidson +44 (0)20 7936 5242
andy.davidson@fdcap.com

Gerry Donnelly +44 (0)20 7936 5244
gerry.donnelly@fdcap.com

Ian Lucas +44 (0)20 7936 5245
ian.lucas@fdcap.com

Market Making

Russell Jackson +44 (0)20 7936 5214
russell.jackson@fdcap.com

Chris Hart +44 (0)20 7936 5227
christopher.hart@fdcap.com

STX 77766

Dealing

Steve Cowan +44 (0)20 7936 5247
Steve.cowan@fdcap.com

Ken Taylor +44 (0)20 7936 5235
Ken.taylor@fdcap.com
STX 77767

Fox-Davies Capital
Whitefriars house
6 Carmelite Street
London EC4Y 0BS

T +44 (0) 20 7936 5200
F +44 (0) 20 7936 5201

www.fdcap.com