TOWER RESOURCES PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 18 MONTHS ENDED 31 DECEMBER 2006

CONTENTS

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 Michael Bottomley	
Company Number:	5305345	
Registered Office:	30 Farringdon Street London EC4A 4HJ	
Nominated Adviser and Broker:	Blue Oar Securities plc 30 Old Broad Street, London EC2N 1HT	
Solicitors:	Watson Farley & Williams LLP 15 Appold Street, London EC2Y 2HB	
Group Auditors:	UHY Hacker Young LLP St Alphage House 2 Fore Street London EC2Y 5DH	
Registrars:	Capita IRG Bourne House 34 Beckenham Road Beckenham Kent, BR3 4TU	
Bankers:	Barclays Bank Plc Piccadilly Corporate Banking Centre 50 Pall Mall, London SW1A 1QA	

CHAIRMAN'S STATEMENT

Your Company has made steady progress with its operations in Uganda and Namibia during 2006, continuing into this year to the point where seismic surveys are expected to take place for each venture before the end of 2007. Preparations are also underway to drill two wells in Uganda Block EA5 as early as possible in 2008. The evaluation programmes under way since the beginning of 2006 have yielded very encouraging results in both Uganda and Namibia and the Board's optimism about prospectivity in both Licences has steadily increased over the review period.

The success achieved by other operators in Uganda has raised awareness of what promises to be an exciting new oil production province. These existing discoveries lie in the southern area of the sedimentary basin but the exploration focus is moving northwards towards the Tower Licence. Active seismic acquisition is being undertaken by Tullow and Heritage to the north of Block 2 and in Block 1 no more than 50-100 kms from Tower's area of interest in Block 5. The past year has involved patient assessment of prospectivity – the next year will see excitement build culminating in the first exploration well.

In Namibia, detailed discussions are underway with a farm-in partner. However, because of local sea conditions which have delayed 2-D seismic, and the possible need for 3D seismic acquisition, the overall seismic programme will be over a longer period than in Uganda. Two years or more may be necessary to complete the seismic programmes before a first exploration well is drilled in Namibia. Notwithstanding that, the detailed seismic processing and interpretation that is now complete has revealed some very large structures coincident with strong indications of natural gas. Though the risk remains fairly high, success would be highly rewarding. The Board is excited that the prospectivity of the Namibia acreage has been significantly upgraded as a consequence of the evaluation programme.

Financial Highlights

Operating loss over the reporting period from 1 July 2005 to 31 December 2006 was £580,000. Capital expenditure was £720,000 being principally the capitalised expenditure on exploration studies. Cash balances at year end were £1,254,000 and this has increased to £2,343,601 at the end of March after the introduction of £1,425,000 of new equity in the first quarter. £140,000, being the balance of the investment from Agile, is due at the end of April 2007. There is sufficient capital to fund the Company's activities over at least the next six months and an expectation that new funds can be introduced if necessary to meet commitments for the remainder of 2007.

Operations Summary to end 2006

<u>Uganda</u>

Comprehensive evaluation of gravity and magnetic data gave encouragement that there were sufficient sediments at sufficient depth, to generate commercial quantities of hydrocarbons. The total contained basin area was shown to be at least 1100 - 1200 sq kms, equivalent to more than 5 complete North Sea Blocks. Extension of the proven rift basins at the southern end of Lake Albert northwards into EA5 was confirmed, albeit at a shallower depth than Block 2. Geochemical assessment has confirmed the likelihood that hydrocarbons could have been generated in significant quantities. The largest structural features identified by the gravity interpretation are of significant size, each up to 35 sq km in total area.

<u>Namibia</u>

Approximately 10,000 kms of seismic line length was purchased from TGS-Nopec, covering most of the 23,000 sq km Licence area, some of it in reasonably close spacing. The initial interpretation showed multiple structures, coincident with or adjacent to a large deep basin, mostly represented by moderate sized fault traps, but three very large structures were present, adjacent to the deepest part of the basin. Several of the basinal fault trap structures also showed indications of hydrocarbons.

Geochemical studies indicated that four potential source rocks could be mature for generation of hydrocarbons; the two deepest of which being likely to have significant areas at peak maturity. A surface seep detection survey yielded ambiguous results but gave some support for light liquid hydrocarbon seeps in a couple of places.

Since year-end and looking forward

Uganda

Work in 2007 has largely been directed at planning for the seismic programme now due to begin shooting in early September. A geological field trip has just been completed, in conjunction with an evaluation of land satellite information. Valuable information was gathered but no obvious surface seeps of oil were encountered, despite information from local communities of oil on the River Nile. A further programme will be undertaken later in the year to investigate some areas of interest in more detail.

The highlight of this year in Uganda was the discovery by Heritage of oil under Lake Albert at significantly greater depth than earlier discoveries, within closure of a very large structure. Reservoir sands were of high quality and comparatively thick.

Namibia

The main focus of evaluation to date in 2007 has been the reprocessing of a small number of key seismic lines and reinterpretation using Amplitude Variations with Offset (AVO) analysis, which gives an enhanced assessment for the presence of hydrocarbons, particularly natural gas. This analysis has heightened the evidence to support natural gas presence, particularly in the northern area of the Licence. The most interesting result was the strong evidence of gas coincident with the largest known structure and future evaluations will be focused on this prospect. AVO analysis of seismic lines through two previous dry holes on the Licence showed little evidence of gas in the area of drilling and this is also encouraging.

It is now unlikely that the seismic commitment programme can be started before the onset of the annual period when weather conditions are not suitable for seismic acquisition. Plans are being made to record at the earliest opportunity, which will likely be in November of this year. The seismic programme is being designed to optimise the quality of AVO analysis.

Corporate Outlook

The next year should be exciting for exploration in Uganda, with a well programme being planned. As operations have become more advanced, the need to meet the commitments as operator has required the input of more manpower resources. Russell Langusch was no longer able to meet the growing demands as the executive director and I have assumed the role of Executive Chairman to direct activities going forward. Russell's assistance in launching the company and taking it forward during the early months was invaluable and the Board thanks him for his contribution. His place on the Board has been taken by Jeremy Asher who has also committed just over £1 million of new investment. He has assumed the role of Audit Committee Chairman. His contribution to the Company has already been significant and I extend him a warm welcome to the Board.

In the context of Uganda operations, the intention is now to put in place a local administration in Kampala with a full-time general manager and suitable support staff. Operations and logistical resources will be established with maximum use of local suppliers. An environmental impact assessment has been prepared and submitted to the Uganda Government for approval prior to the seismic programme. Community liaison activities have already begun and will be an important element of local activities. A Health and Safety Management System has been prepared and details are being finalised.

Significant operations in Namibia will be slower to unfold but the scale of the potential will support significant value for the Company. It is a priority to farm out this Licence to a financially strong partner, who would undoubtedly become the operator. Current prospects for farming out are encouraging with detailed discussions underway with a potential partner.

Tower Resources has now evolved from being a new Licence holder to being a seismic and soon to be drilling operator. Tower will soon have the capacity to review and manage other opportunities, probably in Africa, to maintain the current focus, although the emphasis will be on a small number of good quality prospects rather than a large portfolio. The year ahead will see significant tangible development. Thank you for your ongoing support.

Peter Kingston
Chairman
2 May 2007

DIRECTORS' REPORT
FOR THE 18 MONTHS ENDED 31 DECEMBER 2006

The Directors present their second Annual Report, together with the audited financial statements of Tower Resources plc and its subsidiary undertakings ("the Group" or "the Company" or "Tower") for the period ended 31 December 2006. Due to a change of the accounting reference date from 30 June to 31 December, the period covered by this report and financial statements is 18 months.

The Company was first listed on the Alternative Investment Market ("AIM") of the London Stock Exchange on 13 January 2005 and subsequent to the acquisition of Neptune Petroleum Limited, was re-listed on 17 January 2006.

The Company is registered in England having been incorporated on 6 December 2004 under the Companies Act with registered number 5305345 as a public company limited by shares.

Principal activity, business review and development

The Group's principal activity is the exploration for oil and gas in Africa. It conducts its business via two operating subsidiaries in Uganda and Namibia where it holds 100% of an onshore Licence in Uganda and 100% of an offshore Licence in Namibia. The immediate priority is to meet the Licence commitments assumed in both countries within the obligation period. Good progress is being made in Uganda, where a six-month Licence extension has been agreed to March 2008, with the 250 km seismic commitment due to begin in mid-2007 and a two well drilling programme before the middle of 2008. Substantial technical work has been completed for the Namibian Licence and 1000km of 2-Dimensional seismic is planned in the course of 2007.

Oil discoveries were made for the first time by other operating groups in Uganda during and since the end of 2006. This has enhanced the prospectivity of the Tower acreage and has encouraged the Group to accelerate its planned drilling programme. The Namibian Licence is far from any existing discoveries of oil or gas and is therefore of greater risk. Nevertheless, the work completed to date has identified very large prospects of potentially commercial scale and strong indications that natural gas may be present.

Considerable technical evaluation work has been completed in both countries during 2006 in preparation for seismic operations during 2007. The completion of this work was also designed to provide the basis for attracting partners to carry all or most of the financial investment to meet future Licence commitments. Active engagement with potential partners has been continuing since the end of 2006. The Group is confident that partners will be introduced during the course of 2007 but is preparing to fund its full commitment if necessary.

The Group does not intend to seek additional Licences until partners have been introduced for existing operations.

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

Group structure and changes in share capital

Details of movements in share capital and changes to the Group's structure during the period are set out in notes 16 and 10, respectively.

Principal risks and uncertainties facing the Company

Exploration for oil and gas is an inherently risky business, with global success rates being no more than one success for every ten exploration wells drilled. Given the successes already achieved in Uganda, the chance of success is much better than this average but Namibia, where the potential reward is very high, is likely to be in line with global statistics.

In the case of success, there is still uncertainty as to whether reserves will be high enough to support commercial development. The Uganda Licence is far from population centres and natural markets but development of existing discoveries approximately 150km to the south would allow any discovery to be produced via facilities in that area. This would reduce the volume of reserves required to prove commerciality. The most prospective structures in Namibia are in deep water, appear to be gas-prone and are far from potential markets. Very large reserves, in the order of 3 trillion cubic feet or more, would be required to justify development, mainly for export to major international markets. Nevertheless, the Licence is interpreted to have prospects of the necessary scale.

The other significant risk for oil and gas companies is local and international commodity prices. Both oil and gas prices are at an historical high at present and are expected to remain so for the foreseeable future. Prices have, however, always behaved cyclically and there is no reason to believe that they will not fall at some point in the future. It is also usually the case that, when commodity prices are high, the costs of exploration and development escalate. This is the case at present, particularly for offshore operations. Nevertheless, Uganda is a comparatively low cost environment which Tower could potentially fund itself and the 2007 Namibia programme does not entail significant cost. Drilling wells at own cost in Namibia would, however, be beyond the Group’s financial capability without financially strong partners.

Results and dividends
The Group results for the period are set out in the Financial Statements. The Directors do not propose to recommend any dividends for the reporting period ended 31 December 2006.

The Group made a loss of £513,896 for the 18 month period ended 31 December 2006 (2005: £157,588). Included in the Group loss is an exceptional charge of £89,250 relating to the cost of share-based payments (2005: £nil).

Due to the early stage of development of the Group, it is not meaningful to consider a review of key performance indicators in respect of the period under review.

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 comparatively low maximum expected investment foreseen during 2007 that raising the required 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 in preparation and a summary of the policy will be posted on the Company’s website before the AGM. HSE Management Systems are being prepared for each operation. 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.

Information to shareholders – website
The company maintains a website (www.towerresources.co.uk) to facilitate provision of information to external stakeholders and potential investors and to meet the new AIM guidance. 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. Charitable donations would not normally be a large component of such investment.

Directors
The following Directors held office during the period:

Peter Kingston (Chairman)	Appointed 1 February 2006
Peter Taylor	Appointed 16 January 2006
Peter Blakey	Appointed 16 January 2006
Mark Savage	Appointed 16 January 2006
Russell Langusch	Resigned 8 February 2007
Ross Warner	Resigned 16 January 2006
Hugh Warner	Resigned 16 January 2006
Anthony Barton	Resigned 16 January 2006

Subsequent to 31 December 2006, Jeremy Asher joined the Board on 8 February 2007.

Director's Interests

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

	31 December 2006			30 June 2005	
	Ordinary shares of 0.1p each	Share options	Notes	Ordinary shares of 0.1p each	Share options
Peter Kingston	320,000	3,000,000	1	-	-
Peter Taylor	55,416,667		2	-	-
Peter Blakey	55,416,667		3	-	-
Mark Savage	100,000,000		4	-	-

1. Peter Kingston was paid a supplementary fee amounting to £10,000 which was satisfied by the issue of 320,000 new ordinary shares at a price of 3.125p per ordinary share.
   On 30 January 2006 Peter Kingston was granted options to subscribe for 3,000,000 ordinary shares at 1.5p per shares, of which 1,000,000 options become exercisable between the first and fifth anniversary of the date of grant and the remaining 2,000,000 options become exercisable between the third and fifth anniversary of the date of grant. Subsequent to 31 December 2006, Peter Kingston was granted options on 8 February 2007 to subscribe for 1,000,000 ordinary shares at a price of 3.125p per share, exercisable between the first and fifth anniversary of the date of grant.

2 Shares issued in consideration for the acquisition of Neptune Petroleum Limited.

3 Shares issued in consideration for the acquisition of Neptune Petroleum Limited.

4 Shares issued in consideration for the acquisition of Neptune Petroleum Limited. Mark Savage is the sole director and shareholder of Bayview Investments LLC, the registered holder of the shares.

5 Jeremy Asher was appointed a Director of the Company on 8 February 2007 and now has a beneficial interest in 45,000,000 ordinary shares of 0.1p each representing 8.49% of the issued share capital of the Company.

Directors' service contracts

Peter Kingston's service contract is subject to a three month termination period, whereas the service contracts of both Peter Taylor and Peter Blakey shall continue to and until the Company's Annual General Meeting in 2007. Both Peter Taylor and Peter Blakey have indicated their willingness to continue as Directors of the Company and subject to their re-appointments being approved at the forthcoming Annual General Meeting their contracts will be extended until the next following Annual General Meeting. Under the contracts all Directors are paid £12,000 per annum with the exception of Peter Kingston who was paid £25,000 per annum during 2006. This continues to be reviewed during 2007, depending on the required time commitment to fulfil his executive role.

Mark Savage and Jeremy Asher serve as non-executive Directors on identical terms to the other current non-executive Directors and are proposed for re-appointment at the forthcoming AGM.

Pensions

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

Directors' remuneration

The remuneration paid to the Directors during the 18 month period ended 31 December 2006 and the seven month period ended 30 June 2005, was as follows:

	Fees/Salaries	*Share based payments*	*2006 Total*	*2005 Total*
	£	*£*	*£*	*£*
Peter Kingston	23,917	33,450	57,367	-
Russell Langusch	35,000	11,400	46,400	-
Peter Taylor	11,500	-	11,500	-
Peter Blakey	11,500	-	11,500	-
Mark Savage	12,000	-	12,000	-
Ross Warner	16,562	-	16,562	12,000
Hugh Warner	-	-	-	-
Anthony Barton	-	-	-	-
	110,479	44,850	155,329	12,000

Substantial shareholders

The Company has been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the under noted interests in its ordinary shares as at 19 April 2007 of 3% shareholders and above:

	Number of Ordinary Shares	*%*
Bayview Investments LLC	100,000,000	18.88
Credit Suisse Client Nominees (UK) Limited (D6M5PB Acct)	66,666,667	12.59
Peter Blakey	55,416,667	10.46
Peter Taylor	55,416,667	10.46
Forest Nominees Limited (GC1 Acct)	45,000,000	8.49
Teawood Nominees Limited (43759 Acct)	31,250,000	5.90
Ronald Bruce Rowan	25,000,000	4.72

Supplies payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

Post balance sheet events
Subsequent to 31 December 2006, the Company issued 71,320,000 ordinary shares of 0.1p each, raising new equity of £1,425,000 in cash.

Going concern
As discussed in the Chairman's Statement, the Company is seeking to farm out its Namibian license to a financially strong partner who can become the operator. In the absence of agreeing a farm out arrangement the Company will have to raise additional equity funds in order to meet its exploration expenditure commitments of its two licenses. Accordingly, after making appropriate enquiries and examining those areas which could give rise to financial exposure the Directors are satisfied that no material or significant exposures exist and that the Group has adequate resources to continue its operations for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the accounts.

Issue of share options
The details of the share options outstanding at 31 December 2006 and the movements in share options during the period are set out in note 16 to the financial statements.

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

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors are also responsible for safeguarding the assets of the Group and hence for taking steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Statement of disclosure to the auditors
So far as the Directors are aware:
a) there is no relevant audit information of which the Company's auditors are unaware; and
b) all the Directors have taken steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Auditors
On 30 April 2007 the auditors, UHY Hacker Young, transferred their business to a limited liability partnership, UHY Hacker Young LLP. In accordance with Section 385 of the Companies Act 1985, a resolution proposing that UHY Hacker Young LLP be 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
2 May 2007

DIRECTORS' BIOGRAPHIES

Peter Kingston BA (Hons) – Executive Chairman
Peter Kingston is a Petroleum Engineer having nearly 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 with significant interest in Kenya and the Falkland Islands. 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 with significant interest in Kenya and the Falkland Islands.

Jeremy Asher – Non-Executive
Jeremy Asher is Chairman of Agile Energy Limited, a privately held energy investment company and a director of several non-energy-related companies. He is a member of the London Business School's UK regional advisory board. 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 (the "financial statements") of Tower Resources Plc for the eighteen months ended 31 December 2006 which comprise the Group income statement, the Group and Parent Company statements of changes in equity, the Group and Parent Company balance sheets, the Group and Company cash flow statements and the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. 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
The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRS") as adopted for use in the European Union are set out in the Statement of Responsibilities of Those Charged with Governance.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether, in our opinion, the information given in the Directors' report is consistent with the financial statements. In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions with the Company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

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

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF TOWER RESOURCES PLC

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of the Group's loss for the period then ended;

- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 December 2006;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' report is consistent with the financial statements.

UHY Hacker Young LLP

Chartered Accountants
Registered Auditors

St. Alphage House
2 Fore Street
London, EC2Y 5DH

2 May 2007

GROUP INCOME STATEMENT
FOR THE 18 MONTHS ENDED 31 DECEMBER 2006

	Notes	*18 months ended 31 December 2006* £	*7 months ended 30 June 2005* £
Continuing operations			
Group revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses before charge for share-based payments		(490,872)	(168,938)
Share-based payments	17	(89,250)	-
Total administrative expenses		(580,122)	(168,938)
Group operating loss	3	(580,122)	(168,938)
Finance income		66,226	11,350
Loss before taxation		(513,896)	(157,588)
Taxation	4	-	-
Loss for the period		(513,896)	(157,588)
Attributable to:			
Equity holders of the Company		(513,896)	(157,588)
Loss per share (pence)	5		
Basic		(0.15) p	(0.14) p
Diluted		(0.15) p	(0.14) p

The results shown above relate entirely to continuing operations.

GROUP AND COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE 18 MONTHS ENDED 31 DECEMBER 2006

	Share Capital £	*Share Premium* £	*Share-based Payments Reserve* £	*Retained Losses* £	*Total Equity* £
Group					
Period ended 30 June 2005					
Share issues	125,000	585,000	-	-	710,000
Net loss for 2005	-	-	-	(157,588)	(157,588)
Balance at 30 June 2005	125,000	585,000	-	(157,588)	552,412
Period ended 31 December 2006					
Balance at 1 July 2005	125,000	585,000	-	(157,588)	552,412
Share issues	333,333	5,547,159	-	-	5,880,492
Net loss for 2006	-	-	89,250	(513,896)	(424,646)
Balance at 31 December 2006	458,333	6,132,159	89,250	(671,484)	6,008,258
Company					
Period ended 30 June 2005					
Share issues	125,000	585,000	-		710,000
Net loss for 2005	-	-	-	(157,588)	(157,588)
Balance at 30 June 2005	125,000	585,000	-	(157,588)	552,412
Period ended 31 December 2006					
Balance at 1 July 2005	125,000	585,000	-	(157,588)	552,412
Share issues	333,333	5,547,159	-	-	5,880,492
Net loss for 2006	-	-	89,250	(500,167)	(410,917)
Balance at 31 December 2006	458,333	6,132,159	89,250	(657,755)	6,021,987

TOWER RESOURCES PLC

GROUP BALANCE SHEET
AS AT 31 DECEMBER 2006

	Notes	*31 December 2006* £	*30 June 2005* £
ASSETS			
Non-Current Assets			
Plant and equipment	8	1,889	-
Goodwill	9	4,018,795	-
Intangible exploration and evaluation assets	9	773,450	-
		4,794,134	-
Current Assets			
Trade and other receivables	11	28,135	-
Cash and cash equivalents		1,254,122	552,412
		1,282,257	552,412
Total Assets		6,076,391	552,412
LIABILITIES			
Current Liabilities			
Trade and other payables	12	68,133	-
Total Liabilities		68,133	-
Net Assets		6,008,258	552,412
EQUITY			
Capital and Reserves			
Share capital	16	458,333	125,000
Share premium account	16	6,132,159	585,000
Share-based payments reserve	17	89,250	-
Retained losses		(671,484)	(157,588)
Shareholders' Equity	18	6,008,258	552,412

The financial statements were approved by the Board of Directors on 2 May 2007 and signed on its behalf by:

Peter Kingston
Chairman

TOWER RESOURCES PLC

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2006

	Notes	*31 December 2006* £	*30 June 2005* £
ASSETS			
Non-Current Assets			
Plant and equipment	8	1,889	-
Loan to subsidiary undertakings	10	803,812	-
Investment in subsidiary undertakings	10	4,080,965	-
		4,886,666	-
Current Assets			
Receivables	11	28,135	-
Cash and cash equivalents		1,174,321	552,412
		1,202,456	552,412
Total Assets		6,089,122	552,412
LIABILITIES			
Current Liabilities			
Trade and other payables	12	67,135	-
Total Liabilities		67,135	-
Net Assets		6,021,987	552,412
EQUITY			
Capital and Reserves			
Share capital	16	458,333	125,000
Share premium account	16	6,132,159	585,000
Share-based payments reserve	17	89,250	-
Retained losses		(657,755)	(157,588)
Shareholders' Equity	18	6,021,987	552,412

The financial statements were approved by the Board of Directors on 2 May 2007 and signed on its behalf by:

Peter Kingston
Chairman

TOWER RESOURCES PLC

GROUP CASH FLOW STATEMENT
FOR THE 18 MONTHS ENDED 31 DECEMBER 2006

	18 months ended 31 December 2006 £	*7 months ended 30 June 2005* £
Operating activities		
Group operating loss	(580,122)	(168,938)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	426	-
Share-based payments charge	89,250	-
Operating loss before changes in working capital	(490,446)	(168,938)
Increase in receivables and prepayments	(26,251)	-
Increase in trade and other payables	44,493	-
Cash used in operations	(472,204)	(168,938)
Interest received	66,226	11,350
Net cash used in operating activities	(405,978)	(157,588)
Investing activities		
Funds used in exploration and evaluation	(716,801)	-
Payments to purchase plant and equipment	(2,315)	-
Costs of acquiring subsidiaries	(80,965)	-
Cash acquired with subsidiary undertakings	27,277	-
Net cash used in investing activities	(772,804)	-
Financing activities		
Cash proceeds from issue of shares	2,000,000	710,000
Share issue costs	(119,508)	-
Net cash from financing activities	1,880,492	710,000
Increase in cash and cash equivalents	701,710	552,412
Cash and cash equivalents at beginning of period	552,412	-
Cash and cash equivalents at end of period	1,254,122	552,412

TOWER RESOURCES PLC

COMPANY CASH FLOW STATEMENT
FOR THE 18 MONTHS ENDED 31 DECEMBER 2006

	18 months ended 31 December 2006 £	*7 months ended 30 June 2005* £
Operating activities		
Operating loss	(563,710)	(168,938)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	426	-
Share-based payments charge	89,250	-
Operating loss before changes in working capital	(474,034)	(168,938)
Increase in receivables and prepayments	(28,135)	-
Increase in trade and other payables	67,135	-
Cash used in operations	(435,034)	(168,938)
Interest received	63,543	11,350
Net cash used in operating activities	(371,491)	(157,588)
Investing activities		
Payments to purchase plant and equipment	(2,315)	-
Costs of acquiring subsidiaries	(80,965)	-
Loan granted to subsidiaries	(803,812)	-
Net cash used in investing activities	(887,092)	-
Financing activities		
Cash proceeds from issue of shares	2,000,000	710,000
Share issue costs	(119,508)	-
Net cash from financing activities	1,880,492	710,000
Increase in cash and cash equivalents	621,909	552,412
Cash and cash equivalents at beginning of period	552,412	-
Cash and cash equivalents at end of period	1,174,321	552,412
	========	========

1. **Accounting policies**

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

1.1 **Basis of preparation**

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS"), including IFRS6 'Exploration for and Evaluation of Mineral Resources' and in accordance with the Companies Act 1985. The Parent Company's financial statements have also been prepared in accordance with IFRS and the Companies Act 1985.

Although the Group is not yet required to prepare its financial statements under IFRS's the directors have decided to adopt IFRS's early.

1.2 **Going concern**

During the period ended 31 December 2006 the Group made a loss of £513,896 (2005 - £157,588). At the balance sheet date the Group had net assets of £6,008,258 (2005 - £552,412) and its current assets exceeded its current liabilities by £1,214,124 (2005 - £552,412). As set out in note 14 below, the Group has expected exploration expenditure commitments of £4,586,000 due within one year from the balance sheet date and a further £962,000 due between one and two years.

The operation of the Group is currently being financed from the funds which the Company raised from private and public placings of its shares. As stated in the Directors' report, the Group is currently seeking to farm out its Namibian license to a financially strong partner who can become the operator of that license. In the absence of finding a suitable farm out partner, the Company will have to raise additional equity funds in order to meet the exploration expenditure commitments of its two licenses.

The Directors believe that the Group will either be able to find a suitable farm out partner in the near future or be able to raise necessary funds later this year for it to be able to meet its license commitments. Accordingly, the Directors are satisfied that the going concern basis remains appropriate for the preparation of these financial statements.

1.3 **First-time application of IFRS**

The Group has adopted IFRS from 6 December 2004 ("the date of transition"). This requires the Group to set out its accounting policies as at 31 December 2006 and, in most cases, apply them retrospectively in determining the IFRS opening balance sheet at the date of transition.

In accordance with IFRS1 'First-time Adoption of International Financial Reporting Standards' the Group is entitled to a variety of voluntary and mandatory exemptions from full restatement. The adoption of IFRS has, however, had no effect on the comparative information for the period ended 30 June 2005. The Group, therefore, has not taken advantage of any of the exemptions in IFRS1. Also, no reconciliation of the effect of transition from UK GAAP to IFRS on the Group's equity and net income is required. Other than presentational differences, there are no changes in the Group's cash flow statement.

1.4 **New IFRS standards and interpretations not applied**

At the date of approval of these financial statements, the following Standards and Interpretations which will be applicable to the Group but have not been applied in these financial statements were in issue but not yet effective:

International Financial Reporting Standards (IFRS/IAS)		*Effective date*
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009

The Group does not anticipate that the adoption of these standards will have a material effect on its financial statements on initial adoption. Under IFRS7, the Group will be required to disclose additional information about its financial instruments, their significance and the nature and extent of the risks to which they give rise, together with greater details as to the fair value of its financial instruments and its risk exposure. There will be no effect on reported income or net assets.

1.5 **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.

1.6 **Goodwill**

Goodwill is the difference between the amount paid on the acquisition of the subsidiary undertakings and the aggregate fair value of their separable net assets - of which oil and gas exploration expenditure is the primary asset. Goodwill is capitalised as an intangible asset and in accordance with IFRS3 'Business Combinations' is not amortised but tested for impairment 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.

1.7 **Oil and Gas Exploration and Evaluation Expenditure**

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

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

1.8 **Impairment of Oil and Gas Exploration and Evaluation Expenditure and Related Goodwill**

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

1.9 **Impairment of Developed Oil and Gas Assets**

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

1.10 **Amortisation of Developed Oil and Gas Assets**

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

1.11 **Decommissioning costs**

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

1.12 **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 3 years
Fixtures, fittings and equipment	Straight line over 4 years

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

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

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

1.13 **Investments**

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

1.14 **Share based payments**

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

1.15 **Foreign currency translation**

(i) Functional and presentational currency

Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The financial statements are presented in Pounds Sterling ("£"), which is the group's functional and presentation currency.

(ii) Transactions and balances

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

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

1.16 **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.

1.17 **Cash and cash equivalents**

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

1.18 **Trade receivables**

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

1.19 **Critical accounting judgements and estimates**

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

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

Impairment of intangible assets

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

2. Segmental reporting

For the purposes of segmental information, the operations of the Group are focused on Africa and comprise one class of business: the exploration and evaluation for hydrocarbon liquids and gas.

The Company acts as a holding Company.

The Group's operating loss arose from its operations in Africa. In addition, all the Group's assets (except for current assets which are based in Europe) are based in Africa.

3. Group operating loss

The Group's operating loss is stated after charging:

		18 months ended 31 December 2006 £	*7 months ended 30 June 2005* £
Share-based payments charge (note 17)		89,250	-
Employee costs, excluding share-based payments		113,731	12,988
Rental of properties		32,296	-
AIM advisor fees and costs		52,948	46,172
Legal fees		25,158	32,800
Travel and accommodation		39,581	25,172
Professional and consulting fees		52,160	51,108
Auditors' remuneration	- audit services	20,000	-
	- non audit services	1,100	-
Depreciation of plant & equipment		426	-
Other expenses		153,472	698
Total administrative expenses		580,122	168,938

4. Taxation

	18 months ended 31 December 2006 £	*7 months ended 30 June 2005* £
Current Tax		
UK corporation tax	-	-
Total current tax charge	-	-

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

Group loss before tax	(513,896)	(157,588)
Tax at the UK corporation tax rate of 30%	(154,169)	(47,276)
Tax effects of:		
Expenses not deductible for tax purposes	33,156	-
Tax losses carried forward not recognised as a deferred tax asset	121,013	47,276
	-	-

5. Loss per share

The basic loss per ordinary share has been calculated using the loss for the financial year of £513,896 (2005: £157,588) and the weighted average number of ordinary shares in issue of 337,507,589 (2005: 112,922,705).

The diluted loss per share has been calculated using a weighted average number of shares in issue and to be issued of 338,718,970 (2005: 112,922,705). The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basic loss per share, thus being anti-dilutive.

6. Holding company income statement

In accordance with the provisions of the Section 230 of the Companies Act 1985, the Parent Company has not presented an income statement. A loss for the 18 month period ended 31 December 2006 of £500,167 has been included in the income statement.

7. Employee costs

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

	18 months 31 December 2006	*7 months ended 30 June 2005*
	£	£
Wages, salaries and fees	110,479	12,000
Social security costs	3,252	988
Share-based payments	44,850	-
	158,581	12,988

The average number of employees during the year were:

Office and administration	5	3

The above employee costs relate entirely to the Company's Directors. Further details of their remuneration is shown in the Directors' report.

8. Plant and equipment

	Office equipment
Cost	£
At 1 July 2005	-
Additions during the period	2,315
At 31 December 2006	2,315
Depreciation	
At 1 July 2005	-
Charge for the period	426
At 31 December 2006	426
Net book value	
At 31 December 2006	1,889

9. Intangible assets

Group:	*Exploration and evaluation assets*	*Goodwill*	*Total*
	£	£	£
Cost			
At 1 July 2005	-	-	-
Arising on acquisition of subsidiaries (note 10)		4,018,795	4,018,795
Acquired with subsidiaries	56,649	-	56,649
Additions	716,801	-	716,801
At 31 December 2006	773,450	4,018,795	4,792,245
Amortisation and impairment			
At 1 July 2005	-	-	-
Provision for amortisation and impairment	-	-	-
At 31 December 2006	-	-	-
Net book value			
At 30 June 2005	-	-	-
At 31 December 2006	773,450	4,018,795	4,792,245

Goodwill arose on the acquisition of the Company's subsidiary undertakings (note 10). The Group tests goodwill for impairment if there are indicators that goodwill might be impaired.

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

10. Investments – subsidiary undertakings

	Loans to Subsidiary Undertakings £	*Shares in subsidiary undertakings* £	*Total* £
Company			
Cost			
At 1 July 2005	-	-	-
Additions	-	4,080,695	4,080,695
Loans to subsidiaries in period	803,812	-	803,812
At 31 December 2006	803,812	4,080,695	4,884,507

The loans due from subsidiaries are repayable to the Company in more than one year with no fixed repayment terms.

The Company's directly held subsidiary undertaking as at 31 December 2006, which was acquired on 16 January 2006, is:

Subsidiary undertaking	*Principal activity*	*Percentage of ordinary share capital held*
Neptune Petroleum Limited	Holding company	100%

The total purchase consideration of £4,000,000 was financed solely by the issue of ordinary shares of the Company (see Note 17). Costs of acquisition amounted to £80,695.

Neptune Petroleum Limited is incorporated in England and has the following subsidiaries:

Subsidiary undertakings	*Principal activities*	*Percentage of ordinary share capital held*
Neptune Petroleum (Uganda) Limited	Oil and gas exploration	100%
Neptune Petroleum (Namibia) Limited	Oil and gas exploration	100%

Neptune Petroleum (Uganda) Ltimited and Neptune Petroleum (Namibia) Limited are both incorporated in the British Virgin Islands.

10. **Investments – subsidiary undertakings (continued)**

The acquisition of Neptune Petroleum Limited and its subsidiaries has been accounted for using acquisition accounting ("the purchase method"). The aggregate assets and liabilities acquired were as follows:

	Book and fair values	
	£	£
Non-current Assets		
Exploration and evaluation assets		56,649
Current Assets		
Receivables	1,884	
Cash and cash equivalents	27,277	
	29,161	
Current Liabilities		
Payables	(23,640)	
Total net current assets		5,521
Net assets acquired		62,170
Positive goodwill arising on acquisition (note 9)		4,018,795
Total costs of acquisition		4,080,965
Satisfied by:		
Shares issued as consideration to vendors		4,000,000
Costs of acquisition		80,965
		4,080,965

Neptune Petroleum Limited ("Neptune") is the parent company of two subsidiaries which own two oil and gas licenses in Uganda and Namibia. As the fair values of these licences cannot be measured reliably, the intangible assets purchased have been subsumed within the amount of the purchase price attributable to goodwill. The Directors have assessed the carrying value of the investment in Neptune and in their opinion no impairment provision is currently considered necessary.

11. **Trade and other receivables**

	31 December 2006		*30 June 2005*	
	Group	*Company*	*Group*	*Company*
	£	£	£	£
Other receivables	13,460	13,460	-	-
Prepayments	14,675	14,675	-	-
	28,135	28,135	-	-

12. Trade and other payables

	31 December 2006		*30 June 2005*	
	Group	*Company*	*Group*	*Company*
	£	£	£	£
Accruals	68,133	67,135	-	-
	=======	=======	=======	=======

13. Financial instruments

Interest Rate risk

At 31 December 2006 the Group had US Dollar cash deposits of a sterling equivalent of £586,478. 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:

	Floating interest rate 31 Dec 2006	*Non - Interest Bearing 31 Dec 2006*	*Floating interest rate 30 June 2005*	*Non - Interest Bearing 30 June 2005*
	£	£	£	£
Financial assets:				
Cash at bank	1,079,188	174,934	552,412	-

The effective weighted average interest rate was 2%.

Financial liabilities:

At 31 December 2006, 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 is the British pound and for drilling activities 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.

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.

	31 December 2006		*30 June 2005*	
	Group	*Company*	*Group*	*Company*
	£	£	£	£
As at the balance sheet date the aggregate amount payable is:				
Within not more than one year	4,586,000	134,000	-	-
Between one and two years	962,000	57,000	-	-
	5,548,000	191,000	-	-

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 2006 for any future costs of decommissioning or any environmental damage.

16. **Share capital and options**

	31 December 2006	*30 June 2005*
	£	£
Authorised		
10,000,000,000 ordinary shares of 0.1p each	10,000,000	10,000,000
Allotted, called up and fully paid		
458,333,333 (2005 – 125,000,000) ordinary shares of 0.1p each	458,333	125,000

The Company was incorporated on 6 December 2004 in England with an authorised share capital of £10,000,000 divided into 10,000,000,000 ordinary shares of 0.1p each, of which 2 shares were issued fully paid, on incorporation.

On 13 December 2004 the founders subscribed for an aggregate of 59,999,998 Ordinary Shares at par value to raise £59,998.

16. **Share capital and options (continued)**

On 11 January 2005 the Company allotted 65,000,000 Ordinary Shares for cash at 0.1p per share raising £650,000.

On 16 January 2006 the Company issued 133,333,333 Ordinary Shares for cash at 1.5p per share raising £2,000,000 before costs.

On 16 January 2006 the Company issued 200,000,000 Ordinary Shares at 2.0p per share, credited as fully paid, in consideration for the acquisition of the entire issued share capital of Neptune Petroleum Limited.

These share capital issues can be summarised as follows:

	Number of 0.1p shares	*Share capital at nominal value £*	*Share premium £*
Issued for cash – founder members (prior period)	125,000,000	125,000	585,000
Issued for cash - placement	133,333,333	133,333	1,866,667
Issued on acquisition of Neptune Petroleum Ltd	200,000,000	200,000	3,800,000
Share issue costs	-	-	(119,508)
At 31 December 2006	458,333,333	458,333	6,132,159

The details of share options outstanding at 31 December 2006 are as follows:

	Number of Share options
At 1 July 2005	-
Granted during the period	9,000,000
Exercised during the period	-
Lapsed during the period	-
At 31 December 2006	9,000,000

Date of Grant	**Number of options**	**Option price**	**Exercisable between**
21 December 2005	3,000,000	1.5p	21/12/05 – 21/12/10
23 January 2006	1,000,000	1.5p	23/02/07 – 23/02/07
23 January 2006	2,000,000	1.5p	23/02/09 – 23/02/11
28 February 2006	1,000,000	1.5p	28/02/07 – 28/02/11
28 February 2006	2,000,000	1.5p	28/02/09 – 28/02/11

Subsequent to 31 December 2006, 1,000,000 options were granted with an exercise price of 3.125p and following the resignation of Russell Langusch in February 2007, he exercised 1,000,000 of the above options and his remaining 2,000,000 options lapsed.

The company’s share price ranged between 1.41p and 2.70p during the period. The closing share price as at 31 December 2006 was 2.12p per share.

17. Share-based payments

	18 months ended 31 December 2006 £	*7 months ended 30 June 2005* £
The Group recognised the following charge in the income statement in respect of its share based payment plans:		
IFRS 2 charge	89,250	-
	==========	===========

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 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 period to 31 December 2006 and this has been calculated at 223%. The risk free rate has been taken as 5%. The estimated fair values and other details which have been processed into the model are as follows:

Number of options	**Grant date**	**Option price**	**Fair value**	**Expected exercise between**
1,000,000	23/01/06	1.5p	1.14p	exercised on 23/02/07
1,000,000	28/02/06	1.5p	2.23p	28/02/07 – 28/02/11
2,000,000	28/02/06	1.5p	2.23p	28/02/09 – 28/02/11
3,000,000	21/12/05	1.5p	1.48p	21/12/05 – 21/12/10

18. Reconciliation of movements in shareholders' funds - equity only

	31 December 2006		*30 June 2005*	
	Group £	*Company* £	*Group* £	*Company* £
Loss for the period	(513,896)	(500,167)	(157,588)	(157,588)
Shares issued for acquisition of subsidiary undertaking	4,000,000	4,000,000	-	-
Share placings less costs	1,880,492	1,880,492	710,000	710,000
Share-based payments	89,250	89,250	-	-
Net increase in shareholders' funds	5,455,846	5,469,575	552,412	552,412
Opening shareholders' funds	552,412	552,412	-	-
Closing shareholders' funds	6,008,258	6,021,987	552,412	552,412
	========	========	========	========

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19. **Related party transactions**

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 £57,000 paid to TM in respect of office administration charges.

20. **Events after the balance sheet date**

Subsequent to 31 December 2006, the Company allotted 71,320,000 ordinary shares of 0.1p each, raising new equity of £1,425,000 in cash.

21. **Control**

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