Company Number 5305345

# TOWER RESOURCES PLC

## GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS

## YEAR ENDED 31 DECEMBER 2007

## 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 Bottomley | |
| **Company Number:** | 5305345 | |
| **Registered Office:** | One America Square<br>Crosswall<br>London EC3N 2SG | |
| **Nominated Adviser and Broker**: | Blue Oar Securities plc<br>30 Old Broad Street,<br>London EC2N 1HT | |
| **Solicitors:** | Watson Farley & Williams LLP<br>15 Appold Street,<br>London EC2Y 2HB | |
| **Group Auditors:** | UHY Hacker Young LLP<br>Quadrant House<br>17 Thomas More Street<br>Thomas More Square<br>London E1W 1YW | |
| **Registrars:** | Capita IRG<br>Bourne House<br>34 Beckenham Road<br>Beckenham<br>Kent, BR3 4TU | |
| **Bankers:** | Barclays Bank Plc<br>United Kingdom House<br>180 Oxford Street<br>London W1D 1EA | |

Dear Shareholder

Year 2007 saw progress with seismic surveys in Uganda and Namibia. The Namibia seismic data was collected in August and early September 2007 and is in the final stages of interpretation. A forward programme will be recommended by the operator, Arcadia, by the end of April 2008. There is a reasonable chance that a well will be drilled in 2009. Seismic operations in Uganda have been much more complex given its onshore location in the far northwest region of the country. The survey was completed successfully on 12 February 2008 and detailed processing of the data is currently underway. A forward programme is expected to be agreed in May, with two wells currently expected to be completed before the end of 2008.

Significantly, Tower completed negotiations with partners that enable funding of operations to be largely covered by third parties in both licences. Arcadia Petroleum Limited is funding all of the future Namibia costs up to and including two wells. Orca Exploration Group Inc (Orca) is funding most of the Uganda seismic costs and, if it chooses to continue into the drilling commitment programme, it will meet most of the cost of drilling two commitment wells. Further details are given below.

Your Company is now entering an exciting 1-2 year period during which the potential of its current two licences will be tested by wells. The potential of each licence is such that a successful exploration well in either would be classed as a "company maker". The Company's strategy remains to concentrate on such high impact opportunities, which can largely be funded by farminees. This approach dictates that the exploration portfolio will remain small to avoid quality dilution. Notwithstanding, the Board is hoping to add a limited number of new ventures during the course of 2008.

**Financial Highlights**

Operating loss over the reporting period from 1 January 2007 to 31 December 2007 was $1,284,471. Capital expenditure was $7,651,416 being the capitalised expenditure on exploration studies and seismic surveys. Third party funding was agreed from farm-in partners to meet $8,752,398 of the total investment commitment including recovery of some back costs. Cash balances at year end were $5,534,815 although significant amounts will be required in the first half of 2008 to meet the cost of operations still underway at the end of 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 2008 and 2009.

**Operations Summary to end of 2007**

**Uganda**

The first half of 2007 was focused on completing technical evaluations; preparing for seismic operations; and holding discussions with potential funding partners. A six-month extension to the First Exploration Period, to 27 March 2008, was approved in February 2008. This allowed for expected delays in starting the seismic programme(the Second Exploration Period is now in effect). In mid-2007, a small operational organisation was put in place to manage the seismic programme led by Marilyn Hill, a former oil and gas banker having wide experience of working in developing countries at senior levels of government.

While Neptune Petroleum (Uganda) Limited, Tower's Uganda operating subsidiary, prepared to conduct seismic operations, an Option Agreement was finalised in August with Orca Exploration Group Inc, a Toronto TSX Exchange listed company which operates the Songo Songo gas production and distribution venture in Tanzania. Under the terms of the Agreement, Orca undertook to fund 83.33% of seismic operations and certain back costs up to a contribution by them of $US6 million. Above a gross cost of $US7.2 million, costs were to be shared 50% each. In return for this funding, Orca has an option to participate in a two well drilling commitment programme, funding 83.33% of drilling costs ($10 million out of the first $12 million) and a like proportion of testing costs ($5 million out of the first $6 million) with cost sharing beyond the agreed limits to be 50% each. Orca would become a 50% Licence interest holder on committing to the drilling programme. Orca has an agreed period from completion of seismic processing work to make further commitments which, in effect, gives them until about end May 2008 to reach a decision on whether it wishes to proceed.

The commencement of seismic recording was delayed until 6$^{th}$ December 2007 because of bad weather related delays to programmes with other operators. After a slow, weather affected start, the programme was completed in very good time, on 12$^{th}$ February 2008. Additional gravity data was also recorded, to fill in gaps to the north and south of the seismic recording area and to provide a direct correlation with recorded seismic.

**Namibia**

Seismic operations began on 25$^{th}$ August 2007 and 735 kms of 2-D seismic data were recorded in the period to 2$^{nd}$ September 2007. The prime area of focus was in the north west of the licence where interpretation of bought seismic data had revealed giant structures under deep water (up to 1,500 metres) with indications of hydrocarbons. The new data is of high quality and a comprehensive data processing and interpretation programme was still underway at year end.

On 20th September 2007 the Minister of Mines and Energy of the Republic of Namibia approved the farm-out of an 85% interest in Tower's licence, covering offshore blocks 1910A, 1911 and 2011A, to Arcadia Petroleum Limited (Arcadia). The Minister also approved the transfer of the Operatorship of the Licence to Arcadia. He had previously agreed an extension of the initial exploration period from two years to four years to accommodate Arcadia's proposed programme.

Under the terms of the farm-out, Arcadia has committed to fully fund a programme of activity in four parts which includes:

- shooting and interpreting the recently completed 2-Dimensional seismic programme;
- recording and interpreting a 3-Dimensional seismic programme, presently contemplated in early 2008;
- an exploration commitment well;
- a second well which might be an appraisal well or a second exploration well.

Arcadia has the option to withdraw from its commitment at the end of each of these four stages of operation or to assign all or part of its interest to a third party agreeing to meet the funding commitment. In the case of withdrawal and failure to assign, the full 85% interest will revert to Neptune. Arcadia has also reimbursed 85% of certain historic costs to Tower amounting to about US$1.6 million.

Arcadia Petroleum Limited is a substantial trader of oil and related products. They bring considerable financial strength to the licence as well as access to very relevant expertise in exploration, development and shipment of oil and natural gas.

**Since Year-end and Looking Forward**

**Uganda**
The basic seismic processing is now complete and it has confirmed the structural features identified by the gravity interpretation. More specific processing will now be targeted at optimising and ranking specific drilling locations and investigating the presence of hydrocarbon indications. This work is important to thoroughly assess and rank the probability of success for each well location. Confirmation has been received that your Company is authorised to continue as the sole Licensee into the Second two-year Exploration Period. Orca Exploration Group is expected to decide on their future intentions under the terms of the Option Agreement by end-May. It is expected that a recommendation in respect to the forward 2008 programme will be made to the Tower Board and subsequently to the Uganda Government by end-June 2008.

It is particularly pleasing that the small operating organisation, comprising mostly Ugandan nationals, developed to manage the seismic programme has performed effectively and this promises well for the future. I am also very pleased that the local company's interaction with local communities has been successful and that a variety of carefully targeted social investment initiatives has been greatly appreciated. These socio-economic activities will be further developed during the drilling phase of operations with a particular emphasis on sustainability and widespread benefit. Further details on these programmes are given in the Directors Report.

**Namibia**
Comprehensive processing and interpretation of the 2-D seismic data is near completion. Results to date have confirmed that the giant prospects previously identified are viable exploration targets, having apparent four-way structural closure and strong hydrocarbon indications. However, geological modeling has indicated a potentially different reservoir type and construction and this changed perception is currently being built into the assessment of future programme priorities. Recommendations are presently expected to be finalised by Arcadia for partner and government approval by end May 2008.

**Corporate Outlook**

The year 2007 saw a great deal of positive progress for your Company. In 2008 we will build strongly on this even though the first well in Uganda may be delayed to the final quarter. The procedures that need to be followed with partners and government are naturally time consuming and it is important to delay commitments to contractors until a definite timetable can be guaranteed. The delay, although disappointing, will allow minimization of well location risk and may offer opportunities to work with the other Operators in Uganda, to coordinate use of drilling rigs and associated services, thereby substantially reducing costs. Your Board is very pleased that both Uganda and Namibia are being confirmed to have company making potential thus avoiding too much dependence on a single project. Activity continues to identify similar high quality ground floor opportunities.

Thank you for your continued support.

Peter Kingston
**Chairman**
7th April 2008

## DIRECTORS' REPORT
## FOR THE YEAR ENDED 31 DECEMBER 2007

The Directors present their Annual Report on the affairs of the Group, together with the Accounts and the Independent Auditors' Report for the year ended 31 December 2007.

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

**Principal activity, business review and future development**
The Group's principal activity is the exploration for oil and gas in Africa. It conducts its business via two operating subsidiaries in Uganda and Namibia. It holds 100% of an onshore licence in Uganda but this could reduce to 50% should Orca Exploration Group Inc exercise an option to earn 50% by funding a major part of the cost of two commitment wells, having already funded most of the seismic commitment programme. The Group owns 15% of an offshore Licence in Namibia after agreeing to assign 85% to Arcadia Petroleum Limited in return for funding all of the commitments attached to the first two exploration periods under the Production Sharing Agreement. The immediate priority is to continue to meet the licence exploration commitments assumed in both countries within the continuing obligation periods. Good progress has been made in Uganda, where the 250 km seismic commitment was completed prior to March 27 2008, the end date of the first commitment period. The two well drilling programme committed for the two-year Second Exploration Period is expected to begin by the end of 2008. A two year extension to the First Exploration Period for the Namibian licence was agreed in September 2007 and 735km of 2-Dimensional seismic was completed in the course of 2007. Further acquisition of seismic data is planned for 2008, thereby fulfilling Licence commitments.

Oil discoveries have been made for the first time in Uganda, by other operating groups, during and since the end of 2006. An intensive programme of further seismic and exploration well drilling is in progress to assess the full potential of their areas. This continues to enhance the interest and prospectivity of the Tower acreage and the Group is at an advanced state of planning for its initial two well drilling programme. The Namibian licence is far from any existing discoveries of oil or gas and is therefore of greater risk. Nevertheless, work near completion in the interpretation of the newly acquired seismic data is confirming very large prospects of potentially commercial scale and strong indications that natural gas may be present.

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

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

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

**Principal risks and uncertainties facing the Group**
Exploration for oil and gas is an inherently risky business. Given the successes already achieved in Uganda, the chance of success is quite high. The results of processing and interpretation work has substantially improved the probability of success for Namibia, where the potential reward is very high, and is now likely to be much more favourable than global averages.

In the case of success in locating oil or gas reservoirs from exploration drilling, there is still uncertainty as to whether recoverable reserves will be high enough to support commercial development. The Uganda licence is far from population centres and natural markets but development of existing discoveries, approximately 150km to the south and an intensive 9-well exploration programme within 50km, would allow any discovery to be produced via facilities in that area. This would reduce the volume of recoverable reserves required to prove commerciality. The most prospective structures in Namibia are in deep water, appear to be gas-prone and are far from potential markets. Very large reserves, in the order of 3 trillion cubic feet or more, would be required to justify development, mainly for export to major international markets. Nevertheless, the licence is interpreted to have prospects of the necessary scale.

The other significant risk for oil and gas companies is local and international commodity prices. Both oil and gas prices 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 and drilling commitment wells in Namibia is now being funded by a financially strong partner. Success in either country would provide a favourable environment for third party funding of ongoing costs.

**Results and dividends**
The Group results for the year are set out in the Financial Statements.

The Group made a loss of $1,119,803 for the year (2006: $1,006,722). Included in the Group loss is an exceptional charge of $370,819 relating to the cost of share-based payments (2006: $174,841).

The Directors do not propose to recommend any dividend for the year ended 31 December 2007.

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

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

**Environmental, health, safety and social management policy**
A Health Safety and Environmental (HSE) Policy is posted on the Company's website and HSE Management Systems are prepared for each operation. A comprehensive Integrated Management Plan was prepared for the Uganda seismic programme. 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.

**Community programmes**
The Group believes strongly in the commercial benefit that can flow from active interaction with local communities where appropriate. This has been relevant in Uganda before and during the seismic programme. An intensive programme of community sensitization was undertaken on a near continuous basis to explain the impact of operations; to meet compensation payment entitlements; and to evaluate from discussion the most widely beneficial and sustainable local social investment projects.

A variety of initiatives has been started and is being continued. At national level, the Group has initiated and led an industry wide project to form a National Petroleum Institute, in partnership with Heriot Watt University in Edinburgh, to train Ugandan nationals for the growing Ugandan oil industry but also students from a wider region of southern Africa. At local level in the West Nile Region, investment has been made in the main Library facility, local hospitals, a women's cooperative, river-access facilities and, as a bi-product of operations, substantial road improvements. Substantial future investment in secondary education and clean water supply, as priorities, are planned as a result of widespread local consultation. All projects are undertaken after consultation with central government to ensure their support. The Group Chairman takes an active interest in these initiatives.

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

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

**Directors**
The following Directors held office during the year:

| | |
|---|---|
| Peter Kingston (Chairman) | |
| Peter Taylor | |
| Peter Blakey | |
| Mark Savage | |
| Jeremy Asher | Appointed 8 February 2007 |
| Russell Langusch | Resigned 8 February 2007 |

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

| | 31 December 2007 | | | 31 December 2006 | |
|---|---|---|---|---|---|
| | *Ordinary shares of 0.1p each* | *Share options* | | *Ordinary shares of 0.1p each* | *Share options* |
| Peter Kingston | 774,545 | 5,000,000 | | 320,000 | 3,000,000 |
| Peter Taylor | 52,708,334 | - | | 55,416,667 | - |
| Peter Blakey | 52,708,333 | - | | 55,416,667 | - |
| Mark Savage | 100,000,000 | - | | 100,000,000 | - |
| Jeremy Asher | 45,000,000 | - | | 45,000,000 | - |

**Directors Remuneration and Service Contracts**
Peter Kingston has now assumed the principal executive director responsibility and his service contract is subject to a three month termination period, whereas the service contracts of both Peter Taylor and Peter Blakey shall continue until the Company's annual general meeting in 2008. 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 the standard non executive director fee is £12,000 per annum. Peter Kingston is paid £85,000 per annum to reflect his executive role and both Peter Taylor and Peter Blakey are paid £25,000 in view of their active role in seeking new exploration opportunities.

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

**Directors' remuneration**
The remuneration paid to the Directors during the 12 months ended 31 December 2007 was as follows:

| | *Fees/Salaries* | *Share based payments* | *2007 Total* | *2006 Total* |
|---|---|---|---|---|
| | *$* | *$* | *$* | *$* |
| Peter Kingston | 218,000 | 230,144 | 448,144 | 106,129 |
| Peter Taylor | 29,333 | - | 29,333 | 21,275 |
| Peter Blakey | 29,333 | - | 29,333 | 21,275 |
| Mark Savage | 29,828 | - | 29,828 | 22,100 |
| Jeremy Asher | 21,430 | - | 21,430 | - |
| Russell Langusch | 2,000 | - | 2,000 | 85,840 |
| Ross Warner | - | - | - | 30,640 |
| | 329,924 | 230,144 | 560,068 | 287,259 |

**Substantial shareholders**

As at 27 March 2008 the Company has been notified, in accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, of the following interests of 3% or more in its ordinary share capital:

| | *Number of Ordinary Shares* | *%* |
|---|---|---|
| Bayview Investments LLC (Mark Savage) | 100,000,000 | 18.62 |
| Credit Suisse Client Nominees (UK) Limited (D6M5PB Acct) | 66,666,667 | 12.41 |
| Peter Blakey | 52,708,333 | 9.81 |
| Peter Taylor | 52,708,333 | 9.81 |
| Teawood Nominees Limited (43759 Acct) | 31,500,000 | 5.86 |
| Forest Nominees Limited (GC1 Acct) | 25,000,000 | 4.65 |
| Ronald Bruce Rowan | 25,000,000 | 4.65 |

**Suppliers' payment policy and practice**

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. The Group's average creditors' payment period at 31 December 2007 was 47 days.

**Going concern**

Having made appropriate enquiries and examining those areas which could give rise to financial exposure, the Directors are satisfied that no material or significant exposures exist and that the Group has adequate resources to continue its operations for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the accounts.

**Internal controls**

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

**Audit Committee**

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

**Remuneration Committee**

The Remuneration Committee meets on an "as required" basis and met twice in 2007. The Chairman of the Remuneration Committee is Peter Taylor and other participating members during the year were Mark Savage and Peter Blakey.

**Statement of responsibilities of those charged with Governance**

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

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

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

**DIRECTORS' REPORT**
**FOR THE YEAR ENDED 31 DECEMBER 2007**

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**

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that UHY Hacker Young LLP be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration will be put to the Annual General Meeting.

By order of the board

Peter Kingston
**Chairman**
7th April 2008

## DIRECTORS' BIOGRAPHIES

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

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

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We have audited the Group and Parent Company financial statements (the "financial statements") of Tower Resources plc for year ended 31 December 2007 which comprise the Group income statement, the Group and Parent Company statements of changes in equity, the Group and Parent Company balance sheets, the Group and Parent Company cash flow statements and the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out 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 by 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 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**

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**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 2007 and of the Group's loss for the year then ended;

- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Parent Company's affairs as at 31 December 2007;

- 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

Quadrant House
17 Thomas More Street
Thomas More Square
London E1W 1YW

7th April 2008

## CONSOLIDATED INCOME STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2007

| | Notes | *Year ended 31 December 2007* $ | *18 Months ended 31 December 2006* $ |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | | - | - |
| Cost of sales | | - | - |
| **Gross profit** | | - | - |
| Administrative expenses before charge for share-based payments | | (913,652) | (954,399) |
| Share-based payments | 17 | (370,819) | (174,841) |
| Total administrative expenses | | (1,284,471) | (1,129,240) |
| **Group operating loss** | 3 | (1,284,471) | (1,129,240) |
| Finance income | | 164,668 | 122,518 |
| **Loss before taxation** | | (1,119,803) | (1,006,722) |
| Taxation | 4 | - | - |
| **Loss for the period** | | (1,119,803) | (1,006,722) |
| Attributable to: | | | |
| Equity holders of the Company | | (1,119,803) | (1,006,722) |
| **Loss per share (cents)** | 5 | | |
| Basic | | (0.21) c | (0.30) c |
| Diluted | | (0.21) c | (0.30) c |

The results shown above relate entirely to continuing operations.

## GROUP & COMPANY STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2007

| | *Share Capital* *$* | *Share Premium* *$* | *Share-based Payments Reserve* *$* | *Retained Losses* *$* | *Total Equity* *$* |
|---|---|---|---|---|---|
| **Group** | | | | | |
| Balance at 1 July 2005 | 244,875 | 1,146,015 | - | (308,715) | 1,082,175 |
| Share issues | 652,999 | 10,866,884 | - | - | 11,519,883 |
| Loss for 2006 | - | - | 174,841 | (1,006,722) | (831,881) |
| Balance at 1 January 2007 | 897,874 | 12,012,899 | 174,841 | (1,315,437) | 11,770,177 |
| Share issues | 154,631 | 2,913,307 | - | - | 3,067,938 |
| Loss for 2007 | - | - | 370,819 | (1,119,803) | (748,984) |
| Balance at 31 December 2007 | 1,052,505 | 14,926,206 | 545,660 | (2,435,240) | 14,089,131 |
| **Company** | | | | | |
| Balance at 1 July 2005 | 244,875 | 1,146,015 | - | (308,715) | 1,082,175 |
| Share issues | 652,999 | 10,866,884 | - | - | 11,519,883 |
| Loss for 2006 | - | - | 174,841 | (980,189) | (805,348) |
| Balance at 1 January 2007 | 897,874 | 12,012,899 | 174,841 | (1,288,904) | 11,796,710 |
| Share issues | 154,631 | 2,913,307 | - | - | 3,067,938 |
| Loss for 2007 | - | - | 370,819 | (164,074) | 206,745 |
| Balance at 31 December 2007 | 1,052,505 | 14,926,206 | 545,660 | (1,452,978) | 15,071,393 |

## CONSOLIDATED BALANCE SHEET
## AS AT 31 DECEMBER 2007

| | Notes | 31 December 2007<br>$ | 31 December 2006<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | 8 | 106,967 | 3,339 |
| Goodwill | 9 | 7,979,502 | 7,979,502 |
| Intangible exploration and evaluation assets | 9 | 711,590 | 1,408,868 |
| | | 8,798,059 | 9,391,709 |
| **Current Assets** | | | |
| Trade and other receivables | 11 | 3,121,389 | 55,116 |
| Cash and 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 | 12 | (3,365,132) | (133,473) |
| **Total Liabilities** | | (3,365,132) | (133,473) |
| **Net Assets** | | 14,089,131 | 11,770,177 |
| **EQUITY** | | | |
| **Capital and Reserves** | | | |
| Share capital | 16 | 1,052,505 | 897,874 |
| Share premium | 16 | 14,926,206 | 12,012,899 |
| Share-based payments reserve | 17 | 545,660 | 174,841 |
| Retained losses | | (2,435,240) | (1,315,437) |
| **Shareholders' Funds** | 18 | 14,089,131 | 11,770,177 |

The financial statements were approved by the Board of Directors on 7th April 2008 and signed on its behalf by:

Peter Kingston
**Chairman**

## TOWER RESOURCES PLC

### COMPANY BALANCE SHEET
### AS AT 31 DECEMBER 2007

| | *Notes* | *31 December 2007* *$* | *31 December 2006* *$* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Plant and equipment | 8 | 9,022 | 3,339 |
| Loans to subsidiary undertakings | 10 | 1,930,323 | 1,574,668 |
| Investment in subsidiary undertakings | 10 | 7,994,610 | 7,994,610 |
| | | 9,933,955 | 9,572,617 |
| **Current Assets** | | | |
| Trade and other receivables | 11 | 2,090,709 | 55,116 |
| Cash and cash equivalents | | 5,342,982 | 2,300,495 |
| | | 7,433,691 | 2,355,611 |
| **Total Assets** | | 17,367,646 | 11,928,228 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 12 | (2,296,253) | (131,518) |
| **Total Liabilities** | | (2,296,253) | (131,518) |
| **Net Assets** | | 15,071,393 | 11,796,710 |
| **EQUITY** | | | |
| **Capital and Reserves** | | | |
| Share capital | 16 | 1,052,505 | 897,874 |
| Share premium | 16 | 14,926,206 | 12,012,899 |
| Share-based payments reserve | 17 | 545,660 | 174,841 |
| Retained losses | | (1,452,978) | (1,288,904) |
| **Shareholders' Equity** | 18 | 15,071,393 | 11,796,710 |

The financial statements were approved by the Board of Directors on 7th April 2008 and signed on its behalf by:

Peter Kingston
**Chairman**

## CONSOLIDATED CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2007

| | *Year ended 31 December 2007* *$* | *18 Months ended 31 December 2006* *$* |
|---|---|---|
| **Cash flow from operating activities** | | |
| Group operating loss for the year | (1,284,471) | (1,129,240) |
| Adjustments for items not requiring an outlay of funds: | | |
| Depreciation of plant and equipment | 2,241 | 753 |
| Share-based payments charge | 370,819 | 174,841 |
| **Operating loss before changes in working capital** | (911,411) | (953,646) |
| Increase in receivables and prepayments | (3,066,272) | (48,564) |
| Increase in trade and other payables | 3,231,658 | 76,154 |
| **Cash used in operations** | (746,025) | (926,056) |
| Interest received | 164,668 | 122,518 |
| **Net cash used in operating activities** | (581,357) | (803,538) |
| **Investing activities** | | |
| Funds used in exploration and evaluation | (8,055,120) | (1,316,094) |
| Funds received from farm-in partners | 8,752,398 | - |
| Payments to purchase plant and equipment | (105,869) | (4,092) |
| Costs of acquiring subsidiaries | - | (143,308) |
| Cash acquired with subsidiary undertakings | - | 48,553 |
| **Net cash from/(used in) investing activities** | 591,409 | (1,414,941) |
| **Financing activities** | | |
| Cash proceeds from issue of shares | 3,067,938 | 3,915,078 |
| Share issue costs | - | (234,116) |
| **Net cash from financing activities** | 3,067,938 | 3,680,962 |
| **Increase in cash and cash equivalents** | 3,077,990 | 1,462,483 |
| Cash and cash equivalents at beginning of period | 2,456,825 | 994,342 |
| **Cash and cash equivalents at end of period** | 5,534,815 | 2,456,825 |

## COMPANY CASH FLOW STATEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2007

| | *Year ended 31 December 2007* $ | *18 Months ended 31 December 2006* $ |
|---|---|---|
| **Cash flow from operating activities** | | |
| Operating loss | (315,054) | (1,096,139) |
| Adjustments for items not requiring an outlay of funds: | | |
| Depreciation of plant and equipment | 2,241 | 753 |
| Share-based payments charge | 370,819 | 174,841 |
| **Operating profit/(loss) before changes in working capital** | 58,006 | (920,545) |
| Increase in receivables and prepayments | (2,035,592) | (52,050) |
| Increase in trade and other payables | 2,164,736 | 124,200 |
| **Cash from/(used in) operations** | 187,150 | (848,395) |
| Interest received | 150,980 | 117,555 |
| **Net cash from/(used in) operating activities** | 338,130 | (730,840) |
| **Investing activities** | | |
| Payments to purchase plant and equipment | (7,924) | (4,092) |
| Costs of acquiring subsidiaries | - | (143,308) |
| Loans granted to subsidiaries | (9,108,054) | (1,496,569) |
| Funds received from farm-in partners | 8,752,398 | - |
| **Net cash used in investing activities** | (363,580) | (1,643,969) |
| **Financing activities** | | |
| Cash proceeds from issue of shares | 3,067,937 | 3,915,078 |
| Share issue costs | - | (234,116) |
| **Net cash from financing activities** | 3,067,937 | 3,680,962 |
| **Increase in cash and cash equivalents** | 3,042,487 | 1,306,153 |
| Cash and cash equivalents at beginning of period | 2,300,495 | 994,342 |
| **Cash and cash equivalents at end of period** | 5,342,982 | 2,300,495 |

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.

1.2 **Going concern**

During the year ended 31 December 2007 the Group made a loss of $1,119,803 (18 months to year end 31.12.2006 - $1,006,722). At the balance sheet date the Group had net assets of $14,089,131 (2006 - $11,770,178). As set out in note 14 below, the Group has expected exploration expenditure commitments of $3,571,900 due within one year from the balance sheet date and a further $16,000,000 due between one and two years.

The operation of the Group is currently being financed from funds which the Company raised from private and public placings of its shares together with monies raised under a farm-out agreement with Arcadia Petroleum Limited in respect of its Namibian licence. In addition the Group has concluded an agreement with Orca Exploration Group Inc under which that Company is contributing an agreed proportion of the Seismic and Drilling costs involved in respect of the Group's Uganda licence.

Whilst the Company may have to raise additional equity towards the end of 2008 in order to meet its share of the exploration expenditure commitments of its two licenses, the Directors believe that the Group will be able to secure these funds and, accordingly, are satisfied that the going concern basis remains appropriate for the preparation of these financial statements.

1.3 **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 8 | Operating Segments | 1 January 2009 |
| IAS23(Amendment) | Borrowing Costs | 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. There will be no effect on reported income or net assets.

1.4 **Basis of consolidation**

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

1.5 **Goodwill**

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

1.6 **Oil and Gas Exploration and Evaluation Expenditure**

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

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

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

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

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

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

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

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

1.10 **Decommissioning costs**

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

1.11 **Plant and equipment**

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

| | |
|---|---|
| Computers and equipment | Straight line over 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.

1.11 **Plant and equipment (continued)**

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

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

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

1.13 **Share based payments**
The Company made share-based payments to certain directors and advisers by way of issue of share options. 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.

1.14 **Foreign currency translation**
*(i) Functional and presentational currency*
Items included in the Group's financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). With effect from 1 January 2007, the Directors consider the US Dollar to be the Group's functional and presentation currency. Comparative figures have been restated into US Dollars from Pounds Sterling ("£"). The effective exchange rate at 31 December 2007 was £1 : US$1.99.

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

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

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

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

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

1.17 **Receivables**

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

1.18 **Payables**

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

1.19 **Share capital**

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

1.20 **Critical accounting judgements and estimates**

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

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

*Impairment of intangible assets*

Determining whether 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 the majority of current assets which are based in Europe) are based in Africa.

3. **Group operating loss**

The Group's operating loss is stated after charging:

| | | *Year ended 31 December 2007* | *18 months ended 31 December 2006* |
|---|---|---|---|
| | | *$* | *$* |
| Share-based payments charge (note 17) | | 370,819 | 174,841 |
| Employee costs, excluding share-based payments | | 340,833 | 210,402 |
| Rental of properties | | 36,000 | 59,748 |
| Auditors' remuneration | - audit services | 40,000 | 37,000 |
| | - non audit services | 10,000 | 2,035 |
| Depreciation of plant & equipment | | 2,241 | 753 |

Non-audit fees consist of $4,000 (2006: $2,035) for tax services and $6,000 (2006: $Nil) for reviewing the Group's interim results.

4. **Taxation**

| | *Year ended 31 December 2007* | *18 Months ended 31 December 2006* |
|---|---|---|
| | *$* | *$* |
| **Current Tax** | | |
| UK corporation tax | - | - |
| **Total current tax charge** | - | - |

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

| | | |
|---|---|---|
| Group loss before tax | (1,119,803) | (1,006,722) |
| Tax at the UK corporation tax rate of 30% | (335,941) | (302,017) |
| *Tax effects of:* | | |
| Expenses not deductible for tax purposes | 111,918 | 61,339 |
| Tax losses carried forward not recognised as a deferred tax asset | 224,023 | 240,678 |
| | - | - |

Aggregate tax losses carried forward to future periods is $700,000.

5. **Loss per share**

| | *Year ended 31 December 2007* | *18 Months ended 31 December 2006* |
|---|---|---|
| | *$* | *$* |
| Loss for the year/period | (1,119,803) | (1,006,722) |
| Weighted average number of share in issue | 526,897,228 | 337,507,589 |
| Basic loss per share | (0.21)c | (0.30)c |

The diluted loss per share has been calculated using a weighted average number of shares in issue and to be issued of 530,895,322 (2006: 338,718,970). The diluted loss per share has been kept the same as the basic loss per share as the conversion of share options decreases the basis loss per share, thus being anti-dilutive.

## 6. Parent Company income statement

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 year ended 31 December 2007 of $164,074 (18 months ended 31 December 2006: $980,189) has been included in the income statement.

## 7. Employee costs

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

| | *Year ended 31 December 2007* | *18 months ended 31 December 2006* |
|---|---|---|
| | *$* | *$* |
| Wages, salaries and fees | 333,373 | 204,386 |
| Social security costs | 7,460 | 6,016 |
| Share-based payments | 370,819 | 174,841 |
| | 711,652 | 385,243 |

The number of employees at the year end (including Directors) was:

| | | |
|---|---|---|
| Office and administration | 15 | 5 |

The above employee costs include the Company's Directors. Further details of their remuneration is shown below.

| | *Fees/Salaries* | *Share based payments* | *2007 Total* | *2006 Total* |
|---|---|---|---|---|
| | *$* | *$* | *$* | *$* |
| Peter Kingston | 218,000 | 230,144 | 448,144 | 106,129 |
| Peter Taylor | 29,333 | - | 29,333 | 21,275 |
| Peter Blakey | 29,333 | - | 29,333 | 21,275 |
| Mark Savage | 29,828 | - | 29,828 | 22,100 |
| Jeremy Asher | 21,430 | - | 21,430 | - |
| Russell Langusch | 2,000 | - | 2,000 | 85,840 |
| Ross Warner | - | - | - | 30,640 |
| | 329,924 | 230,144 | 560,068 | 287,259 |
| | ======== | ======= | ======= | ======= |

In addition to the above Russell Langusch made a profit of $24,875 from the exercise of 1,000,000 share options during the year before his resignation as a director.

8. **Plant and equipment**

| | *Group* | *Company* |
|---|---|---|
| **Cost** | *$* | *$* |
| At 1 January 2007 | 4,092 | 4,092 |
| Additions during the year | 105,869 | 7,924 |
| At 31 December 2007 | 109,961 | 12,016 |
| **Depreciation** | | |
| At 1 January 2007 | 753 | 753 |
| Provision for the year | 2,241 | 2,241 |
| At 31 December 2007 | 2,994 | 2,994 |
| **Net book value** | | |
| At 31 December 2007 | 106,967 | 9,022 |
| At 31 December 2006 | 3,339 | 3,339 |

9. **Intangible assets**

| **Group:** | *Exploration and evaluation assets* | *Goodwill* | *Total* |
|---|---|---|---|
| | *$* | *$* | *$* |
| **Cost** | | | |
| At 1 January 2007 | 1,408,868 | 7,979,502 | 9,388,370 |
| Additions | 8,055,120 | - | 8,055,120 |
| Monies received under farm-out agreements | (8,752,398) | - | (8,752,398) |
| At 31 December 2007 | 711,590 | 7,979,502 | 8,691,092 |
| **Amortisation and impairment** | | | |
| At 1 January 2007 | - | - | - |
| Amortisation for the year | - | - | - |
| Impairment loss for the year | - | - | - |
| At 31 December 2007 | - | - | - |
| **Net book value** | | | |
| At 31 December 2007 | 711,590 | 7,979,502 | 8,691,092 |
| At 31 December 2006 | 1,408,868 | 7,979,502 | 9,388,370 |

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

The amounts for intangible exploration and evaluation (E & E) assets represent 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.

As discussed in the Chairman's statement, during 2007 the Group entered into two farm-out agreements. The farm-out partners have contributed $8,752,398 towards past and future exploration and evaluation costs. These receipts have been deducted from the past E & E costs of the Group, as shown above. The net E & E costs consist of $514,000 in Uganda and $198,000 in Namibia.

10. **Investments – subsidiary undertakings**

| | *Loans to subsidiary undertakings* | *Shares in subsidiary undertakings* | *Total* |
|---|---|---|---|
| | *$* | *$* | *$* |
| **Company** | | | |
| **Cost** | | | |
| At 1 January 2007 | 1,574,668 | 7,994,610 | 9,569,278 |
| Net advances during the year | 355,655 | - | 355,655 |
| At 31 December 2007 | 1,930,323 | 7,994,610 | 9,924,933 |

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

The Company's directly-held subsidiary undertaking as at 31 December 2007 is:

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

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

The two wholly-owned subsidiaries of Neptune Petroleum Limited ("Neptune") 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 2007* | | *31 December 2006* | |
|---|---|---|---|---|
| | *Group* | *Company* | *Group* | *Company* |
| | *$* | *$* | *$* | *$* |
| Monies due under farm-out agreement | 1,894,742 | 1,894,742 | - | - |
| Other receivables | 220,275 | 195,967 | 26,368 | 26,368 |
| Equipment deposit | 1,006,372 | - | - | - |
| Prepayments | - | - | 28,748 | 28,748 |
| | 3,121,389 | 2,090,709 | 55,116 | 55,116 |

The monies due under farm-out agreement were received by the Company in March 2008.

12. **Trade and other payables**

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | *Group* | *Company* | *Group* | *Company* |
| | *$* | *$* | *$* | *$* |
| Payables and accruals | 2,855,559 | 2,296,253 | 133,473 | 131,518 |
| Witholding tax payable | 509,573 | - | - | - |
| | 3,365,132 | 2,296,253 | 133,473 | 131,518 |

Neptune Petroleum (Uganda) Ltd, in conjunction with other exploration companies operating in Uganda, have made representations to the Government of Uganda regarding the requirement to account for local withholding tax on services purchased from non-Ugandan suppliers of equipment and consultancy services in connection with its exploration programme in Uganda. Although the company is optimistic that these representations will result in it being granted an exemption, waiver or deferment, in whole or in part, from this liability, it has decided to accrue in these financial statements the estimated potential maximum liability of $509,573, which its local auditors have advised will be payable in the event that the aforesaid representations are unsuccessful.

13. **Financial instruments**

**Interest Rate risk**
At 31 December 2007 the Group had US Dollar cash deposits of $5,277,725, Pound Sterling cash deposits of a US Dollar equivalent of $233,732 and Uganda Shillings cash deposits of the US Dollar equivalent of $23,358. The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

| | 31 December 2007 | | 31 December 2006 | |
|---|---|---|---|---|
| | *Floating interest rate* | *Non - Interest Bearing* | *Floating interest rate* | *Non - Interest Bearing* |
| | *$* | *$* | *$* | *$* |
| *Financial assets:* | | | | |
| Cash at bank | 5,511,457 | 23,358 | 2,114,129 | 342,696 |

The effective weighted average interest rate was 3%.

**Financial liabilities**
At 31 December 2007, the Group had no debt.

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

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

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

13. **Financial instruments (continued)**

**Capital risk management**

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

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

14. **Exploration expenditure commitments**

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

The exploration commitments in Namibia are funded by Arcadia Petroleum Limited and the amounts included reflect that Tower is now a 15% interest holder in the Licence. It is expected that the commitment will be funded by Arcadia. The remaining commitments in Uganda during 2008 in respect of seismic are contracted largely to be funded by Orca Exploration Group Inc. and the well commitments carried in 2009 are expected to be mostly met by Orca if they elect to participate or by another third party if they elect not to participate.

| | *31 December 2007* | | *31 December 2006* | |
|---|---|---|---|---|
| | *Group* | *Company* | *Group* | *Company* |
| | *$* | *$* | *$* | *$* |
| At the Balance Sheet date the aggregate amount payable is: | | | | |
| Within not more than one year | 3,571,900 | - | 8,983,974 | 262,506 |
| Between one and two years | 16,000,000 | - | 1,884,558 | 111,663 |
| | 19,571,900 | - | 10,868,532 | 374,169 |

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 2007 for any future costs of decommissioning or any environmental damage.

16. **Share capital and options**

| | *31 December 2007* $ | *31December 2006* $ |
|---|---|---|
| **Authorised** | | |
| 10,000,000,000 ordinary shares of 0.1p each | 19,900,000 | 19,900,000 |
| **Allotted, called up and fully paid** | | |
| 537,107,878 (2006: 458,333,333) ordinary shares of 0.1p each | 1,052,505 | 897,874 |

The share capital issues during 2007 are summarised as follows:

| | *Number of 0.1p shares* | *Share capital at nominal value* $ | *Share premium* $ |
|---|---|---|---|
| At 1 January 2007 | 458,333,333 | 897,874 | 12,012,899 |
| Shares issued for cash | 78,774,545 | 154,631 | 2,913,307 |
| At 31 December 2007 | 537,107,878 | 1,052,505 | 14,926,206 |

The details of share options outstanding at 31 December 2007 are as follows:

| | *Number of Share options* |
|---|---|
| At 1 January 2007 | 9,000,000 |
| Granted during the period | 6,000,000 |
| Exercised during the period | (1,000,000) |
| Lapsed during the period | (2,000,000) |
| At 31 December 2007 | 12,000,000 |

| **Date of Grant** | **Number of options** | **Option price** | **Exercisable between** |
|---|---|---|---|
| 21 December 2005 | 3,000,000 | 1.5p | 21/12/05 – 21/12/10 |
| 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 |
| 8 February 2007 | 1,000,000 | 3.125p | 08/02/07 – 08/02/12 |
| 3 May 2007 | 3,000,000 | 2.25p | 03/05/08 – 03/05/12 |
| 20 September 2007 | 2,000,000 | 2.75p | 20/09/08 – 20/09/12 |

The Company's share price ranged between 1.65p and 3.68p during the year. The closing share price as at 31 December 2007 was 2.75p per share.

## 17. Share-based payments

| | 2007 | 2006 |
|---|---|---|
| | $ | $ |
| The Group recognised the following charge in the income statement in respect of its share based payment plans: | | |
| IFRS 2 charge | 370,819 | 174,841 |

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 year ended 31 December 2007 and this has been calculated at 212%. The risk free rate has been taken as 5.25%. The estimated fair values and other details which have been processed into the model are as follows:

| **Number of options** | **Grant date** | **Option price** | **Fair value** | **Expected exercise dates** |
|---|---|---|---|---|
| 2,000,000 | 28/02/06 | 1.5p | 2.23p | 28/02/11 |
| 1,000,000 | 08/02/07 | 3.125p | 3.3p | 08/02/12 |
| 3,000,000 | 03/05/07 | 2.25p | 2.14p | 03/05/12 |
| 2,000,000 | 20/09/07 | 2.75p | 2.78p | 20/09/12 |

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

| | *Year ended 31 December 2007* | | *18 Months ended 31 December 2006* | |
|---|---|---|---|---|
| | *Group* | *Company* | *Group* | *Company* |
| | *$* | *$* | *$* | *$* |
| Loss for the period | (1,119,803) | (164,074) | (1,006,722) | (980,189) |
| Shares issued for acquisition of subsidiary undertaking | - | - | 7,838,921 | 7,838,921 |
| Share placings less costs | 3,067,938 | 3,067,938 | 3,680,962 | 3,680,962 |
| Share-based payments | 370,819 | 370,819 | 174,841 | 174,841 |
| Net increase in shareholders' funds | 2,318,954 | 3,274,683 | 10,688,002 | 10,714,535 |
| Opening shareholders' funds | 11,770,177 | 11,796,710 | 1,082,175 | 1,082,175 |
| Closing shareholders' funds | 14,089,131 | 15,071,393 | 11,770,177 | 11,796,710 |

## 19. Related party transactions and compensation of key management personnel

TM Services Limited ("TM") is controlled by two directors of the Company, Mr. Peter Blakey and Mr. Peter Taylor. Included in the Group's operating loss is an amount of $136,500 paid to TM in respect of office administration charges.

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

| | *Year ended 31 December 2007* | *18 months ended 31 December 2006* |
|---|---|---|
| | *$* | *$* |
| Short-term employee benefits | 329,924 | 198,109 |
| Share-based payments | 230,144 | 89,250 |
| | 560,068 | 287,359 |

## 20. Control

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