Company Number 5305345

TOWER RESOURCES PLC

GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

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 Crosswall London EC3N 2SG	
Nominated Adviser and Broker:	Blue Oar Securities plc 30 Old Broad Street, London EC2N 1HT	
Joint Broker	Fox Davies Capital Whitefriars House 6 Carmelite Street London EC4Y 0BS	
Solicitors:	Watson Farley & Williams LLP 15 Appold Street, London EC2Y 2HB	
Group Auditors:	UHY Hacker Young LLP Quadrant House 17 Thomas More Street Thomas More Square London E1W 1YW	
Registrars:	Capita IRG Bourne House 34 Beckenham Road Beckenham Kent, BR3 4TU	
Bankers:	Barclays Bank Plc 50 Pall Mall, London SW1A 1QA	

Your Company is now within a few weeks of drilling its first exploration well - in Uganda Licence EA5. The outstanding success of drilling in Licence EA1, just 80 kms to the south of the two well locations in EA5, has focused attention on the large oil reserve potential of shallow prospects in the Albertine Graben. A contract has been finalized with ASCOM S.A. Group (ASCOM) to supply a MBU-125 land drilling rig, which is now being mobilized from Southern Sudan to Iti-1, the first well site. The estimated spud date is 15th May and the prospective reservoir horizon should be encountered about a week later. Seismic and geochemical surveys completed during 2008 have confirmed the presence of large structures and active hydrocarbon generation and migration respectively.

Activity in Namibia has continued to be focused on the purchase and detailed interpretation of 2D seismic data. This work is now completed and has confirmed the huge potential of exploration prospects within the Licence area. Given the very large structures and some complexity confirmed in likely reservoir geometry, it has now been recommended that a large 3D seismic survey be acquired in the final quarter of 2009 with detailed interpretation taking place over most of 2010. This approach will substantially reduce the risk of selecting the first well location but would delay drilling of a first well until late 2011 at the earliest.

Both programmes are funded for the immediate future with Global Petroleum Limited (Global) replacing Orca Exploration Inc as the funding partner for the first Uganda well. Arcadia Petroleum Limited (Arcadia) continues to fund all of the Namibia activities. New Licences in Western Sahara were acquired in mid 2008 and negotiations in respect of a Licence award in Tanzania are pending. If the first Uganda well is successful, your company will consider a small number of new exploration ventures in Southern Africa over the coming year.

Although much now depends on the outcome of Iti-1, Namibia (although delayed) remains a very significant follow-up. As exploration prospects go, EA5 in Uganda is low risk and potentially high reward. It promises to be a very exciting month or two ahead.

Financial Highlights

The operating loss for the reporting period from 1 January 2008 to 31 December 2008 was $1,243,808. Capital expenditure on exploration studies, drilling preparations and seismic surveys during that period was $6,355,257. Third party funding received from farm-in partners has covered approximately 61% of our total capital expenditure to date, including a recovery of some back costs. Cash balances at year end totaled $727,028 although significant amounts will be required in the first half of 2009 to meet the cost of operations still underway at the end of 2008. The Company has sufficient capital to fund its activities until the end of 2009 and expects that new funds can be introduced if necessary to meet commitments during 2010. In that respect, new funds were raised in October 2008 and January 2009 and a further fundraising, with director participation, is currently close to finalization – the latter will satisfy going concern requirements for the coming year.

Operations Summary to end of 2008

Uganda

The first half of 2008 was focused on completing the seismic survey, seismic processing and interpretation. The seismic processing confirmed the structural features identified by the gravity interpretation and gave encouragement that the Licence would contain hydrocarbons. The seismic processing revealed, for EA5, that the Miocene sediments prevalent in other areas of the Albertine Basin have a maximum thickness of 1500 metres, which is entirely in line with sediments in Licence EA1 immediately to the south of Tower's Licence EA5, where Heritage has made a world class discovery just 80 kms from the first Neptune (Uganda) well location. It is also similar to the Butiaba area of Licence EA2 where Tullow has also recently made several significant discoveries at depths less than 1000 metres. There is also evidence from the seismic that sediments had been more than 500 metres deeper when source rocks were being deposited. Amplitude anomalies are widespread and AVO analyses also indicate hydrocarbons to be present.

Very significantly, geochemistry field surveys completed during 2008 and early 2009 have confirmed that there is a high probability of an active, mature hydrocarbon source and a migration process taking place which substantially reduces remaining exploration risk. This has always been the main area of risk for exploration in the EA5 area so is very encouraging. Moreover, the samples taken have similar characteristics to surface seeps present in other areas of the Albertine Graben and oil samples taken on well tests. There is also evidence from wells in EA1 and EA2 that geothermal gradients are high north of Lake Albert and this supports the likelihood of current and/or recent oil generation at shallow depth in EA5. Overall, since the start of 2008, the full results of seismic and field work in EA5 and well results in EA1 have substantially improved the probability of success. The results in Licences EA1 and EA2 have also demonstrated that large reserve potential exists even with such shallow reservoirs. The two structures to be drilled first each have 100 million barrel potential.

The first two well locations, Iti-1 and Sambia-1 were selected and agreed with Government early in 2009 based on a combination of seismic, gravity and oil seep data and the Iti-1 well is now scheduled to begin early in May 2009. A MBU-125 land drilling rig has been contracted from ASCOM and this is currently en route to site from Southern Sudan, where it has recently completed a well on ASCOM's own licensed acreage. The drilling operations are being undertaken during a dry season when ground conditions are favourable for moving heavy equipment.

Some delay has occurred from earlier prognoses of timing. This occurred to allow the identification and introduction of a new funding party after Orca Exploration Inc decided that the prospectivity did not meet their demanding risk requirements. Agreement has been reached for Global to fund Iti-1 and also possibly Sambia-1.

Tower and its wholly-owned subsidiary Neptune Petroleum (Uganda) Limited ("Neptune Uganda") announced on 22 December 2008 that they had reached agreement ("Farm Out Agreement") to farm out an interest in Neptune's Uganda acreage to Global Petroleum Limited, an Australian based oil company quoted on ASX and AIM. Full details of the Farm Out Agreement were included in the announcement. The Farm Out Agreement was subject to the consent of the Minister of Energy and Mineral Development of the Government of the Republic of Uganda and this consent was received on February 10th 2009.

Global has the right to earn a 50% interest in Exploration Area 5 ("EA5"), north-western Uganda, by meeting the cost of two exploration commitment wells. Under the terms of the Farm Out Agreement, Global will earn a 25% interest in the EA5 Licence and Production Sharing Agreement by funding the cost of drilling Iti-1 (subject to a cap), the first well of a two well programme and, at their discretion, an additional 25% interest by drilling Sambia-1, when the results of Iti-1 have been interpreted.

Namibia

Comprehensive processing and interpretation of the 2-D seismic data acquired in late 2007 confirmed that three giant prospects previously identified are viable exploration targets, having apparent four-way structural closure and strong hydrocarbon indications. Geological modelling indicated potentially continuous reservoir sands over these large structures, which can be correlated with high quality sands encountered in the two wells drilled on the Licence.

The programme of work since then has been focussed on the acquisition and detailed interpretation, using AVO and geological modelling techniques, of additional 2-D seismic data purchased from a number of seismic contractors. The objective of this programme was to evaluate the prospectivity of all three structures and to investigate reservoir continuity. It was originally intended to acquire 3000 kms of new seismic data early in 2009 over at least one of the prospects to allow a well location to be chosen with some confidence for drilling as early as late 2010. The updated interpretation including all of the new data, while confirming the scale and prospectivity of the defined structures has concluded that a full 3D seismic survey is required to confidently select a first well location. Such a programme has been agreed between Neptune Petroleum (Namibia) Limited ("Neptune Namibia") and Arcadia and has been proposed to the Namibian Government.

It is currently planned to move into the Second Exploration Period effective end September 2009 and to begin shooting 3D seismic (currently expected to amount to 1500 square kilometres) before the end of 2009. Detailed processing and interpretation is likely to take until end 2010 before a firm well location can be selected. A well is, therefore unlikely before end 2011.

No definitive result of exploration well Kunene 1, drilled in Block 1711 located in the Namibe Basin, about 200 kms north of Tower's most northerly prospect, has yet been published. However, the reported substantial gas shows are encouraging for prospectivity in the Tower acreage.

Other Ventures

Little progress has been made to date with negotiations pertaining to the conditional Licence award in Tanzania and it is not clear that agreement will be reached. Further contact is planned once the results of the Uganda well are available. The acquisition of two Licences in Western Sahara, via the purchase of Comet Petroleum, was completed in 2008 but it is expected to be some years before the political uncertainties can be resolved. Accordingly, Uganda and Namibia remain the principal areas of activity of your Company.

Since Year-end and Looking Forward

Uganda

Activity to date in 2009 has largely involved finalisation of the farm in arrangements with Global and the completion of contracts to drill Iti-1. The opportunity was taken to undertake a full review of operational alternatives and updated security assessments. Discussions were held with other operators to investigate the possible use of the rig which has successfully made discoveries in Licences EA1 and EA2 but these ultimately did not bear fruit. The increase of military activity against the Lord's Resistance Army (LRA) in DRC also instigated a review of security issues in transporting a rig from Sudan. The Board believes that the arrangements currently being pursued will be effective from both perspectives.

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

Namibia

The seismic interpretation work was completed early in 2009 and plans are being prepared for the 3D seismic survey towards the end of the year.

Corporate Outlook

The year 2008 saw a great deal of positive progress for your Company and a first well in Uganda is now imminent. Much now depends on this well and the Board believes that there is a very good chance of a successful outcome. With a positive outcome, the added shareholder value will be immediately substantial and the further exploration of EA5 will be pursued vigorously to assess most of the value of EA5 as soon as possible. Namibia operations, although delayed, have confirmed the added company making potential of this project to Tower, avoiding too much dependence on Uganda for ultimate success.

Thank you for your continued support.

Peter Kingston
Chairman
20th April 2009

The Directors present their Annual Report on the affairs of the Group, together with the Accounts and the Independent Auditors' Report for the year ended 31 December 2008.

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 Global Petroleum Limited exercise an option to earn up to 50% of the Licence by funding the cost of one or both of the commitment wells. 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 first well of the two well drilling programme committed for the two-year Second Exploration Period is expected to begin in May 2009. 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 purchase of seismic data was made in 2008 and interpretation has been completed. Licence commitments for the First Exploration Period have been fulfilled and it is expected that Arcadia and Tower will move to the two-year Second Exploration Period in September 2009.

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 continues 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. Geochemical sampling has been very successful confirming the likely presence of oil generation and migration. The Namibian licence is far from any existing discoveries of oil or gas and is therefore of greater risk. Nevertheless, completion of the interpretation of newly purchased seismic data has confirmed the very large prospects previously identified of potentially commercial scale and strong indications that natural gas may be present.

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

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

Changes in share capital

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

Principal risks and uncertainties facing the Group

Exploration for oil and gas is an inherently risky business. Given the 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 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 80 km to the south and continuing intensive exploration programme within 50km, would allow any discovery to be produced via facilities in that area. This would reduce the volume of recoverable reserves required to prove commerciality. The most prospective structures in Namibia are in deep water, appear to be gas-prone and are far from potential markets. Very large reserves, in the order of 3 trillion cubic feet or more, would be required to justify development, mainly for export to major international markets. Nevertheless, the licence is interpreted to have prospects of the necessary scale.

The other significant risk for oil and gas companies is local and international commodity prices. Both oil and gas prices have fallen significantly from an historical high during 2008 and are not expected to rise to anywhere near 2008 levels for the foreseeable future. Prices have, however, always behaved cyclically and there is no reason to believe that they will not rise to an acceptable level to support development investment 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. That was the case last year but now that oil prices are at a low point in the cycle, operational costs are reducing in response, particularly for offshore operations. Uganda is a comparatively low cost environment and drilling commitment wells in Namibia is now being funded by a financially strong partner. Success in either country would still provide a favourable environment for third party funding of ongoing costs.

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

The Group made a loss of $1,243,808 for the year (*2007: $1,119,803*). Included in the Group loss is an exceptional charge of $311,378 relating to the cost of share-based payments (*2007: $370,819*).

The Directors do not propose to recommend any dividend for the year ended 31 December 2008.

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

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

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

Neptune has wider objectives with respect to health and safety in its area of operations. In conjunction with the Company's community consultation process (see below) community health and safety has emerged as a priority. Specialist scoping studies have evaluated key health needs and this has led to specific emphasis in the health and water sectors. Water well refurbishment projects have been ongoing and will continue into 2009 to increase access to safe water and this is directly linked to the quality of health of the people. This has been coupled with education of the local communities on disease control and road accident prevention practices, mainly through sensitisation visits, radio talk shows and provision of relevant information at the Arua Visitors Centre. In respect of road safety, construction of speed control humps along the busy streets in Arua town has been supported, and as a result, the number of casualties from road accidents has been dramatically reduced. Stringent controls are also being introduced for drivers engaged in Neptune's operations to limit the incidence of road accidents.

Employment policy

The Tower Group is an equal opportunity employer and does not discriminate on the basis of race, religion, gender or age. All applications for employment are considered solely on the suitability for the position. The only full time staff are located within the Neptune Uganda operating company and include 34 employees of whom 31 are Ugandan and 35% are female. The balance comprises temporary consultants who are contracted for specialised services. Tower is committed to the continuous upgrading of the skills and education of all employees and where possible, promotes from within the work force. The commitment to this employment policy has received recognition from the Ugandan Government and is upheld as an example of how foreign companies should operate within the country.

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

1: **Promote wider awareness of the company and the oil industry.**
At an early stage of its operational activities, Neptune established a Visitor Centre in the Arua main library and this required a major refurbishment programme for it to be usable. This had a major local impact. It is strategically located in central Arua and the improvement and restocking of the library has transformed the reading culture amongst the local communities and especially students in the West Nile region, increasing the daily attendance from 5 in previous years to an average of 140 in 2008. A modest fund has also been committed to support production of educational books on Uganda's oil industry and the Uganda "Oil Calendar" to increase the local community's awareness of the oil industry.

2: **Establishment of a strong local identity by employing and training Ugandans in Kampala and West Nile to manage important areas of Neptune's business.**
Neptune is now recognised in Uganda for employing a very high percentage of Ugandans in the company compared to other foreign organisations currently operating in the country. The local population will continue to benefit from Neptune's commitment to developing local content participations in the country's oil industry.

3: **Intensive consultation and communication with local communities in all areas to keep them informed of operations.**
An intensive program of community sensitisation has been carried out since early 2008 to explain the results of the seismic programme and to prepare local people for the advent of the drilling phase, with town hall meetings, school presentations, radio phone-ins and open air meetings in markets and religious venues.

4: **Gain feedback from consultations to understand community priorities for social investments.**
Through the feedback from these meetings Neptune has been able to design projects relevant and of benefit to most citizens. Further screening through consultations with the local and central government has been undertaken to ensure consolidated support across the relevant government departments. Key initiatives are described below:

- **Social investments which improve local access to fresh water and to health and safety awareness.**
  Initiatives within the community are described in the previous section.
- **Work together with local communities to initiate local commercial activities which could develop into sustainable enterprises.**
  A number of pilot projects have been initiated including mosquito net fabrication, honey production, and widespread fruit tree and amaranth growing projects. Further assistance in future will be provided to facilitate the marketing of local produce.

5: **Focus on longer term aspects of local capacity building through use of local labour and contractors and by encouraging local educational initiatives.**
A particular emphasis has been placed on training and employing local labour for many project related operations as well as company sponsored community programmes such as tree planting and road improvements. Whenever possible, local contractors from the Licence area are employed to ensure that local capacity is developed and that income benefits spread to the impoverished communities. It is expected that exploration success will lead to establishing a long term training and secondary education programme for Neptune's oil operations. Such programmes will need investment partners and, in that context, Neptune is still leading an initiative to create, in partnership with Heriot-Watt University in Edinburgh, a Uganda Petroleum Institute, designed to provide, initially, an international MA in Petroleum Engineering and, subsequently, wider skills- based qualifications.

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

Political and charitable contributions
The Group does not make political contributions. It has a policy of making social investments in its areas of operations

where the investment is directly or indirectly related to its impact on or engagement with communities (see above). Charitable donations would not normally be a large component of such investment.

Directors
The following Directors held office during the year:

Peter Kingston (Chairman)
Peter Taylor
Peter Blakey
Mark Savage
Jeremy Asher

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

	31 December 2008			31 December 2007	
	Ordinary shares of 0.1p each	*Share options*		*Ordinary shares of 0.1p each*	*Share options*
Peter Kingston	1,774,545	7,000,000		774,545	5,000,000
Peter Taylor	58,869,106	-		52,708,334	-
Peter Blakey	58,869,105	-		52,708,333	-
Mark Savage	100,000,000	-		100,000,000	-
Jeremy Asher	57,800,000	-		52,000,000	-

Directors' remuneration and service contracts

Peter Kingston is the principal executive director and his service contract is subject to a three month termination period. The non-executive directors serve on the board for a three year period with a third of the directors retiring by rotation each year, Peter Taylor and Peter Blakey are retiring by rotation this year and are available for re-election.. Both have indicated their willingness to continue as directors of the Company and subject to their re-appointments being approved at the forthcoming annual general meeting their contracts will be extended for a further three year period. Under the service contracts, the standard non executive director fee is £12,000 per annum. However, both Peter Taylor and Peter Blakey are paid £25,000 in view of their active role in seeking new exploration opportunities. Peter Kingston is paid £120,000 per annum to reflect his executive role Payment of all fees to non-executive directors has been deferred since November 2008 to temporarily reduce overhead costs and Peter Kingston is deferring 75% of his fee on the same basis.

The remuneration paid to the Directors during the 12 months ended 31 December 2008 was as follows:

	Fees/Salaries	*Share based payments*	*2008 Total*	*2007 Total*
	$	*$*	*$*	*$*
Peter Kingston	215,988	148,777	364,765	448,144
Peter Taylor	35,356	-	35,356	29,333
Peter Blakey	36,275	-	36,275	29,333
Mark Savage	32,057	-	32,057	29,828
Jeremy Asher	21,214	-	21,214	21,430
Russell Langusch	-	-	-	2,000
	340,890	148,777	489,667	560,068

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2008

Substantial shareholders
As at 15 April 2009 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	100,000,000	16.28
Peter Blakey	58,869,105	9.58
Peter Taylor	58,869,106	9.58
Agile Energy Limited	57,800,000	9.41
Ronald Bruce Rowan	25,000,000	4.07
TD Waterhouse Nominees Limited	24,902,318	4.05
Credit Suisse Client Nominees (UK) Limited	19,372,237	3.15

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

Suppliers' payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. The Group's average creditors' payment period at 31 December 2008 was 45 days.

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

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

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

Remuneration Committee
The Remuneration Committee meets on an "as required" basis and met twice during 2008. The Chairman of the Remuneration Committee is Peter Taylor and the other participating members during the year were Mark Savage and Peter Blakey.

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

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 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
20 April 2009

DIRECTORS' BIOGRAPHIES

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

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

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

Jeremy Asher – Non-Executive
Jeremy Asher is Chairman of Agile Energy Limited, a privately held energy investment company and a director of several other energy-related companies including Gulf Keystone Ltd (an AIM-listed company with interests in Algeria and Kurdistan) and Better Place LLC (a company developing infrastructure to support mass deployment of electric vehicles). He is also 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 year ended 31 December 2008 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 Group and Parent Company financial statements in accordance with applicable United Kingdom 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 whether the financial statements are properly prepared in accordance with the Companies Act 1985, and whether, in addition, the Group financial statements have been properly prepared in accordance with Article 4 of the IAS regulation. 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 Group and Parent Company 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 Group and the Company'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 2008 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 2008;

- the Group and Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; 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

20 April 2009

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Notes	*Year ended 31 December 2008* $	*Year ended 31 December 2007* $
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses before charge for share-based payments		(983,253)	(913,652)
Share-based payments	17	(311,378)	(370,819)
Total administrative expenses		(1,294,631)	(1,284,471)
Group operating loss	3	(1,294,631)	(1,284,471)
Finance income		50,823	164,668
Loss before taxation		(1,243,808)	(1,119,803)
Taxation	4	-	-
Loss for the period		(1,243,808)	(1,119,803)
Attributable to:			
Equity holders of the Company		(1,243,808)	(1,119,803)
Loss per share (cents)	5		
Basic		(0.23) c	(0.21) c
Diluted		(0.23) c	(0.21) c

The results shown above relate entirely to continuing operations.

TOWER RESOURCES PLC

GROUP & COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008

	Share Capital *$*	*Share Premium* *$*	*Share-based Payments Reserve* *$*	*Retained Losses* *$*	*Total Equity* *$*
Group					
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
Share issues	104,443	1,519,042	-	-	1,623,485
Issue costs	-	(54,684)	-	-	(54,684)
Loss for 2008	-	-	311,378	(1,243,808)	(932,430)
Balance at 31 December 2008	1,156,948	16,390,564	857,038	(3,679,048)	14,725,502
Company					
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
Share issues	104,443	1,519,042	-	-	1,623,485
Issue costs	-	(54,684)	-	-	(54,684)
Loss for 2008	-	-	311,378	(839,629)	(528,251)
Balance at 31 December 2008	1,156,948	16,390,564	857,038	(2,292,607)	16,111,943

TOWER RESOURCES PLC

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	*31 December 2008* *$*	*31 December 2007* *$*
ASSETS			
Non-Current Assets			
Plant and equipment	8	154,491	106,967
Goodwill	9	8,023,292	7,979,502
Intangible exploration and evaluation assets	9	7,116,989	711,590
		15,294,772	8,798,059
Current Assets			
Trade and other receivables	11	418,794	3,121,389
Cash and cash equivalents		727,028	5,534,815
		1,145,822	8,656,204
Total Assets		16,440,594	17,454,263
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(1,715,092)	(3,365,132)
Total Liabilities		(1,715,092)	(3,365,132)
Net Assets		14,725,502	14,089,131
EQUITY			
Capital and Reserves			
Share capital	16	1,156,948	1,052,505
Share premium	16	16,390,564	14,926,206
Share-based payments reserve	17	857,038	545,660
Retained losses		(3,679,048)	(2,435,240)
Shareholders' Funds	18	14,725,502	14,089,131

The financial statements were approved by the Board of Directors on 20 April 2009 and signed on its behalf by:

Peter Kingston
Chairman

TOWER RESOURCES PLC

COMPANY BALANCE SHEET
AS AT 31 DECEMBER 2008

	Notes	*31 December 2008* *$*	*31 December 2007* *$*
ASSETS			
Non-Current Assets			
Plant and equipment	8	6,018	9,022
Loans to subsidiary undertakings	10	7,598,865	1,930,323
Investment in subsidiary undertakings	10	8,088,545	7,994,610
		15,693,428	9,933,955
Current Assets			
Trade and other receivables	11	170,024	2,090,709
Cash and cash equivalents		606,584	5,342,982
		776,608	7,433,691
Total Assets		16,470,036	17,367,646
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(358,093)	(2,296,253)
Total Liabilities		(358,093)	(2,296,253)
Net Assets		16,111,943	15,071,393
EQUITY			
Capital and Reserves			
Share capital	16	1,156,948	1,052,505
Share premium	16	16,390,564	14,926,206
Share-based payments reserve	17	857,038	545,660
Retained losses		(2,292,607)	(1,452,978)
Shareholders' Equity	18	16,111,943	15,071,393

The financial statements were approved by the Board of Directors on 20 April 2009 and on its behalf by:

Peter Kingston
Chairman

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Year ended 31 December 2008 *$*	*Year ended 31 December 2007* *$*
Cash flow from operating activities		
Group operating loss for the year	(1,294,631)	(1,284,471)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	34,753	2,241
Share-based payments charge	311,378	370,819
Operating loss before changes in working capital	(948,500)	(911,411)
Decrease/(increase) in receivables and prepayments	1,827,764	(3,066,272)
(Decrease)/increase in trade and other payables	(1,650,038)	3,231,658
Cash used in operations	(770,774)	(746,025)
Interest received	50,824	164,668
Net cash used in operating activities	(719,950)	(581,357)
Investing activities		
Funds used in exploration and evaluation	(6,355,257)	(8,055,120)
Repayment of equipment deposit	874,831	-
Funds received from farm-in partners	-	8,752,398
Acquisition of subsidiary undertaking	(93,935)	-
Payments to purchase plant and equipment	(82,277)	(105,869)
Net cash from/(used in) investing activities	(5,656,638)	591,409
Financing activities		
Cash proceeds from issue of shares	1,623,485	3,067,938
Share issue costs	(54,684)	-
Net cash from financing activities	1,568,801	3,067,938
Increase in cash and cash equivalents	(4,807,787)	3,077,990
Cash and cash equivalents at beginning of period	5,534,815	2,456,825
Cash and cash equivalents at end of period	727,028	5,534,815

COMPANY CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	Year ended 31 December 2008 *$*	*Year ended 31 December 2007* *$*
Cash flow from operating activities		
Operating loss	(860,526)	(315,054)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	3,004	2,241
Share-based payments charge	311,378	370,819
Operating profit/(loss) before changes in working capital	(546,144)	58,006
Decrease/(increase) in receivables and prepayments	1,889,410	(2,035,592)
(Decrease)/increase in trade and other payables	(1,964,386)	2,164,736
Cash from/(used in) operations	(621,120)	187,150
Interest received	20,897	150,980
Net cash from/(used in) operating activities	(600,223)	338,130
Investing activities		
Payments to purchase plant and equipment	-	(7,924)
Acquisition of subsidiary undertaking	(93,935)	
Loans granted to subsidiaries	(5,668,542)	(9,108,054)
Release of guarantee deposits	57,500	-
Funds received from farm-in partners	-	8,752,398
Net cash used in investing activities	(5,704,977)	(363,580)
Financing activities		
Cash proceeds from issue of shares	1,623,486	3,067,937
Share issue costs	(54,684)	-
Net cash from financing activities	1,568,802	3,067,937
Increase in cash and cash equivalents	(4,736,398)	3,042,487
Cash and cash equivalents at beginning of period	5,342,982	2,300,495
Cash and cash equivalents at end of period	606,584	5,342,982

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 2008 the Group made a loss of $1,243,808 (*2007: $1,119,803*). At the balance sheet date the Group had net assets of $14,725,502 (*2007: $14,089,131*). As set out in note 14 below, the Group has expected exploration expenditure commitments of $12,000,000 due within one year from the balance sheet date and a no commitments currently 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 concluded an agreement with Orca Exploration Group Inc under which that Company contributed $7.6 million to the Seismic costs involved in respect of the Group's Uganda licence. Orca did not take up their option to fund the drilling commitment programme. The Group concluded an agreement with Global Petroleum Limited to fund the first drilling commitment well (subject to a cap) and, at Global's discretion, to fund a second well.

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

1.3 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
IAS 23(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 4 years
Fixtures, fittings and equipment	Straight line over 4 years

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

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") which with effect from 1 January 2007 was considered by the Directors the be the U.S Dollar. Comparative figures have been restated into US Dollars from Pounds Sterling ("£") on the appropriate basis. The effective exchange rate at 31 December 2008 was £1 = US$1.46 (*2007: £1 = US$ 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 2008 $	Year ended 31 December 2007 $
Share-based payments charge (note 17)		311,378	370,819
Employee costs, excluding share-based payments		409,392	340,833
Rental of properties		32,625	36,000
Auditors' remuneration	- audit services	29,200	40,000
	- non audit services	12,830	10,000
Depreciation of plant & equipment		34,753	2,241

Non-audit fees consist of $3,980 (*2007: $4,000*) for tax services and $8,850 (*2007: $6,000*) for reviewing the Group's interim results.

4. Taxation

	Year ended 31 December 2008 $	Year ended 31 December 2007 $
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	(1,243,808)	(1,119,803)
Tax at the UK corporation tax rate of 28.5% *(2007: 30%)*	(354,485)	(335,941)
Tax effects of:		
Expenses not deductible for tax purposes	93,967	111,918
Tax losses carried forward not recognised as a deferred tax asset	260,518	224,023
	-	-

Aggregate tax losses carried forward to future periods amount to approximately $1,030,000.

5. Loss per share

	Year ended 31 December 2008 $	Year ended 31 December 2007 $
Loss for the year/period	(1,243,808)	(1,119,803)
Weighted average number of share in issue	542,709,385	526,897,228
Basic loss per share	(0.23c)	(0.21c)
Diluted loss per share	(0.23c)	(0.21c)

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 2008 of $839,629 (*2007: $164,074*) 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 2008	*Year ended 31 December 2007*
	$	*$*
Wages, salaries and fees	1,055,708	484,763
Social security costs	53,244	11,581
Share-based payments	311,378	370,819
	1,420,330	867,163

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

	$	*$*
Wages, salaries and fees	658,286	151,390
Social security costs	41,274	4,121
	699,560	155,511

The total number of employees of the Group at the yearend (including Directors) was:

Office and administration	39	15

Further information about the remuneration of individual Directors is shown in the Directors' Report.

8. **Plant and equipment**

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

9. **Intangible assets**

Group:	*Exploration and evaluation assets*	*Goodwill*	*Total*
	$	*$*	*$*
Cost			
At 1 January 2008	711,590	7,979,502	8,691,092
Additions	6,355,257	43,790	6,399,047
Acquired on acquisition of subsidiary undertaking	50,142	-	50,142
At 31 December 2008	7,116,989	8,023,292	15,140,281
Amortisation and impairment			
At 1 January 2008	-	-	-
Amortisation for the year	-	-	-
Impairment loss for the year	-	-	-
At 31 December 2008	-	-	
Net book value			
At 31 December 2008	7,116,989	8,023,292	15,140,281
At 31 December 2007	711,590	7,979,502	8,691,092

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

The additional goodwill in the year arose from the Company's acquisition of Comet Petroleum Limited, as follows:

Fair value of Net assets acquired	$ 50,145
Consideration paid (see Note 10)	$ (93,935)
Positive Goodwill arising	$ 43,790

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

The amounts for intangible exploration and evaluation (E & E) assets represent expenditure incurred in relation to the Group's Ugandan and Namibian licences together with its new licences in SADR acquired with the acquisition during the year of Comet Petroleum Ltd (see note 10). 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 Goodwill and Intangible E & E costs 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 January 2008	1,930,323	7,994,610	9,924,933
Acquisition of subsidiary undertaking	-	93,935	93,935
Costs of formation of subsidiary undertaking	-	2,458	2,458
Formation costs written off	-	(2,458)	(2,458)
Advances during the year, less amounts written off	5,668,542	-	5,668,542
At 31 December 2008	7,598,865	8,088,545	15,687,410

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

The subsidiary undertaking acquired during the year was Comet Petroleum Ltd ("Comet"), and the consideration payable was satisfied by the allotment, credited as fully paid, of 721,544 ordinary shares in the Company. Under the terms of the purchase agreement, additional consideration may be payable in the future depending upon the success of Comet's evaluation and exploration activities, although it is not possible at this stage to quantify with any accuracy such additional prospective consideration. Through its wholly owned subsidiary, Comet Petroleum (SADR) Limited, Comet is investigating the possibilities for participation in oil and gas exploration in the Saharawi Arab Democratic Republic in the Western Sahara.

During the year the Company incorporated Tower Resources (Tanzania) Limited ("Tanzania") as a new wholly-owned subsidiary to pursue possible future exploration opportunities in Tanzania. During the year the Company incurred costs in relation to Tanzania totalling $8,400 (comprising the formation costs of the company and legal costs in examining and advising on the prospective Tanzanian licence agreement) but as the Directors consider that activity in that country is unlikely in the immediate future, all those costs have been written off during the period under review.

The Company's directly and indirectly held subsidiary undertakings as at 31 December 2008 are:

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

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

11. **Trade and other receivables**

	31 December 2008		*31 December 2007*	
	Group	*Company*	*Group*	*Company*
	$	*$*	*$*	*$*
Monies due under farm-out agreement	-	-	1,894,742	1,894,742
Other receivables	287,253	170,024	220,275	195,967
Equipment deposit	131,541	-	1,006,372	-
	418,794	170,024	3,121,389	2,090,709

12. **Trade and other payables**

	31 December 2008		*31 December 2007*	
	Group	*Company*	*Group*	*Company*
	$	*$*	*$*	*$*
Payables and accruals	632,865	358,093	2,855,559	2,296,253
Withholding tax payable	1,082,227	-	509,573	-
	1,715,092	358,093	3,365,132	2,296,253

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 $1,082,227 which its local auditors have advised will be payable in the event that the aforesaid representations are unsuccessful. However, the former farm-in partner in Uganda, ORCA Petroleum Limited, has confirmed that should those representations not be successful, it is committed to contribute 50% of the withholding tax payable in respect of the Seismic work. The amount of that contribution is calculated to be approximately $465,000.

13. **Financial instruments**

Interest Rate risk

At 31 December 2008 the Group had US Dollar cash deposits of $473,844, Pound Sterling cash deposits of a US Dollar equivalent of $228,387, Euro cash deposits of a US Dollar equivalent of $474, and Ugandan Shillings cash deposits of a US Dollar equivalent of $24,323. 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 2008		31 December 2007	
	Floating interest rate	*Non - Interest Bearing*	*Floating interest rate*	*Non - Interest Bearing*
	$	*$*	*$*	*$*
Financial assets:				
Cash at bank	569,297	157,731	5,511,457	23,358

The effective weighted average interest rate received during the year was approximately 3.4%.

13. **Financial instruments (continued)**

Financial liabilities
At 31 December 2008, the Group had no debt.

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

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

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

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

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

14. **Exploration expenditure commitments**

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

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.

	31 December 2008		*31 December 2007*	
	Group	*Company*	*Group*	*Company*
	$	*$*	*$*	*$*
At the Balance Sheet date the aggregate amount payable is:				
Within not more than one year	12,000,000	-	3,571,900	-
Between one and two years	-	-	16,000,000	-
	12,000,000	-	19,571,900	-

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 2008 for any future costs of decommissioning or any environmental damage.

16. Share capital and options

	31 December 2008 $	*31December 2007* $
Authorised		
10,000,000,000 ordinary shares of 0.1p each	19,900,000	19,900,000
Allotted, called up and fully paid		
589,329,422 (*2007: 537,107,878*) ordinary shares of 0.1p each	1,156,948	1,052,505

The share capital issues during 2008 are summarised as follows:

	Number of 0.1p shares	*Share capital at nominal value* $	*Share premium* $
At 1 January 2008	537,107,878	1,052,505	14,926,206
Shares issued for cash	51,500,000	103,000	1,426,550
Shares issued for acquisition of subsidiary undertaking	721,544	1,443	92,492
Cost of share issues	-	-	(54,684)
At 31 December 2008	589,329,422	1,156,948	16,390,564

The details of share options outstanding at 31 December 2008 are as follows:

	Number of Share options
At 1 January 2008	9,000,000
Granted during the period	4,000,000
Exercised during the period	-
Lapsed during the period	-
At 31 December 2008	13,000,000

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

The Company's share price ranged between 1.50p and 11.00p during the year. The closing share price as at 31 December 2008 was 2.25p per share.

17. Share-based payments

	2008	*2007*
	$	*$*
The Group recognised the following charge in the income statement in respect of its share based payment plans:		
IFRS 2 charge	311,378	370,819

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 2008 and this has been calculated at 211%. 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 dates
3,000,000	2/02/06	1.5p	2.23p	2/02/11
1,000,000	9/02/07	3.125p	3.3p	9/02/12
3,000,000	3/05/07	2.25p	2.14p	3/05/12
2,000,000	20/09/07	2.75p	2.78p	20/09/12
1,000,000	1/07/08	4.75p	4.50p	1/07/13
3,000,000	1/10/08	3.88p	4.20p	1/10/13

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

	Year ended 31 December 2008		*Year ended 31 December 2007*	
	Group	*Company*	*Group*	*Company*
	$	*$*	*$*	*$*
Loss for the period	(1,243,808)	(839,629)	(1,119,803)	(164,074)
Shares issued for acquisition of subsidiary undertaking	93,935	93,935	-	-
Share placings less costs	1,474,866	1,474,866	3,067,938	3,067,938
Share-based payments	311,378	311,378	370,819	370,819
Net increase in shareholders’ funds	636,371	1,040,550	2,318,954	3,274,683
Opening shareholders’ funds	14,089,131	15,071,393	11,770,177	11,796,710
Closing shareholders' funds	14,725,502	16,111,943	14,089,131	15,071,393

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 \$112,447 (*2007:\$136,500*) paid to TM in respect of charges for office accommodation, secretarial and administration charges.

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

	Year ended 31 December 2008	*Year ended 31 December 2007*
	\$	*\$*
Short-term employee benefits	340,890	329,924
Share-based payments	148,777	230,144
	489,667	560,068

20. Control

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

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