ANNUAL REPORT 2012

Tower Resources plc is an AIM-listed, London-based, independent oil and gas exploration company with a regional focus on Africa.

The Company holds a 30% working interest in a licence comprising three blocks offshore Namibia through its operating subsidiary, Neptune Petroleum (Namibia) Ltd., and a 50% interest in three contiguous licences, onshore and offshore, in the Sahawari Democratic Republic through its subsidiary Comet Petroleum (SADR) Limited.

Tower's strengthened Board continually assesses opportunities to grow shareholder value through asset acquisition and farm-in and farm-out opportunities in the region.

www.towerresources.co.uk

AIM:
TRP

KEY EVENTS

- Increased our share of the highly prospective Namibian Licence 0010 from a 15% carried interest to a 30% working interest; thereby increasing our net risked recoverable resources to 540mmboe* at a cash cost of US$5.3 million
- Supported the successful farm-out of 44% of Namibian Licence 0010 to Repsol, an experienced international E&P company, which has become the Licence Operator
- Secured the Namibian government's agreement to these changes and a one year extension to the licence
- Commenced drilling plans for the Welwitschia-1 well targeting net risk recoverable resources of 458mmboe to be drilled in early-mid 2014
- Strengthened the Board recruiting Graeme Thomson as CEO and Philip Swatman as Senior Non-Executive Director. Nigel Quinton joined as VP New Ventures and Andrew Matharu as VP Corporate Affairs
- Entered into a £20 million Equity Finance Facility with Darwin Strategic Limited and an £8 million SEDA through Yorkville.

* mmboe – million of barrels of oil equivalent

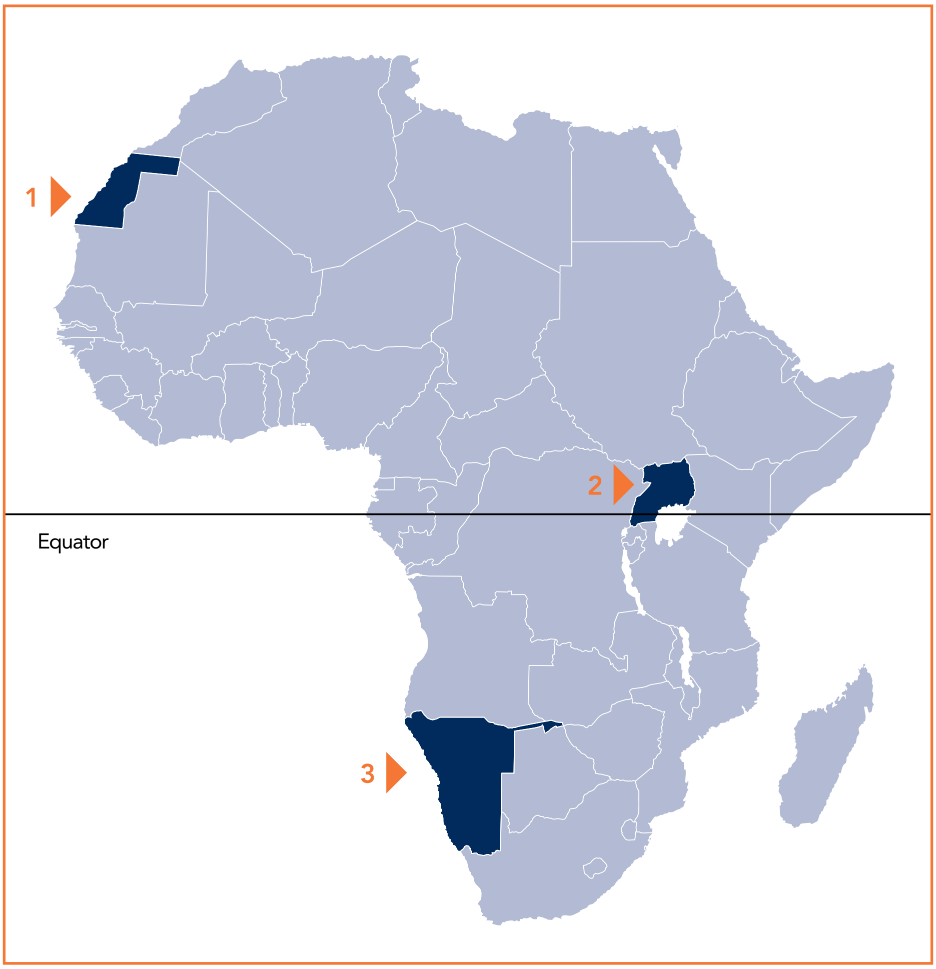
A SNAPSHOT OF TOWER RESOURCES

Our aim, strategy and current locations

Our aim:
To maximise our shareholder value via the development of a high-impact, exploration-led oil & gas company focused on frontier and emerging basins in Africa.

tower resources
oil and gas exploration

Our strategy:
To develop a balanced portfolio of exploration opportunities via a new ventures effort based around new licence applications, asset swaps, farm-in and/or the acquisition route.



Our current locations:
1 Western Sahara (SADR)
2 Uganda
3 Offshore Namibia (Walvis Basin)

30%

- **Namibia**
  Targeting net risked recoverable resources of 540mmboe.

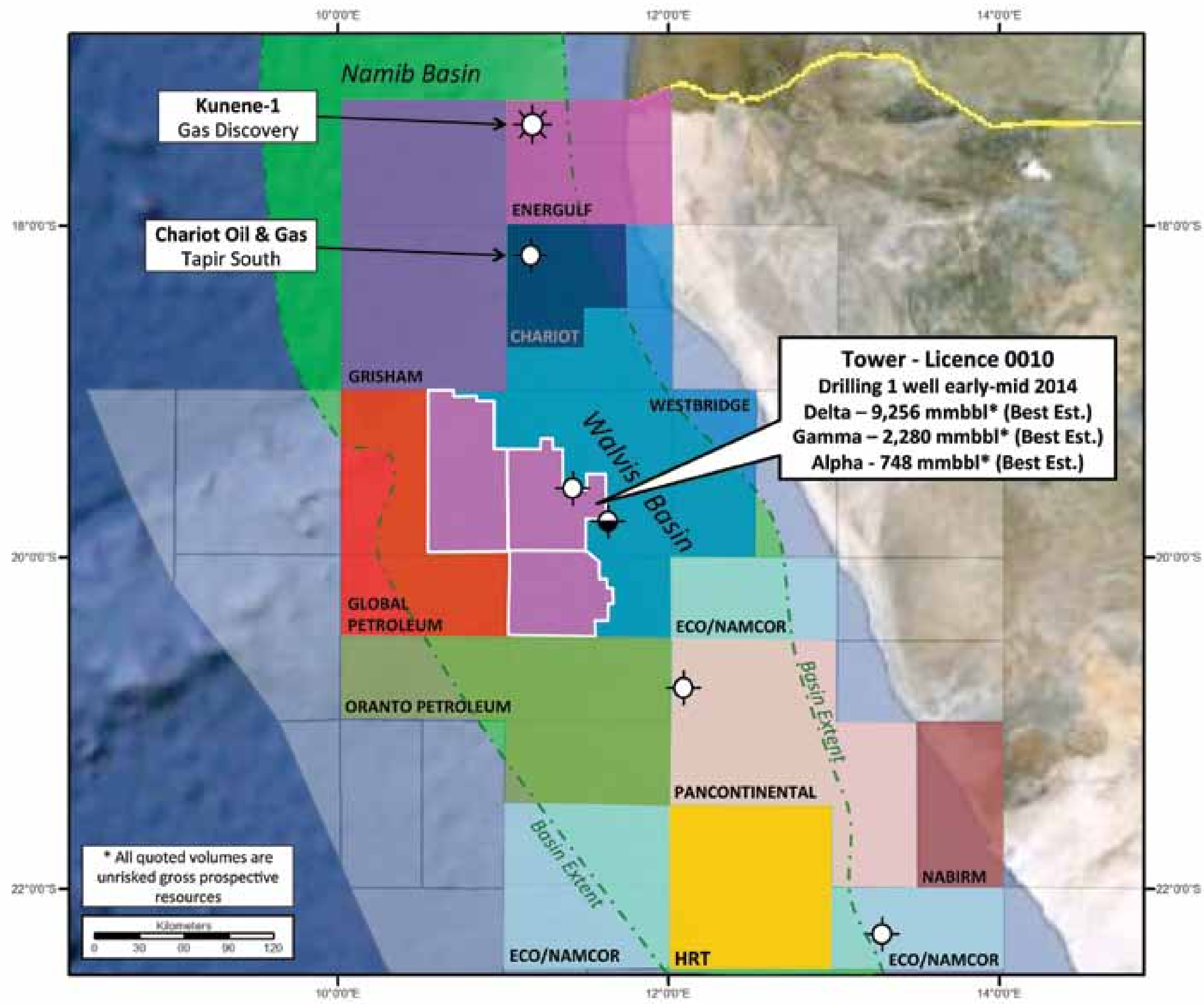
- **Namibia**
  30% working interest in blocks 1910A, 1911, 2011A covering 12,000 km^2.

50%

76,753km^2

- **Namibia**
  Exploration drilling of the Welwitschia-1 scheduled for early-mid 2014.

- **SADR**
  50% interest in Bojador, Guelta and Imlili blocks covering 76,753 km^2.



CHAIRMAN'S STATEMENT

Dear Shareholder,

Tower is being revitalised. We have laid the foundations to achieve this by assembling a talented management team within the Company and bringing an experienced operator into our key Namibian licence. The benefits will follow, although I am aware that much of this progress may not yet be fully apparent in terms of outcomes.

In 2012 and to date in 2013 we achieved the following:

- Increased our share of the highly prospective Namibian Licence 0010 from 15% to 30%, increasing our net risked recoverable resources to 540 million barrels of oil equivalent ("mmboe") at an immediate cash cost of $5.3 million
- Successfully raised $18.6 million through the issue of new shares including to new institutional investors
- Supported the successful farm-out of 44% of the Namibian Licence 0010 to Repsol, a successful and experienced international explorer and which has become the Licence operator
- Secured the Namibian government's agreement to these changes and a one year extension of the licence
- Commenced planning for the Welwitschia-1 well to be drilled in early-mid 2014
- Entered into a £20 million Equity Finance Facility with Darwin Strategic Limited and an £8 million SEDA through Yorkville
- Recruited Graeme Thomson as CEO and Philip Swatman as Senior Non-Executive Director
- Recently strengthened the experienced management team, with Nigel Quinton now working as Vice President New Ventures and Andrew Matharu having joined as Vice President Corporate Affairs
- Drilled Mvule-1 exploration well in Uganda at a cost of $8.6 million: plugged and abandoned with licence relinquished in March 2012.

Namibia

We are very pleased to have achieved completion of the transactions noted above and especially with a partner of the calibre of Repsol. Their involvement provides strong further external validation of the positive view of the structures on the licence that we, our partner Arcadia and our independent consultants all share.

We have also made considerable progress on planning the first well on the Delta structure, Welwitschia-1, which we expect to drill in early-mid 2014. As previously announced, we have also kindly been offered the opportunity to use the Rowan Renaissance, a rig on long-term charter to Repsol, which will be en route through Namibia in early 2014, in the event no better options can be found. We continue to refine the best possible economic and technical solution for the Welwitschia-1 well. For the time being, I can confirm that the well is currently planned to reach a target depth of at least 3,000m, and to intersect and test the five identified target reservoirs and possibly go further. The 2011 CPR from Oilfield International estimated that those targets could contain gross unrisked recoverable resources of over 9.2 billion bbls and 14.5 tcf of gas; they assigned net risked recoverable resources of 458 million boe to Tower's attributable 30% share. By any standard this Licence and this well have the potential to transform Tower's fortunes.

Apart from our own progress, we are also pleased to see that HRT has begun drilling offshore Namibia and we look forward to the results of their programme of three exploration wells. They have farmed out part of their interest to Galp, also a big and successful international company. I would like to remind our shareholders that just as Chariot's negative results last year did not have any substantial implications for our blocks, a positive result for HRT is also no guarantee of a positive result for us (or vice versa). If the HRT results have any clear implications for our own blocks that we can identify, then we will advise the market as soon as we can.

Tower is in a strong position to realise the potential upside of our Namibian assets and we continue to capitalise on our extensive Africa operating experience

Uganda

In Uganda, we drilled the Mvule-1 well at a cost of $8.6 million but it was not successful. We subsequently relinquished Block EA5 in March 2012, as discussed in last year's annual report. We have closed down our operations in that licence area and completed site restoration to the satisfaction of the Ugandan authorities, with our bond being released in March 2013. We have maintained a commercial presence in Uganda, and look forward to the next licensing round which we hope will take place in 2013. We have made a considerable investment in Uganda, and learned a great deal from our work on EA5, which we would like to put to good use in Uganda and perhaps elsewhere in East Africa in the future.

Western Sahara

In Western Sahara, we await the next stage in the political process, but we believe that there is a growing acknowledgement within the United Nations that the present undetermined status of the SADR is neither desirable nor sustainable in the face of a growing terrorist presence in West Africa. We are therefore cautiously optimistic that some progress will be made in the foreseeable future.

New CEO and New Ventures

Graeme Thomson was appointed as CEO in June 2012. He has settled into the Company and brought us the benefit of both his experience and his considerable network of personal contacts to strengthen the team, including the recent recruitment of Nigel Quinton and Andrew Matharu. He has also been helping us to originate new ventures. Philip Swatman joined us in April 2012 as Senior Non-Executive Director. Short biographies of these key people are set out elsewhere in this Annual Report.

In addition to effecting the changes in Licence 0010 and planning for the first well, we have been looking at a large number of opportunities and whittling them down to the ones that we consider in the same order of attractiveness as our current portfolio. It is in the nature of this type of activity that there is little we can say until transactions are actually concluded, but I would like to reassure my fellow shareholders that work is underway and we are looking hard but with a keen eye to value creation and widening the portfolio of upside opportunities for Tower.

Financial developments

The Group's loss for the year ended 31 December 2012 was $11.7 million, of which $8.6 million comprised the Mvule-1 well. This represented a reduction of $18.9 million compared to the loss of $30.6 million incurred in 2011. Cash balances at 31 December 2012 amounted to $10.1 million, including $5.6 million of restricted cash.

Our decision to increase our share of the Namibian License 0010 to 30% means that our interest is no longer carried, and therefore we will have to cover our pro rata share of expenses – indeed, of the restricted cash that we held at 31 December 2012, $5.3 million was set aside for this purpose. The budget for the Welwitschia-1 well is not yet finalised, but it is important to stress that the largest part of that cost will not need to be financed until much closer to the time of drilling. Our expectation is that our additional cash requirement for the calendar year 2013 is actually quite modest in the absence of other new ventures or a farmout.

As most shareholders will be aware, in addition to our cash on hand today of $3.5 million, the Company also has a £20 million standby equity finance facility available from Darwin Strategic, as well as an £8 million SEDA from Yorkville, if required.

Future strategy

Our aim as a Company remains to identify high-impact exploration opportunities and secure and exploit them for our shareholders before their value is fully realised in the wider market. As I wrote last year, this will not change. I will take this opportunity to remind shareholders that our focus to date has been in sub-Saharan Africa, and while we will not rule out other areas if a superb opportunity warrants, we also believe that there are excellent opportunities in Africa, both West and East.

The Board and I would like to thank all of our shareholders for their support and patience. As the largest shareholder in the Company, with 11.4% of the issued share capital, I am determined that we will continue to rejuvenate Tower, that we will be successful, and, I hope that all of us will thereby be richly rewarded.

Jeremy Asher
Non-Executive Chairman
27 March 2013

OPERATIONS REVIEW

Namibia

Tower Resources' 30% interest in Licence 0010 covering blocks 1910A, 1911 and 2011A in the Walvis Basin gives investors exposure to one of the world's highest impact frontier basins targeting net risked recoverable resources of 540mmboe (Oilfield International CPR – June 2011).

What was once regarded as a high risk area has been significantly de-risked by recent drilling results that demonstrate a thick working source rock is likely present regionally in the Walvis & Luderitz basins to the south of the Walvis Ridge. Licence 0010 is therefore ideally situated to receive charge from both the Walvis and Namibe basins *(figure 1)*. This has already been confirmed by geo-seismic studies within the block that have identified a number of direct hydrocarbon indicators. The stage is now set for the upcoming drilling campaigns of 2013 and 2014 to show if the prolific petroleum systems of the Atlantic-margin of Congo, Angola and Brazil are also present in Namibia.

Figure 1: Source kitchens and petroleum migration paths into Licence 0010 prospects

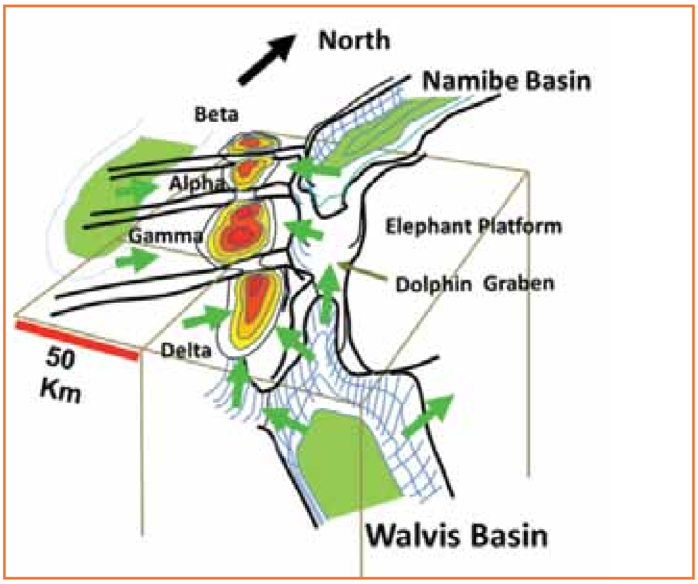
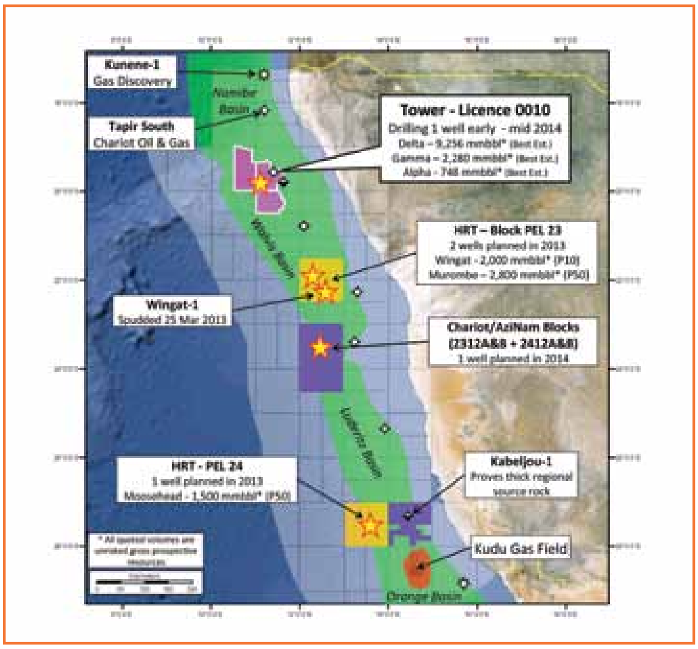


Figure 2: Tower Resources Namibian acreage position with key near-term exploration wells



Since Tower entered Namibia in 2006 the Company has noted the increased level of commercial activity which has resulted in the majority of the offshore acreage being licenced to an array of international exploration companies. This is in keeping with our strategy of entering high return areas before the rest of the industry appreciates the true upside potential. Following substantial investment in extensive 3D seismic acquisition programmes, several major energy players, including BP, Repsol, Petrobras and GALP, have farmed-in to Namibian licences with a commitment to drill several high impact exploration wells over the next two years.

As a frontier hydrocarbon basin Namibia remains largely un-explored with only 10 offshore exploration wells drilled to date and only four of these in deep-water licences. The Company notes that the Kabelijou-1 exploration well drilled in Block 2714A (BP, Petrobras, Chariot Oil & Gas) of the Orange Basin, announced on 10 September 2012, intercepted source rock despite failing to discover commercial quantities of hydrocarbons. The company also notes that the Tapir South exploration well drilled in Block 1811A (Chariot Oil & Gas) of the Namibe Basin to the north of Licence 0010, announced on 14 May 2012, encountered sections of excellent quality reservoir of the Cretaceous age, but did not discover commercial quantities of hydrocarbon.

There will be a great deal of activity in the next 12 months in what we consider to be one of the most exciting emerging postcodes in international E&P

The prospects in Licence 0010 are ideally situated on a regional 'high' and form broad simple structural closures with multiple reservoir targets. Seismic data points to Tower's acreage being surrounded by source kitchens which are mature for oil rather than gas, and the primary reservoir targets being located on structural migration paths. There is good evidence of a mature source rock, not just from regional data but from direct hydrocarbon indications such as surface seeps, pock marks, and gas chimneys. The very high quality 3D seismic acquired by Tower, through its farm-out to Arcadia, not only provides strong evidence of hydrocarbons being present *(figures 3 and 4)* but also provides evidence for the presence of sands in the Tertiary and Upper Cretaceous, and carbonate reservoir in the Lower Cretaceous.

There are four large leads mapped within the Licence, of which the southernmost, Delta, was covered by the 3D seismic survey. Following Repsol's farm-in, announced on 30 July 2012, the well Welwitschia-1 will target gross unrisked recoverable prospective resources in excess of 9 billion bbls in the volatile oil case. The strong and continuous AVO (Amplitude versus offset) anomalies at the Maastrichtian level, and evidence provided from oil seepage satellite data and a variety of seismic anomalies and pockmarks (chimneys) has led to an estimate of the Geological Chance of Success ("GCoS") of 40% for the primary Maastrichtian reservoir target, equating to an Economic Chance of Success ("ECoS") of 31% *(figure 5)*.

Figure 3: High resolution 3D seismic section showing AVO anomalies for Welwitschia-1

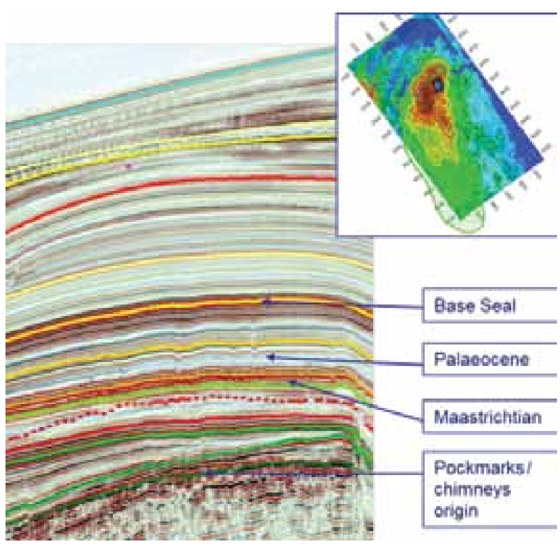
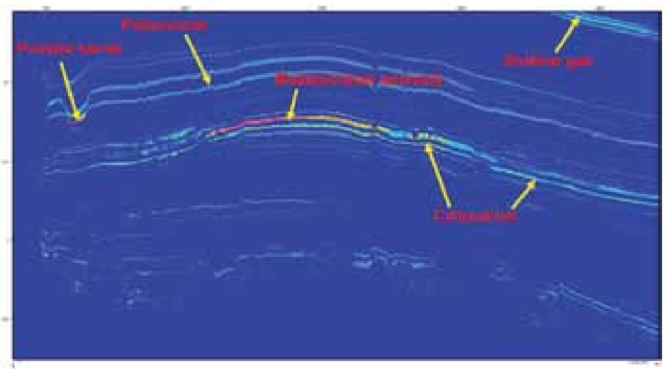


Figure 4: Direct Hydrocarbon Indicators (DHIs) for Welwitschia-1



Given the recent high levels of interest in Namibian acreage and resulting commercial activity, significant advances in exploration understanding can now be expected in the next 12 to 24 months, which are likely to result in further increases in commercial activity and news-flow. During the remainder of 2013 several licence operators will be acquiring and interpreting new seismic data or seeking farm-out partners with the aim of commencing exploration drilling in 2014 *(figure 6)*.

However, perhaps the most critically awaited near-term newsflow from the region will be the results from HRT's three well exploration drilling campaign which commenced in March 2013. The HRT campaign is targeting gross prospective resources of 2.56bn boe via the Wingat and Murombe prospects in the Walvis Basin and will drill its Moosehead prospect in the Orange Basin later in the year targeting gross prospective resources of 4.8bn boe. Given that the multi-well programme being pursued by HRT may extend to year-end 2013 and Chariot Oil & Gas, together with the BP-Serica Energy consortium, have signalled that they may drill in 2014; several options for rig availability may materialise for offshore Operators later in 2013.

OPERATIONS REVIEW

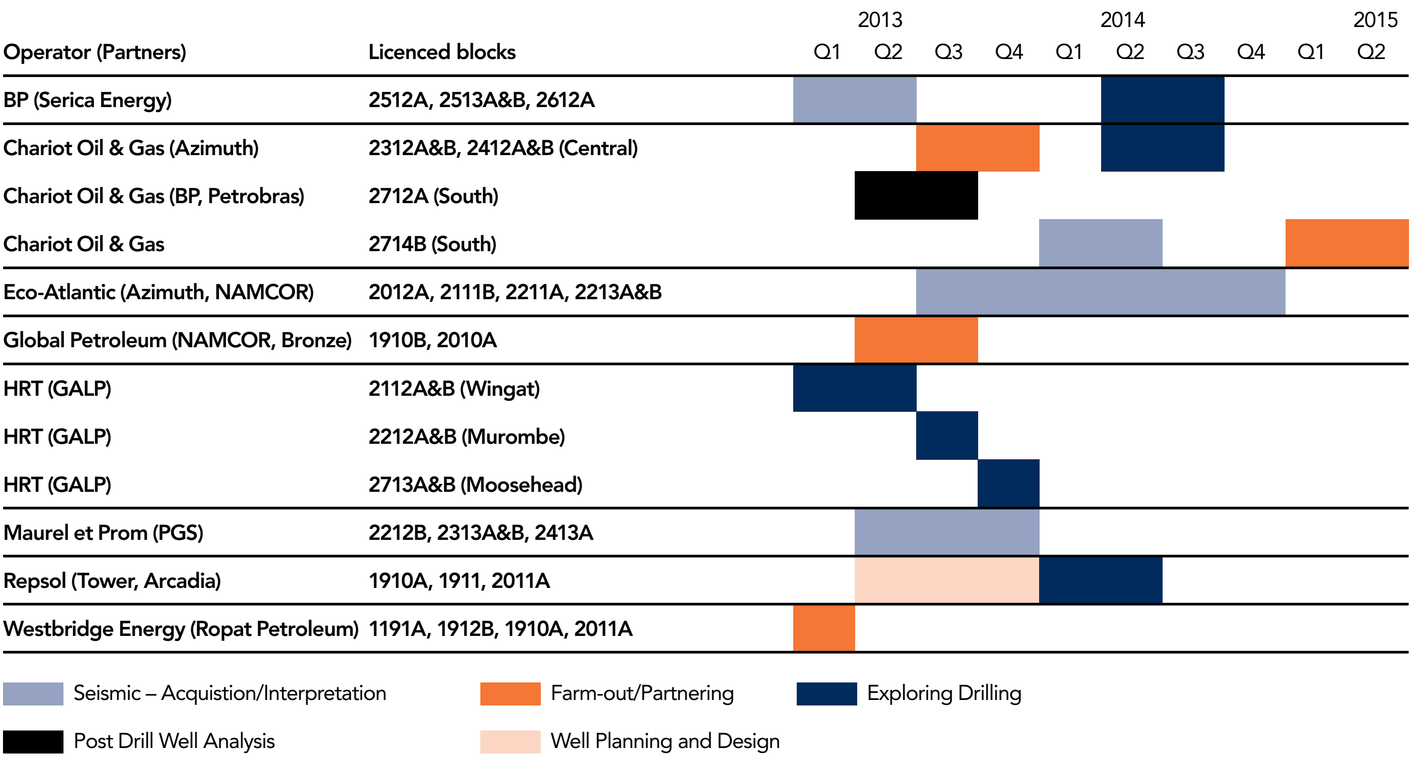
Namibia

Figure 5: Licence 0010 Prospective recoverable resources (Oilfield International CPR June 2011)

Horizon	Gross Unrisked P50 Estimate* Oil (mmbbls)	Gas (bcf)	GCoS (%)	ECoS (%)	Total Net Recoverable Risked Resources** (mmboe)
Deep Maastrichtian	2,226	3,390	40	31	196
Palaeocene	3,466	5,120	24	19	174
Upper Campanian	418	674	15	9	6
Campanian Wedge	1,157	1,760	13	9	30
Albian	1,989	3,560	11	8	52
Total Welwitschia-1	**9,256**	**14,504**			**458**
Alpha Palaeocene	2,280	3,560	20	12	58
Gamma Palaeocene	748	1,150	12	9	24
Total	**12,284**	**19,214**			**540**

** Volatile oil case only ** sum of oil & gas prospective resources*

Figure 6: Offshore Namibia Operator's work programme 2013-15



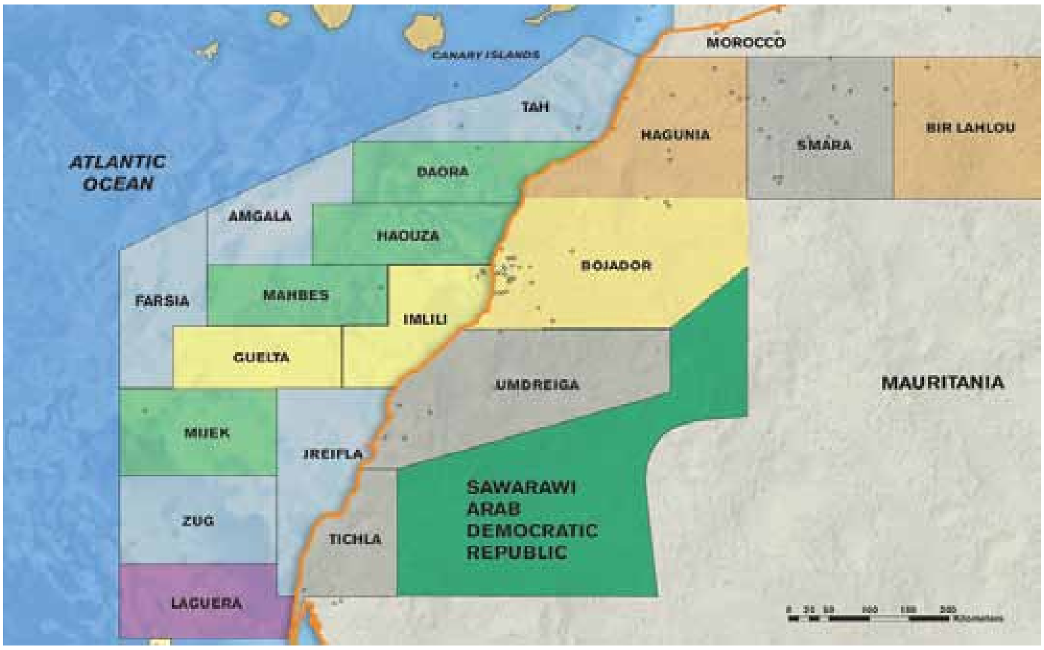
Western Sahara

Western Sahara ("Saharawi Arab Democratic Republic" – SADR)

Through its wholly owned subsidiary, Comet Petroleum (SADR) Limited, Tower Resources holds a 50% interest in the offshore Guelta block and onshore Bojador bloc in the Saharawi Arab Democratic Republic (SADR); both of which are Operated by Wessex Exploration plc (50%). In aggregate the two licences cover some 60,058 square kilometres. In addition, Tower Resources and Wessex Exploration entered into an Assurance Agreement in October 2011 for a 50% interest in a further production sharing contract for the Imlili Block offshore SADR covering 16,695 square kilometres and adjacent to the Guelta Block *(figure 7)*. Despite the relative lack of exploration activity in the SADR the presence of oil shows and high quality reservoir in wells drilled to date indicates that the potential for a working petroleum system exists.

The SADR is the democratically elected government of the territory known as Western Sahara, which lies to the South of Morocco and is recognized by the United Nations as a non-self-governing territory. The sovereignty of the territory remains in dispute, and until this is resolved there is little that can be done to advance exploration of these blocks. In the meantime the cost of retaining them is also minimal, and if the sovereignty of the territory is resolved favourably in due course, then these will be attractive and prospective blocks. Meanwhile, Total has acquired a large 3D seismic programme in its overlapping licence from the Moroccan government, which includes Tower's acreage, highlighting the attractiveness of the play.

Figure 7: Saharawi Arab Democratic Republic licensed areas



Tower/Wessex
Ophir/Premier
Open acreage
Premier Oil
Europa Oil & Gas

OPERATIONS REVIEW

New Ventures and Senior Management Appointments

New Ventures

The Directors and Senior Management of the Company are committed to growing Tower and expanding its portfolio to provide high impact exploration opportunities.

The focus will be on Africa, and Tower intends to make the most of its deal-making expertise and experience to access opportunities ranging from new licence awards, farm-in deals, partnering and asset swaps through to asset or corporate acquisitions.

As the Company has shown with its willingness to trade up and down in its Namibian asset, we may use existing acreage positions, equity, cash, technical assistance or a combination of any of these as "currency" to achieve new licence positions and hence expand the optionality within the company's exploration portfolio.

Senior Management Appointments

Tower has also recently made the following appointments to its Senior Management Team which will strengthen the company in key areas in order to facilitate future growth of the business.

Andrew Matharu – Vice President, Corporate Affairs

Andrew Matharu, 43, joined Tower on 11 March 2012 from Westhouse Securities, where he was Head of Oil & Gas and focussed on the small and mid-cap E&P sector. He has over 17 years' experience in the oil and gas sector and commenced his career as a Petroleum Engineer with Chevron and Kerr-McGee. Andrew has extensive experience of advising oil & gas companies in the area of equity capital markets following a variety of corporate finance and equity research roles at Cazenove, Bridgewell Securities, Numis Securities and PwC.

Andrew holds a BEng degree in Chemical Engineering from the University of Sheffield, a PhD in Chemical Engineering from the University of Cambridge and is a Chartered Engineer.

Nigel Quinton – Vice President, New Ventures

Nigel Quinton, 51, is a geoscientist with over 30 years' experience in International Exploration and Production with BP, Dragon Oil and Hardy Oil & Gas, and has recently joined Tower to handle New Ventures activity.

Nigel was a co-founder of Sterling Energy plc and served as Managing Director from start-up in 2000 until its AIM listing in 2002, and then as Operations and Technical Director, building a portfolio of producing properties in the Gulf of Mexico and then an extensive exploration portfolio in Africa. He left at the end of 2004 to become a freelance consultant and to pursue a career in politics, standing as a candidate in the 2010 UK General Election. More recently he served as Senior Advisor to the Board of the Hashoo Group of companies, which includes businesses in Pakistan, USA and Kazakhstan, sourcing new venture opportunities in North and East Africa.

Nigel holds a BA and MA in Geological Sciences from the University of Cambridge and is a Fellow of the Geological Society.

DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of the Company and the Group, together with the financial statements and the independent auditors' report, for the year ended 31 December 2012.

The Company was registered in England on 6 December 2004 with company number 05305345 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 developments

The Group's principal activity is the exploration for oil and gas in Africa.

In Namibia, the Group owns 30% of the highly prospective offshore Licence 0010, having increased its interest by 15% through the acquisition from Arcadia Expro Namibia (Pty) Ltd at the same time as the Repsol Group acquired a 44% interest from Arcadia. These acquisitions were conditionally announced on 30 July 2012 and, following receipt of the final approvals and satisfaction of the pre-conditions, became unconditional on 31 January 2013 on which date Tower paid approximately $5.3 million in cash from a restricted account for past costs. Tower Group is responsible for 30% of all Licence costs from 1 July 2012. Repsol are the Licence operator. In December 2012, approval was given by the Ministry of Mines and Energy to extend the Second Renewal Exploration Period for Licence 0010 by a year to 22 August 2014 and the optional Third Renewal Exploration Period by a year to 22 August 2016.

Planning is advancing for a well, the Welwitschia-1, expected to be drilled in the early-mid part of 2014. Tower's potential net risked resource in the five identified potential reservoirs on this well is in excess of 540 million barrels of oil equivalent ("boe").

Tower also has a 50% interest in three exploration licences in the Saharawi Arab Democratic Republic. Operations are on hold until the sovereignty of the region has been resolved, although there are few signs that this will be achieved in the near future.

Tower has relinquished its 100% interest in EA-5 in Uganda on 26 March 2012 following its third unsuccessful well, Mvule-1.

The Board is convinced of the potential for significant shareholders' value generation in African exploration & production and is committed to materially expanding its asset base and activity in the region.

Principal risks and uncertainties facing the Group

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

Changes in share capital

Details of movements in share capital, share options and share warrants during the year are set out in notes 15 and 17.

Results and dividends

During 2012 the Company raised a total of $18,609,216 (net of costs) through the issue of ordinary shares towards the funding of the seismic and drilling costs for the third commitment drilling (Mvule-1) in Uganda, the farm-in to increase its interest in Namibia licence 0010 from 15% to 30%, together with future working capital.

Administration expenses for the year ended 31 December 2012 totalled $1,734,554 before a share-based payments charge of $764,264, $8,584,979 impairment of exploration and evaluation ("E&E") assets in Uganda and $681,251 costs for the Equity Financing Facility and the Standby Equity Financing Facility (see note 16). Net cash inflow during the year was $2,601,438.

As a result of the above costs and charges, the Statement of Comprehensive Income for the year shows a loss of $11,708,932.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2012 (2011: Nil).

DIRECTORS' REPORT

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 existing arrangements for a £20 million Equity Finance Facility and a £8 million Stand-by Equity Distribution Agreement, as well as potential from the equity markets or sale or farmouts of assets, that 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.

Subsequent events

On 29 June 2010, and in accordance with the Production Sharing Agreement for Exploration Area 5 (EA5) signed between the Government of Uganda and the Company's local operating subsidiary, Neptune Petroleum (Uganda) Ltd, the Company provided a $0.3 million Performance Bond in respect of the Minimum Exploration Expenditure requirement for its two-year exploration period that ended on 26 March 2012. On 5 March 2013 the Permanent Secretary of the Uganda Ministry of Energy and Mineral Development confirmed that all obligations under that PSA have been duly fulfilled and authorised the release and repayment of that deposit in full. These funds were received on 13 March 2013.

On 30 July 2012 the Group announced a conditional agreement with Arcadia Expro Namibia (Pty) Ltd ("Arcadia") to increase its interest in Namibia offshore Licence 0010 to a 30% working interest. On 31 January 2013 all pre-conditions relating to this farmout were completed, including the release from restricted cash by the Group of $5.3 million to Arcadia. The Group assumed payment of 30% of Licence 0010 costs from 1 July 2012. On the same date the acquisition of a 44% interest in the Licence 0010 by Repsol Exploration (Namibia) Pty Ltd from Arcadia also became unconditional. Arcadia has an interest of 26% in the Licence and Repsol is now operator.

On 11 March 2013 the Company issued 4 million share options with an exercise price of 2.10p per share, vesting in equal tranches 12, 24 and 36 months after issue.

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.

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.

Directors

The following Directors held office during the year:

Jeremy Asher	
Graeme Thomson	– appointed 1 June 2012
Peter Blakey	
Peter Taylor	
Philip Swatman	– appointed 26 April 2012
Mark Savage	– resigned 2 May 2012
Peter Kingston	– resigned 6 March 2012

Directors' interests

The beneficial and non-beneficial interests in the Company's shares of the Directors and their families at 31 December 2012 were as follows:

	31 December 2012		31 December 2011	
	Ordinary shares of 0.1p each	Share options	Ordinary shares of 0.1p each	Share options
Jeremy Asher*	184,250,000	–	87,500,000	–
Graeme Thomson	5,000,000	20,000,000	–	–
Philip Swatman	3,500,000	1,500,000	–	–
Peter Taylor	99,019,105	–	85,985,772	–
Peter Blakey	96,519,105	–	83,485,772	–

* These shares are held by Agile Energy Limited, which is owned by the Asher Family Trust of which Jeremy Asher is a lifetime beneficiary.

In addition to the above interests, the Substantial Shareholders' note shows increased shareholdings after 31 December 2012. The Directors' interests in the Company's share warrants are disclosed in note 17 to the financial statements.

Directors' remuneration and service contracts

In consideration for acting as Chief Executive between the resignation of Peter Kingston on 6 March 2012 and the appointment of Graeme Thomson on 1 June 2012, Jeremy Asher received £76,000, all of which was waived in lieu of the allotment of share warrants. He is paid £60,000 p.a. of which £30,000 was paid in consideration for duties as Chairman during the year and £30,000 was waived in lieu of the allotment of share warrants.

Graeme Thomson was appointed as Chief Executive Officer on 1 June 2012 and is paid at the rate of £225,000 p.a., of which £30,000 was waived *in lieu* of allotment of share warrants.

Philip Swatman was appointed Senior Independent Director on 26 April 2012 and is paid at the rate of £40,000 p.a., of which £10,000 was waived in lieu of allotment of share warrants.

Peter Blakey and Peter Taylor were each entitled to receive fees of £35,000 p.a. but have each waived payment of £30,000 *in lieu* of the allotment of share warrants.

DIRECTORS' REPORT

The remuneration paid to the Directors during the 12 months ended 31 December 2012 was as follows:

	Fees/salaries in cash $	Share-based payments $	2012 Total $	2011 Total $
Jeremy Asher	48,000	71,386	119,386	22,886
Graeme Thomson (appointed 1 June 2012)	176,179	240,214	416,393	–
Peter Blakey	16,006	20,204	36,210	45,614
Peter Taylor	16,006	20,204	36,210	45,614
Philip Swatman (appointed 26 April 2012)	42,383	22,839	65,222	–
Peter Kingston (resigned 6 March 2012)	46,585	–	46,585	245,801
Mark Savage (resigned 2 May 2012)	–	–	–	22,886
	345,159	374,847	720,006	382,801

Share-based payments to Directors in 2012 totalled $374,847 (2011: $179,276).

Pensions

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

Substantial shareholders

In accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, the Company has been notified that as at 26 March 2013 the following interests of 3% or more existed in its ordinary share capital:

	Number of Ordinary Shares	%
Jeremy Asher*	185,000,000	11.4
Mark Savage	115,366,666	7.1
Quantum Pacific Management	108,683,333	6.7
Henderson Global Investors	104,830,784	6.5
Peter Taylor	101,319,105	6.2
Peter Blakey	96,519,105	5.9

* These shares are held by Agile Energy Limited, which is owned by the Asher Family Trust of which Jeremy Asher is a lifetime beneficiary.

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 2012 was 40 days.

Going concern

The Company holds cash balances of $3.5 million at 26 March 2013 and has facilities over £28 million conditionally available under its Equity Financing Facility ("EFF") and Standby Equity Distribution Agreement ("SEDA") (see note 16). As set out in note 14, the Group has a 30% interest in Licence 0010 in Namibia where an exploration well must be drilled by 22 August 2014. While the timing of the well and the related expenditures have not yet been formally approved by the Joint Venture, it is currently estimated by the directors that the Group's share of costs related to the Licence, including the cost of the exploration well, could total up to $30 million. In order to fund its share of the exploration well and other Licence costs, to meet day-to-day operating expenditures and add further exploration interests to the Group, it will need to raise further funds from the EFF, SEDA, other equity issues, or from a sale or farmout of part of its interest in Licence 0010.

The Board believes that the Group will be able to raise, as required, sufficient cash or reduce its commitments and other resources available to it to enable it to continue its operations, including the pursuit of any future exploration opportunities that may be identified, and to continue to meet, as and when they fall due, its liabilities for at least the next twelve months from the date of approval of these financial statements. For this reason the Directors continue to adopt the going concern basis in preparing the accounts. (see note 1.2)

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 until 2 May 2012 was Mark Savage and thereafter Philip Swatman. The other participating members of the Committee during the year were Peter Blakey and Peter Taylor.

Remuneration Committee

The Remuneration Committee meets as required and met once during 2012. The Chairman of the Remuneration Committee is Peter Taylor and the other participating members during the year were Mark Savage to 2 May 2012 and Philip Swatman thereafter and Peter Blakey.

DIRECTORS' REPORT

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, as adopted by the European Union. 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; and
d) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Group and hence for taking steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Statement of disclosure to the auditors

So far as all the Directors are aware:

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

Auditors

In accordance with Section 485 of the Companies Act 2006, a resolution will be put to the Annual General Meeting proposing that UHY Hacker Young LLP be re-appointed as auditors of the Company and that the Directors be authorised to fix their remuneration.

By order of the board

Graeme Thomson
Chief Executive Officer
27 March 2013

DIRECTORS' BIOGRAPHIES

Jeremy Asher BSc (Econ), MBA, MEI

Non-Executive Chairman

Jeremy, aged 53, in addition to his role in Tower, is Chairman of Agile Energy Limited, a privately held energy investment company, and a director of several other energy-related companies including NYSE-listed Pacific Drilling SA, where he chairs the Remuneration Committee, Better Place BV (a private company developing infrastructure to support mass deployment of electric vehicles), and until 2010, AIM-listed Gulf Keystone Petroleum Ltd. He is also a member of the London Business School's UK regional advisory board and the Engineering Advisory Board of Imperial Innovations, the commercial arm of Imperial College. 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. Between 1998 and 2001 he was CEO of PA Consulting Group, and since that time has been an investor and director in various public and private companies.

Graeme Thomson FCA, MA, BA, MEI, MIoD

Chief Executive Officer

Graeme, aged 55, in addition to serving as CEO of Tower, is a non-executive director of Desire Petroleum plc, where he chairs the Audit Committee. He was a non-executive director of Frontier Resources International plc from 2011 to 2012. From 2009-12 he advised a range of energy and other companies on their financial and commercial affairs. From 2000 to 2009 he was a founder, Company Secretary, CFO and finally CEO of Sterling Energy plc, and from 2005 to 2008 a non-executive director of Forum Energy plc. He was CFO and Company Secretary of Dragon Oil plc from 1992 to 1999. In 1989 he co-led a management buy-in to AmBrit International plc, which was taken over in 1992. He was a runner-up for Finance Director of the Year at the 2007 QCA Awards.

Peter Taylor BSc (Hons), C.Eng, MIMechE

Non-Executive Director

Peter Taylor, aged 65, is Joint Chairman of TM Services Ltd, an international oil and gas consulting company. In 1991 he was a founder and director of TM Oil Productions Ltd which became Dana Petroleum Plc and one of the leading UK oil and gas exploration companies before being taken over in 2010 by KNOC for £2bn. He was founder member of Consort Resources Ltd, a significant North Sea gas transportation and production company and was also a founder and director of Planet Oil Ltd, which reversed into Hardman Resources in 1998. Planet held various interests including Mauritania, Guyane (formerly French Guiana) and Uganda. He was a founding member and director of Star Petroleum Plc which was incorporated into Global Petroleum Ltd, and also a founding member of Neptune Petroleum Ltd which was acquired by Tower. He is a director of Global Petroleum Ltd, listed on the ASX and AIM. He was co-founder of Jupiter Petroleum Ltd, which has assets in offshore Namibia and Juan de Nova. Jupiter was sold to Global in 2011. He is Chairman of the Remuneration Committee.

Peter Blakey BSc (Hons), C.Eng MIEE

Non-Executive Director

Peter Blakey, aged 72, is Joint Chairman of TM Services Ltd, an international oil and gas company. He was a founder and director of TM Oil Production Ltd, which became Dana Petroleum Plc and one of the leading UK oil and gas exploration companies before being taken over in 2010 by KNOC for £2bn. He was a founding member and director of Consort Resources Ltd which became a significant independent North Sea gas production company. He was also a founder and director of Planet Oil Ltd which reversed into Hardman Resources in 1998. Planet Oil held various interests including French Guyane (formerly French Guyana), Mauritania and Uganda. He is a founder member and director of Star Petroleum Plc which was incorporated into Global Petroleum Ltd. He is a director of Global Petroleum Ltd which is listed on the ASX and AIM and was also co-founder of Jupiter Petroleum Ltd, which has assets in offshore Namibia and Juan de Nova. Jupiter was sold to Global in 2011. He is also a founding member of Neptune Petroleum Ltd.

Philip Swatman FCA, BA

Senior Independent Non-Executive Director

Philip Swatman, aged 63, qualified as a Chartered Accountant with KPMG after graduating from Christ Church, Oxford. He joined NM Rothschild in 1979 as a Corporate Financier. He became a Director in 1986 and subsequently Managing Director and Co-Head of Investment Banking. He became Vice-Chairman of Investment Banking from 2001 until his retirement in September 2008. During his career the bank made significant progress in repositioning itself as a leading global advisory firm and a permanent fixture at the top of the major M&A league tables. He was involved in numerous transactions, including the sale of Chubb to Williams, Northern Foods' acquisition of Express Dairies, the IPOs of Vodafone and William Hill, the defence of BPB against a hostile bid from St. Gobain, and the sale of Abbot Group to First Reserve. He was formerly Chairman of Merlin Reputation Management Ltd, Investec Structured Products Calculus VCT PLC and Mytrah Energy. He is Chairman of Cambria Automobile plc and a non-executive Director of New England Seafood International. He sits on the Company's Remuneration Committee and chairs the Company's Audit Committee.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TOWER RESOURCES PLC

We have audited the Group and Parent Company financial statements of Tower Resources plc for the year ended 31 December 2012 (the "financial statements") which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, together with the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out herein.

This report is made solely to the Company's members, as a body, in accordance with part 3 of Chapter 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully under 'Statement of Responsibilities of those charged with Governance' on page 16 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the Group's affairs.

Our responsibility is to audit the financial statements in accordance with relevant law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB) Ethical Standards for auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is available from the APB's web-site (*www.frc.org.uk/apb/scope/private.cfm*).

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2012 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1.2 to the financial statements concerning the Group's and Company's ability to continue as a going concern. The Group incurred a loss of US$11.7 million during the year ended 31 December 2012 and is still incurring losses. Along with similar sized exploration and mining companies, the Company raises finance for its exploration and appraisal activities in discrete tranches. As discussed in note 1.2 the Company will need to raise further funds in order to meet its budgeted operating and drilling costs for the next year. These conditions, along with other matters discussed in note 1.2 indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Colin Wright
Senior Statutory Auditor
For and on behalf of
UHY Hacker Young LLP
Chartered Accountants
Statutory Auditor
27 March 2013

UHY Hacker Young LLP
Quadrant House
4 Thomas More Square
London E1W 1YW

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 $	2011 $
Continuing operations			
Revenue		–	–
Cost of sales		–	–
Gross profit		–	–
Administrative expenses before share-based payments and impairment		(1,734,554)	(1,450,570)
Share-based payments	18	(764,264)	(179,276)
Impairment of exploration and evaluation assets	9	(8,584,979)	(25,055,120)
Impairment of goodwill	9	–	(3,989,751)
Total administrative expenses		(11,083,797)	(30,674,717)
Group operating loss		(11,083,797)	(30,674,717)
Finance costs	16	(681,251)	–
Finance income		56,116	52,862
Loss before taxation		(11,708,932)	(30,621,855)
Taxation	4	–	–
Loss for the period		(11,708,932)	(30,621,855)
Other comprehensive income		–	–
Total comprehensive income		(11,708,932)	(30,621,855)
Attributable to:			
Equity holders of the Company		(11,708,932)	(30,621,855)
Loss per share (cents):	5		
Basic		(0.79c)	(2.78c)
Diluted		(0.79c)	(2.78c)

The results shown above relate entirely to continuing operations.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share Capital $	Share Premium $	Share-Based Payments Reserve $	Retained Losses $	Total Equity $
CONSOLIDATED					
Balance at 1 January 2011	1,897,411	30,047,220	1,373,801	(6,036,280)	27,282,152
Share issues less costs	312,893	10,243,129	–	–	10,556,022
Total comprehensive income for the year	–	–	179,276	(30,621,855)	(30,442,579)
Balance at 31 December 2011	2,210,304	40,290,349	1,553,077	(36,658,135)	7,395,595
Share issues less costs	627,016	17,982,200	–	–	18,609,216
Total comprehensive income for the year	–	–	764,264	(11,708,932)	(10,944,668)
Transfers between reserves	–	–	(576,602)	576,602	–
Balance at 31 December 2012	**2,837,320**	**58,272,549**	**1,740,739**	**(47,790,465)**	**15,060,143**

	Share Capital $	Share Premium $	Share-Based Payments Reserve $	Retained Losses $	Total Equity $
COMPANY					
Balance at 1 January 2011	1,897,411	30,047,220	1,373,801	(3,562,780)	29,755,652
Share issues less costs	312,893	10,243,129	–	–	10,556,022
Total comprehensive income for the year	–	–	179,276	(34,621,376)	(34,442,100)
Balance at 31 December 2011	2,210,304	40,290,349	1,553,077	(38,184,156)	5,869,574
Share issues less costs	627,016	17,982,200	–	–	18,609,216
Total comprehensive income for the year	–	–	764,264	(10,408,432)	(9,644,168)
Transfers between reserves	–	–	(576,602)	576,602	–
Balance at 31 December 2012	**2,837,320**	**58,272,549**	**1,740,739**	**(48,015,986)**	**14,834,622**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 $	2011 $
ASSETS			
Non-Current Assets			
Plant and equipment	8	–	149,124
Goodwill	9	4,033,541	4,033,541
Exploration and evaluation assets	9	1,157,668	1,050,307
		5,191,209	5,232,972
Current Assets			
Trade and other receivables	11	1,282,975	1,044,668
Cash and cash equivalents		4,478,375	1,876,937
Restricted cash	9	5,600,000	300,000
		11,361,350	3,221,605
Total Assets		16,552,559	8,454,577
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(1,492,416)	(1,058,982)
Total Liabilities		(1,492,416)	(1,058,982)
Net Assets		15,060,143	7,395,595
EQUITY			
Capital and Reserves			
Share capital	15	2,837,320	2,210,304
Share premium	15	58,272,549	40,290,349
Share-based payments reserve	18	1,740,739	1,553,077
Retained losses		(47,790,465)	(36,658,135)
Shareholders' Equity		15,060,143	7,395,595

The financial statements were approved by the Board of Directors on 27 March 2013 and signed on its behalf by:

Graeme Thomson
Chief Executive Officer

Company Registration Number: 05305345

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

	Notes	2012 $	2011 $
ASSETS			
Non-Current Assets			
Plant and equipment	8	–	1,355
Loans to subsidiary undertakings	10	1,129,588	1,006,672
Investments in subsidiary undertakings	10	4,091,242	4,091,241
		5,220,830	5,099,268
Current Assets			
Trade and other receivables	11	60,342	100,484
Cash and cash equivalents		4,374,726	1,392,068
Restricted cash	9	5,300,000	–
		9,735,068	1,492,552
Total Assets		14,955,898	6,591,820
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(121,276)	(722,246)
Total Liabilities		(121,276)	(722,246)
Net Assets		14,834,622	5,869,574
EQUITY			
Capital and Reserves			
Share capital	15	2,837,320	2,210,304
Share premium	15	58,272,549	40,290,349
Share-based payments reserve	18	1,740,739	1,553,077
Retained losses		(48,015,986)	(38,184,156)
Shareholders' Equity		14,834,622	5,869,574

The financial statements were approved by the Board of Directors on 27 March 2013 and signed on its behalf by:

Graeme Thomson
Chief Executive Officer

Company Registration Number: 05305345

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 $	2011 $
Cash outflow from operating activities			
Group operating loss for the year		(11,083,797)	(30,674,717)
Adjustments for items not requiring an outlay of funds:			
Depreciation and impairment of plant and equipment	8	103,731	42,268
Share-based payments charge	18	764,264	179,276
Disposal of plant and equipment		45,550	–
Impairment of exploration and evaluation assets	9	8,584,979	25,055,120
Impairment of goodwill	9	–	3,989,751
Operating loss before changes in working capital		(1,585,273)	(1,408,302)
Increase in receivables and prepayments		(238,306)	(769,721)
Increase in trade and other payables		433,434	527,760
Cash used in operations		(1,390,145)	(1,650,263)
Interest received		56,116	52,862
Net cash used in operating activities		(1,334,029)	(1,597,401)
Investing activities			
Funds used in exploration and evaluation	9	(8,692,340)	(7,974,397)
Payments to purchase plant and equipment	8	(158)	(20,715)
Restricted cash held in escrow account	9	(5,300,000)	–
Net cash used in investing activities		(13,992,498)	(7,995,112)
Financing activities			
Proceeds from issue of ordinary share capital	15	18,922,221	11,082,596
Share issue costs	15	(313,005)	(526,574)
SEDA loan received	16	3,125,000	–
SEDA loan repaid	16	(3,125,000)	–
Finance costs	16	(681,251)	–
Net cash inflow from financing activities		17,927,965	10,556,022
Increase in cash and cash equivalents		2,601,438	963,509
Cash and cash equivalents at beginning of year		1,876,937	913,428
Cash and cash equivalents at end of year		4,478,375	1,876,937

COMPANY STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 $	2011 $
Cash outflow from operating activities			
Operating loss for the year		(9,769,194)	(34,646,834)
Adjustments for items not requiring an outlay of funds:			
Depreciation of plant and equipment	8	1,355	6,503
Share-based payments charge	18	764,264	179,276
Impairment of loans due from subsidiaries	10	7,507,139	29,886,213
Impairment of investments in subsidiaries		–	3,997,305
Operating loss before changes in working capital		(1,496,436)	(577,537)
Decrease/(increase) in receivables and prepayments		40,142	(48,165)
(Decrease)/increase in trade and other payables		(600,972)	474,171
Cash used in operations		(2,057,266)	(151,531)
Interest received		42,014	25,459
Net cash used in operating activities		(2,015,252)	(126,072)
Investing activities			
Loans granted to subsidiary undertakings	10	(7,630,055)	(9,844,388)
Restricted cash held in escrow account	9	(5,300,000)	–
Net cash used in investing activities		(12,930,055)	(9,844,388)
Financing activities			
Proceeds from issue of ordinary share capital	15	18,922,221	11,082,596
Share issue costs	15	(313,005)	(526,574)
SEDA loan received	16	3,125,000	–
SEDA loan repaid	16	(3,125,000)	–
Finance costs	16	(681,251)	–
Net cash inflow from financing activities		17,927,965	10,556,022
Increase in cash and cash equivalents		2,982,658	585,562
Cash and cash equivalents at beginning of year		1,392,068	806,506
Cash and cash equivalents at end of year		4,374,726	1,392,068

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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"), and in accordance with the Companies Act 2006. The Parent Company's financial statements have also been prepared in accordance with IFRS and the Companies Act 2006. The Group and Company financial statements are presented in US Dollars.

1.2 Going concern

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

The Company holds cash balances of $3.5 million at 26 March 2013 and has facilities over £28 million conditionally available under its Equity Financing Facility ("EFF") and Standby Equity Distribution Agreement ("SEDA") (see note 16). As set out in note 14, the Group has a 30% interest in Licence 0010 in Namibia where an exploration well must be drilled by 22 August 2014. Whilst the timing of the exploration well and related expenditures for the Second Renewal Period has not yet been approved by the Joint Venture, it is currently estimated by the directors that the Group's share of costs related to the Licence, including the cost of the exploration well, could total up to $30 million.

In order to fund its share of the exploration well and other Licence costs, to meet day-to-day operating expenditures and add further exploration interests to the Group, it will need to raise further funds from the EFF, SEDA, other equity issues, or from a sale or farmout of part of its interest in Licence 0010.

The Board believes that the Group will be able to raise, as required, sufficient cash or reduce its commitments to enable it to continue its operations, including the pursuit of future exploration opportunities, and to continue to meet, as and when they fall due, its liabilities for at least the next twelve months from the date of approval of these financial statements. The financial statements have, therefore, been prepared on the going concern basis.

However, there can be no guarantee that the required funds will be raised within the necessary timeframe. Consequently a material uncertainty exists that may cast significant doubt on the Group's ability to fund this cash shortfall and therefore be able to meet its commitments and discharge its liabilities in the normal course of business for a period not less than twelve months from the date of this report.

The financial statements do not include the adjustments that would result if the Group was unable to continue in operation.

1.3 IFRS Standards and interpretations in issue but not yet effective

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

International Financial Reporting Standards (IFRS/IFRIC)		Effective date
IFRS 9	Financial Instruments – deals with classification and measurement of financial assets	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IAS19 (amended)	Employee Benefits – revisions to recognition, measurement, disclosure	1 January 2013
IFRS7/IAS32 (amended)	Offsetting Financial Assets and Financial Liabilities – new disclosure requirements	1 January 2013/ 1 January 2014
IAS 27	Separate Financial Statements	1 January 2013

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1.3 IFRS Standards and interpretations in issue but not yet effective (continued)
The Group has not adopted these amended standards and interpretations early. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the periods of initial application.

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

1.5 Goodwill
Goodwill is the difference between the amount paid on the acquisition of the subsidiary undertakings and the aggregate fair value of their separable net assets - of which oil and gas exploration expenditure is the primary asset. Goodwill is capitalised as an intangible asset and 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 or 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 are classified as intangible assets and 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. 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 Assets
The carrying value of unevaluated areas is assessed at least annually 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 Decommissioning costs
Where a material liability for the removal of production facilities and site restoration at the end of the field life exists, a provision for decommissioning is made. The amount recognised is the present value of estimated future expenditure determined in accordance with local conditions and requirements. An asset of an amount equivalent to the provision is also created and depreciated on a unit of production basis. Changes in estimates are recognised prospectively, with corresponding adjustments to the provision and the associated asset.

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

Computers and equipment	Straight line over 4 years
Fixtures, fittings and equipment	Straight line over 4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate at each year end. Profits or losses on disposals of plant and equipment are determined by comparing proceeds with the carrying amount and are included in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

1.9 Plant and equipment (continued)
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.

1.10 Investments
The Parent Company's investments in subsidiary companies are stated at cost less any provision for impairment and are shown in the Company's statement of financial position.

1.11 Share based payments
The Company makes share-based payments to certain directors by the issue of share options or warrants. The fair value of these payments is calculated either using the Black Scholes option pricing model or by reference to the fair value of the remuneration settled by way of the grant of such options or warrants. The expense is recognised on a straight line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

1.12 Foreign currency translation
(i) Functional and presentational currency
Items included in the financial statements are shown in the currency of the primary economic environment in which the Company operates ("the functional currency") which is considered by the Directors to be the U.S Dollar. The effective exchange rate at 31 December 2012 was £1 = US$1.6255 (2011: £1 = US$ 1.55).

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

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

1.13 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.

1.14 Cash and cash equivalents
Cash and cash equivalents are carried at cost and comprise cash in hand, cash at bank, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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

1.17 Share capital
Ordinary shares are classified as equity. Proceeds received from the issue of ordinary shares above the nominal value is classified as Share Premium. Costs directly attributable to the issue of new shares are shown in equity as a deduction from the Share Premium account.

1.18 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:

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

Impairment of capitalised exploration and evaluation expenditure
The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether it successfully recovers the related exploration and evaluation asset through sale. Factors which could impact the future recoverability include the level of proved, probable and inferred resources, future technological changes which could impact the cost of drilling and extraction, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined to be irrecoverable in the future, this will reduce profits and net assets in the period in which this determination is made. In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

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

Share-based payment transactions
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined either by using the Black Scholes model or by reference to the value of the fees or remuneration settled by way of granting of warrants.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

2 Group operating loss

The Group's operating loss is stated after charging/(crediting) the following items:

Year ended 31 December 2012	2012 $	2011 $
Share-based payments charge (note 18)	764,264	179,276
Employee costs* (note 7)	454,386	268,987
Rental of properties	94,305	61,603
Auditors' remuneration – audit services	35,000	39,374
– non audit services	14,912	15,264
Impairment of plant & equipment (note 8)	65,768	–
Depreciation of plant & equipment (note 8)	37,963	42,268
(Profits)/losses on foreign currencies	(123,126)	103,096
Impairment of E&E assets (note 9)	8,584,979	25,055,120
Impairment of goodwill	–	3,989,751

* Amount expensed in administration expenses and excluding the share-based payments charge.

Auditors' remuneration – non-audit services' comprises $10,370 for reviewing the Group's 2012 half year results and $4,542 for tax services (2011: $6,240 for reviewing the Group's half year results and $9,024 for tax services).

Included in "Auditors' remuneration – audit services" for 2011 is an amount of $8,000 relating to the audit of the Company's operations in Uganda (2012: $Nil).

3 Operating segments

The Group's business involves exploring for hydrocarbon liquids and gas. There are two reportable operating segments: Africa and Head Office. Fixed assets and operating liabilities are located in Africa, whilst the majority of current assets are carried at Head Office. The Group has not yet commenced production and therefore has no revenue. Each reportable segment adopts the same accounting policies. In compliance with IFRS 8 'Operating Segments' the following tables reconcile the operational loss and the assets and liabilities of each reportable segment with the consolidated figures presented in these Financial Statements, together with comparative figures for the year ended 31 December 2011.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

3 Operating segments (continued)

Year ended 31 December 2012	Africa $	Head Office $	Adjustments $	Consolidated $
Administration costs	88,837	1,496,437	–	1,585,274
Share-based payments	132,372	631,892	–	764,264
Depreciation of plant and equipment	82,157	1,355	–	83,512
Impairment of plant & equipment	65,768	–	–	65,768
Interest income	(14,102)	(42,014)	–	(56,116)
Financing costs (see note 16)	–	681,251	–	681,251
Impairment of E&E costs	8,584,979	–	–	8,584,979
Loss by Reportable Segment	8,940,011	2,768,921	–	11,708,932
Total Assets by Reportable Segment	8,083,951	8,346,047	122,561	16,552,559
Total Liabilities by Reportable Segment	(1,270,498)	(121,275)	(100,643)	(1,492,416)

Year ended 31 December 2011	Africa $	Head Office $	Adjustments $	Consolidated $
Administration costs	(50,588)	(1,357,714)	–	(1,408,302)
Share-based payments	–	(179,276)	–	(179,276)
Depreciation of plant and equipment	(35,765)	(6,503)	–	(42,268)
Interest income	27,403	25,459	–	52,862
Impairment of E&E costs	(29,044,871)	–	–	(29,044,871)
Loss by Reportable Segment	(29,103,821)	(1,518,034)	–	(30,621,855)
Total Assets by Reportable Segment	6,916,880	6,591,820	(5,054,123)	8,454,577
Total Liabilities by Reportable Segment	(3,489,776)	(722,246)	3,153,040	(1,058,982)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

4 Taxation

	2012 $	2011 $
Current tax		
UK Corporation tax	–	–
Total current tax charge	–	–

The tax charge for the period can be reconciled to the loss for the year as follows:		
Group loss before tax	(11,708,932)	(30,621,855)
Tax at the UK Corporation tax rate of 24.5% (26.5%)	(2,868,688)	(8,114,792)
Tax effects of:		
Expenses not deductible for tax purposes	2,393,414	7,994,772
Tax losses carried forward not recognised as a deferred tax asset	475,274	120,020
	–	–

Factors that may affect future tax charges
At the year-end date, the Group has unused tax losses available for offset against suitable future profits of approximately $4.4 million (2011: $2.53 million). A resulting deferred tax asset of $1.01 million has not been recognised in respect of such losses due to the uncertainty of future profit streams.

5 Loss per share

	2012 $	2011 $
Loss for the year	(11,708,932)	(30,621,855)
Weighted average number of shares in issue	1,490,138,567	1,102,053,167
Basic loss per share	(0.79c)	(2.78c)
Diluted loss per share	(0.79c)	(2.78c)

The diluted weighted average number of shares in issue and to be issued is 1,492,100,983. The diluted loss per share has been kept the same as the basic loss per share because the conversion of share options and share warrants would decrease the basic loss per share, and is thus anti-dilutive.

6 Parent Company income statement

For the year ended 31 December 2012 the Parent Company incurred a loss of $10,408,432 (2011: $34,621,376) including the financing costs of $681,251, share-based payments charge of $764,264 (2011: $179,276), and the provision for impairment of loans due from the Uganda operating subsidiary of $7,057,139 (2011: $33,885,518). In accordance with the provisions of Section 408 of the Companies Act 2006, the Parent Company has not presented a statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

7 Employee costs

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

	2012 $	2011 $
Wages, salaries and fees	1,100,309	693,877
Social security costs	82,620	51,217
Share-based payments (note 18)	764,264	179,276
	1,947,193	924,370

The following amounts were capitalised as exploration and evaluation assets but subsequently included in the amount impaired in these financial statements (note 9):

Wages, salaries and fees	685,543	430,268
Social security costs	43,000	45,839
	728,543	476,107

The remaining amount charged in administration expenses was:

Wages, salaries and fees	414,766	263,609
Social security costs	39,620	5,378
Share-based payments	764,264	179,276
	1,218,650	448,263

The total number of Group employees, including Directors, was	20	29

Details of the remuneration of individual Directors are shown in the Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

8 Plant and equipment

Year ended 31 December 2012	Group $	Company $
Cost		
At 1 January 2012	301,193	21,291
Additions during the year	158	–
Disposals during the year	(45,551)	–
At 31 December 2012	255,800	21,291
Depreciation and impairment		
At 1 January 2012	152,069	19,936
Charge for the year	37,963	1,355
Impairment for the year	65,768	–
At 31 December 2012	255,800	21,291
Net book value		
At 31 December 2012	–	–
At 31 December 2011	149,124	1,355

Year ended 31 December 2011	Group $	Company $
Costs		
At 1 January 2011	280,478	21,291
Additions during the year	20,715	–
At 31 December 2011	301,193	21,291
Depreciation		
At 1 January 2011	109,801	13,433
Charge for the year	42,268	6,503
At 31 December 2011	152,069	19,936
Net book value		
At 31 December 2011	149,124	1,355
At 31 December 2010	170,677	7,858

The plant and equipment impairment of $65,768 in 2012 occurred at the end of the Ugandan licence.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

9 Intangible assets

Group:	Exploration and evaluation assets $	Goodwill $	Total $
Cost			
At 1 January 2012	26,105,427	8,023,292	34,128,719
Additions during the year	8,692,340	–	8,692,340
At 31 December 2012	34,797,767	8,023,292	42,821,059
Amortisation and impairment			
At 1 January 2012	(25,055,120)	(3,989,751)	(29,044,871)
Impairment during year	(8,584,979)	–	(8,584,979)
At 31 December 2012	(33,640,099)	(3,989,751)	(37,629,850)
Net book value			
At 31 December 2012	1,157,668	4,033,541	5,191,209
At 31 December 2011	1,050,307	4,033,541	5,083,848

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

At 31 December 2012 the aggregate capitalised Exploration and Evaluation ("E&E") costs in relation to the Group's Ugandan licence was $33,640,099. In the Statement of Comprehensive Income for the year ended 31 December 2011, full impairment was made for the costs incurred or accrued relating to the Ugandan licence as at that date amounting to $25,055,120. During 2012 additional expenditure of $8,584,979 was capitalised in relation to the Uganda licence, which expired in March 2012. As no hydrocarbons were discovered, the Directors have decided that full impairment should be made in the Statement of Comprehensive Income for the year ended 31 December 2012 for those costs.

The remaining amount of capitalised E&E costs shown as an intangible asset at 31 December 2012 was $1,157,668 of which $932,554 related to the Group's Namibian licence and $225,114 related to the Group's SADR licence. These amounts have not been impaired because commercial reserves have not yet been established or the determination process has not been completed. In accordance with IFRS 6, the Directors have assessed whether any indication of impairment exists in respect of those intangible assets. In their opinion, based on a review of the expiry dates of licences and the likelihood of their renewal, available funds and the intention to continue exploration and evaluation, no indications of impairment were identified.

In December 2012 the Company's wholly owned subsidiary, Neptune Petroleum (Namibia) Limited reached agreement with Arcadia Expro Namibia (Pty) Ltd ("Arcadia") and Repsol Exploration (Namibia) Pty Ltd ("Repsol") to double its interest in Licence 0010 in Namibia. As a result Repsol has replaced Arcadia as the operator with a 44% interest, and Tower has increased its interest from 15% to 30% with Arcadia retaining 26%. Completion occurred in January 2013 at which time an amount of $5.3 million was transferred from an escrow account (shown as Restricted Cash at 31 December 2012 in the Statements of Financial Position) in consideration for the increase in Tower's interest in the licence. This $5.3 million will be included in E&E assets in 2013.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

10 Investments – subsidiary undertakings

Company:	Loans to subsidiary undertakings $	Shares in subsidiary undertakings $	Total $
Cost			
At 1 January 2012	30,892,885	8,088,547	38,981,432
Net advances during the year	7,630,055	–	7,630,055
At 31 December 2012	38,522,940	8,088,547	46,611,487
Provision for impairment			
At 1 January 2012	(29,886,213)	(3,997,305)	(33,883,518)
Provision for impairment	(7,507,139)	–	(7,507,139)
At 31 December 2012	(37,393,352)	(3,997,305)	(41,390,657)
Net book value			
At 31 December 2012	1,129,588	4,091,242	5,220,830
At 31 December 2011	1,006,672	4,091,242	5,097,914

The loans to subsidiary undertakings have no fixed repayment terms but are repayable in more than one year. The provision for impairment of $7.5 million against loans to subsidiary undertakings represents an impairment of the amount lent to the Ugandan operating subsidiary for drilling costs in the year. As no hydrocarbons were discovered, the Directors have decided that full impairment should be made for those amounts lent to the subsidiary. The remaining amounts due from subsidiaries represents funds lent to the Namibian operating subsidiary.

Under the terms of the agreement for the purchase of Comet Petroleum Ltd ("Comet") in 2008, additional consideration may be payable in the future depending upon the success of Comet's evaluation and exploration activities in the Saharawi Arab Democratic Republic in the Western Sahara through its wholly owned subsidiary, Comet Petroleum (SADR) Limited. It is not possible at this stage to quantify with any accuracy such additional prospective consideration.

The Company's direct or indirect subsidiaries at 31 December 2012, all of which have been consolidated into the Group Financial Statements and of which the Company controls 100% of the voting rights were:

Subsidiary undertakings	Principal activities	Country of incorporation	Percentage of 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	England	100%
Comet Petroleum (SADR) Limited	Oil and gas exploration	BVI	100%
Tower Resources (Namibia) Limited	Oil and gas exploration	England	100%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

11 Trade and other receivables

	31 December 2012 Group $	31 December 2012 Company $	31 December 2011 Group $	31 December 2011 Company $
Other receivables	1,282,975	60,342	1,044,668	100,484

Included in the above Group figure is an amount of $1,249,221 in respect of VAT repayable by the Government of Uganda to the subsidiary, Neptune Petroleum (Uganda) Limited. Discussions are continuing between local management and the Ugandan Government regarding repayment of this amount and the Company is optimistic that a successful outcome will be reached and so no provision for impairment has been made.

12 Trade and other payables

	31 December 2012 Group $	31 December 2012 Company $	31 December 2011 Group $	31 December 2011 Company $
Payables and accruables	1,492,416	121,276	1,058,982	722,246

Included in the above Group figure is an amount of $1,200,000 in respect of potential liability for withholding tax in Uganda of the Group's subsidiary, Neptune Petroleum (Uganda) Limited. No formal assessment from the Ugandan Government has been received by the Group and discussions are continuing between local management and the Ugandan Government regarding the potential liability.

The remaining payables balance represents liabilities incurred by the Group in the course of its normal commercial activities and are payable within a period of approximately 45 days.

13 Financial instruments

Interest rate risk

At 31 December 2012 the Group had US Dollar cash deposits of $4,330,603, Pound Sterling cash deposits of a US Dollar equivalent of $440,540, Euro cash deposits of a US Dollar equivalent of $452, and Uganda Shillings cash deposits of a US Dollar equivalent of $6,780. 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 2012 Floating Interest rate $	31 December 2012 Non-interest Bearing $	31 December 2011 Floating Interest rate $	31 December 2011 Non-interest bearing $
Financial assets:				
Cash at bank	4,504,402	273,973	1,598,848	578,089

The effective weighted interest rate on interest-bearing deposits during the year was approximately 1.15%.

Debt

At 31 December 2012, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

13 Financial instruments (continued)

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 its exploration expenditure requirements.

The Group ensures it is meeting its objectives by ensuring that its exploration activities are progressing in line with expectations, and that it controls costs and places unused funds on deposit to conserve resources and increase returns on surplus cash held.

The Group is not exposed to any externally imposed capital requirement.

Credit risks

The Group does not have any perceived credit risks on its trade and other receivables with the exception of the matter referred to in note 11 above.

14 Exploration expenditure commitments

The Group is committed to funding its 30% share of an exploration well on Licence 0010 in Namibia. Approval was given in December 2012 to extend the Second Renewal Exploration Period to 22 August 2014 and the optional Third Renewal Exploration Period to 22 August 2016. Whilst the timing of the exploration well and related expenditures for the Second Renewal Period has not yet been approved by the Joint Venture, it is currently estimated by the directors that the Group's share of costs related to the Licence, including the cost of the exploration well, could total up to $30 million. The Group has no other exploration expenditure commitments.

15 Share capital and options

Year ended 31 December 2012	2012 $	2011 $
Allotted, called up and fully paid		
1,623,652,227 (2011: 1,225,862,756) ordinary shares of 0.1p each	2,837,320	2,210,304

The share capital issues during 2012 are summarised as follows:

	Number of shares	Share capital at nominal value $	Share Premium $
At 1 January 2012	1,225,862,756	2,210,304	40,290,349
Shares issued for cash	397,789,471	627,016	18,295,205
Costs of share issues	–	–	(313,005)
At 31 December 2012	1,623,652,227	2,837,320	58,272,549

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

15 Share capital and options (continued)

Details of share options outstanding at 31 December 2012 are as follows:

	Number in issue
At 1 January 2012	23,000,000
Granted during the year	21,500,000
Exercised during the year	(5,000,000)
Lapsed during the year	(6,000,000)
At 31 December 2012	33,500,000

Date of grant	Latest exercisable date	Option price	Number in issue
3 May 2007	3/05/14	2.25p	2,000,000
20 September 2007	20/09/14	2.75p	1,000,000
1 July 2008	1/07/15	4.75p	1,000,000
1 October 2008	1/10/15	3.88p	1,000,000
28 May 2010	28/05/17	1.325p	1,000,000
19 May 2011	19/5/18	5.475p	6,000,000
27 April 2012	20/4/17 see note (1) below	2.85p	1,500,000
1 June 2012	1/7/17 see note (2) below	3.025p	20,000,000
			33,500,000

(1) The 1,500,000 options were granted to Mr Philip Swatman upon his appointment to the Board and will vest in three equal tranches on 27 April 2013, 27 April 2014 and 27 April 2015 respectively. All expire, if not previously exercised, on 27 April 2017.

(2) The 20,000,000 options were granted to Mr Graeme Thomson upon his appointment as Chief Executive and will vest in three equal tranches on 1 June 2013, 1 June 2014 and 1 June 2015 respectively. All will expire if not previously exercised on 1 June 2017.

The Company's share price ranged between 2.225p and 4.35p during the year. The closing price on 31 December 2012 was 2.35p per share. The weighted average exercise price of the share options was 3.43 pence with a weighted average contractual life of 3 years and 96 days. The number of options exercisable at the end of the year were 12,000,000.

16 Finance costs

On 6 January 2012 the Company entered into an £8 million Standby Equity Distribution Agreement ("SEDA") and a managed $3.125 million SEDA-backed Loan Agreement with YA Global Master SPV Ltd., an investment fund managed by Yorkville Advisors LLC. The Loan can be increased in tranches of $1 million up to a maximum of $6.125 million if required, whilst the SEDA will be available to finance repayments of the Loan. Taken together these provide flexibility over future equity funding requirements.

On 23 March 2012 the Company entered into a £20 million Equity Finance Facility ("EFF") with Darwin Strategic Limited ("Darwin"). Darwin is majority owned by funds managed by the Henderson Volantis Capital team.

The costs incurred in connection with these facilities during the period covered by these financial statements, which was used to help part-fund the costs of drilling the third and final commitment well in Uganda, amounted to $681,251 and have been shown as Finance Costs in the Consolidated Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

17 Share warrants

Details of the warrants outstanding at 31 December 2012 are as follows:

	Number of warrants
At 1 January 2012	15,304,618
Granted during the year	10,014,581
At 31 December 2012	25,319,199

Date of grant of grant	Latest exercise date	Warrant price	Number of warrants
20/04/2009	20/04/2014	3.00p	4,300,001
15/12/2009	15/12/2014	2.55p	2,235,318
28/05/2010	28/05/2015	1.325p	6,339,622
14/10/2010	14/10/2015	3.72p	712,784
19/05/2011	19/05/2016	5.48p	1,716,893
30/07/2012 *	30/7/2019	3.225p	10,014,581
			25,319,199

* The Share Warrants granted on 30 July 2012 do not vest in the beneficiaries until 30 July 2013.

The following table shows the interests of the Directors in the share warrants in issue.

	2012	2011
Jeremy Asher	6,913,213	1,760,078
Graeme Thomson	1,458,434	–
Peter Blakey	4,656,698	3,198,264
Peter Kingston	–	4,341,697
Mark Savage	–	1,760,078
Philip Swatman	486,144	–
Peter Taylor	4,656,698	3,198,264
	18,171,187	14,258,381

The weighted average exercise price of the share warrants was 2.82 pence with a weighted average contractual life of 3 years and 301 days. The number of warrants exercisable at the end of the year were 15,304,618.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

18 Share-based payments

	2012 $	2011 $
In its Statement of Comprehensive Income the Company recognised the following charge in respect of its share based payment plan:	764,264	179,276

In compliance with the requirements of IFRS 2 on share-based payments, the fair value of options or warrants granted during the year is calculated using the Black Scholes option pricing model. For this purpose the expected volatility applied in respect of the above charge was 72.81% and the dividend rate 0.40%.

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 $179,301 (2011: $192,117) paid to TM in respect of charges for office accommodation and administration. The key management of the Group is the Directors of the Company. There are no transactions with the Directors other than their remuneration and interests in shares, share options and share warrants. Their total remuneration in each of the categories specified in IAS 24 'Related Party Disclosures' is shown below.

	2012 $	2011 $
Short-term employee benefits	345,159	203,525
Share-based payments	374,847	179,276
	720,006	382,801

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

20 Control

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

21 Subsequent events

On 29 June 2010, and in accordance with the Production Sharing Agreement for Exploration Area 5 (EA5) signed between the Government of Uganda and the Company's local operating subsidiary, Neptune Petroleum (Uganda) Ltd, the Company provided a $0.3 million Performance Bond in respect of the Minimum Exploration Expenditure requirement for its two-year exploration period that ended on 26 March 2012. On 5 March 2013 the Permanent Secretary of the Uganda Ministry of Energy and Mineral Development confirmed that all obligations under that PSA have been duly fulfilled and authorised the release and repayment of that deposit in full. These funds were received on 13 March 2013.

On 30 July 2012, the Group announced a conditional agreement with Arcadia Expro Namibia (Pty) Ltd ("Arcadia") to increase its interest in Namibia offshore Licence 0010 to a 30% working interest. On 31 January 2013 all pre-conditions relating to this farmout were completed, including the release from restricted cash by the Group of approximately $5.3 million to Arcadia. The Group assumed payment of 30% of Licence 0010 costs from 1 July 2012. On the same date the acquisition of a 44% interest in the Licence 0010 by Repsol Exploration (Namibia) Pty Ltd from Arcadia also became unconditional. Arcadia has an interest of 26% in the Licence and Repsol is now operator.

On 11 March 2013, the Company issued 4 million share options with an exercise price of 2.10p per share, vesting in equal tranches 12, 24 and 36 months after issue.

SHAREHOLDER INFORMATION

Directors, Secretary and Advisers

Directors:
Jeremy Asher
Non-Executive Chairman

Peter Blakey
Non-Executive Director

Philip Swatman
Senior Independent Non-Executive Director

Peter Taylor
Non-Executive Director

Graeme Thomson
Chief Executive Officer

Company Secretary:
John Bottomley

Company Number:
05305345

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London EC2V 7BB

Joint Brokers:
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2 Gresham Street
London EC2V 7QP

Solicitors:
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15 Appold Street
London EC2Y 2HB

Group Auditors:
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4 Thomas More Square
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