tower resources
oil and gas exploration

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Front cover:
GW-190 rig on location at Badada-1 well site, December 2014

www.towerresources.co.uk

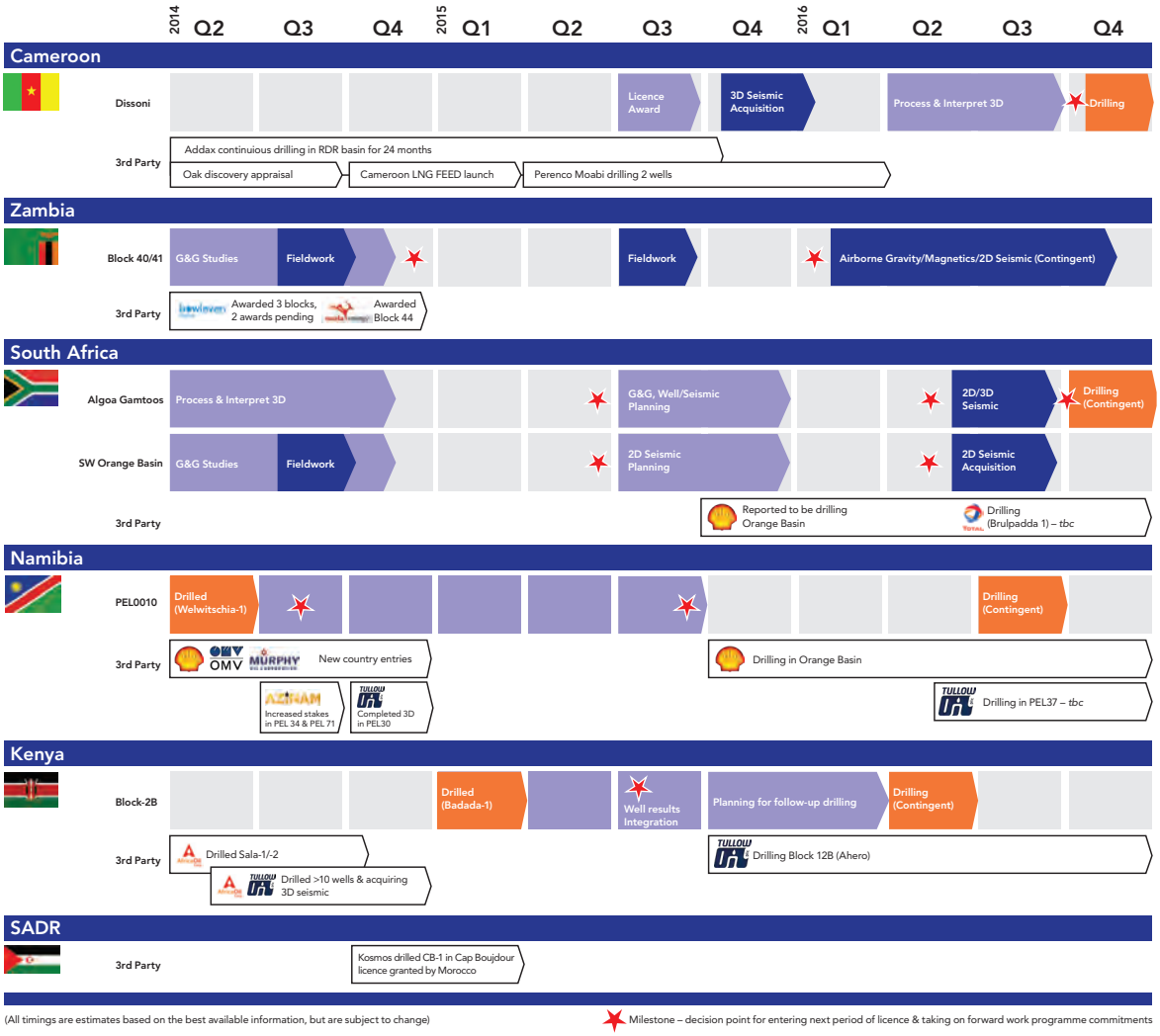
Namibia from NASA's Terra satellite © NASA

At a Glance

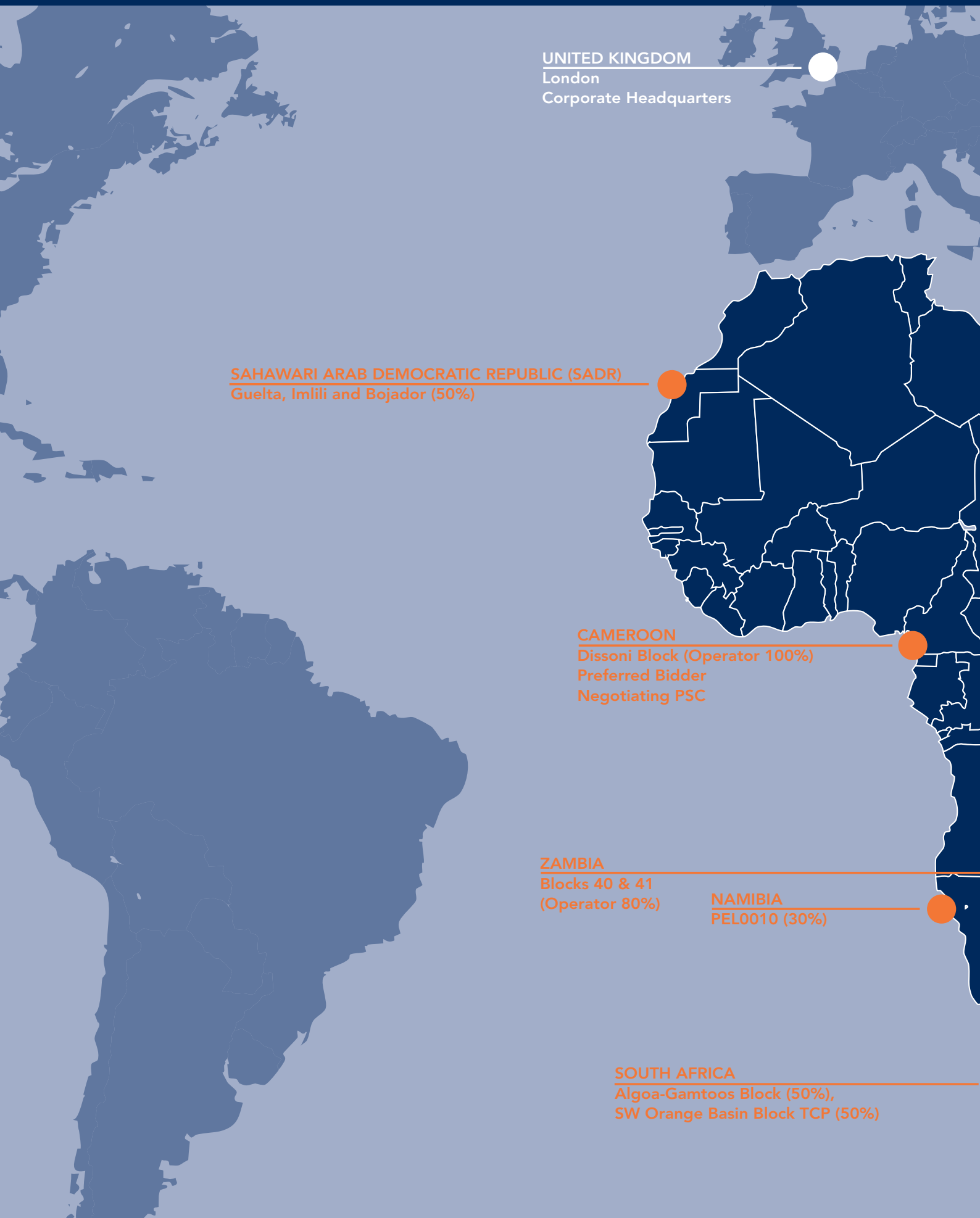
TOWER RESOURCES plc is a London-based, independent oil and gas exploration company with a regional focus on sub-Saharan Africa and has been listed on the London Stock Exchange (AIM) since 2005.

Tower aims to:

- Build a portfolio of high-potential exploration licences with sizeable interests that give us the flexibility to farm-out and to retain material exposure to success
- Increase exposure to medium-term drilling which offers the potential to materially add-value for shareholders
- Maintain and build our capacity to operate
- Balance risk and potential reward through diversification of our portfolio
- Retain balance between exposure to proven/emerging hydrocarbon basins and frontier exploration.



Building a high impact African portfolio



KENYA
Block-2B (15%)
MADAGASCAR
Block 2102
(In Negotiation)

2014

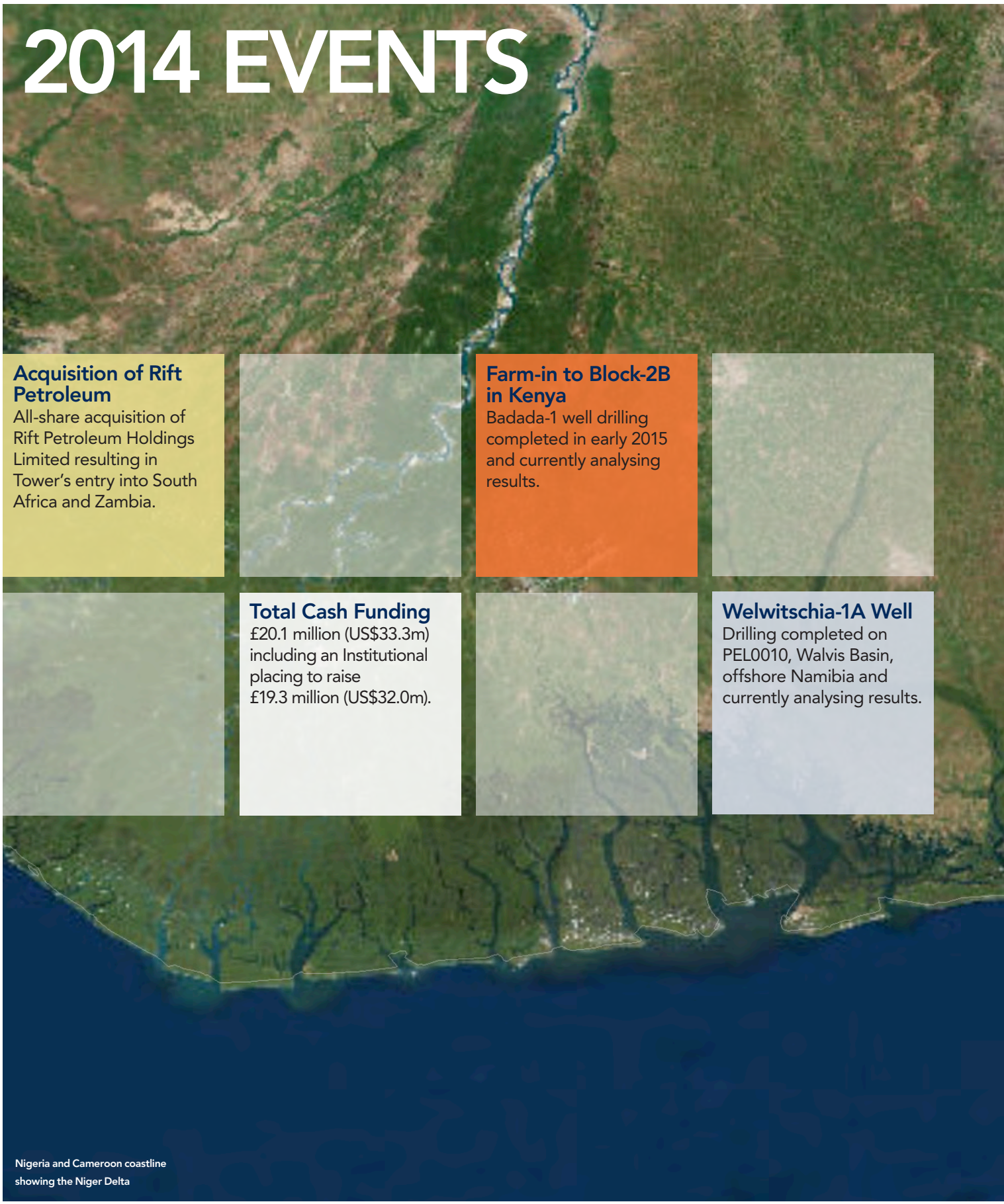
2014 EVENTS

Acquisition of Rift Petroleum
All-share acquisition of Rift Petroleum Holdings Limited resulting in Tower's entry into South Africa and Zambia.

Farm-in to Block-2B in Kenya
Badada-1 well drilling completed in early 2015 and currently analysing results.

Total Cash Funding
£20.1 million (US$33.3m) including an Institutional placing to raise £19.3 million (US$32.0m).

Welwitschia-1A Well
Drilling completed on PEL0010, Walvis Basin, offshore Namibia and currently analysing results.



Nigeria and Cameroon coastline showing the Niger Delta

Blocks 40 & 41, Zambia
Geological fieldwork undertaken in Blocks 40 & 41, Zambesi Basin, Zambia during August 2014.

Strengthening Senior Team
Eric Griffith joined as Asset Manager (20 years experience) and Andrew Smith as Financial Controller and Company Secretary (10 years experience).

Agreement Reached
with the Operator, Repsol, relating to the disputed costs associated with the drilling of the Welwitschia prospect, offshore Namibia.

Dissoni Block, Cameroon
Progressing negotiations – the Block is located in the Rio del Rey Basin, an area of proven oil production.

Chairman and Chief Executive's Joint Statement

"Our current work obligations are largely met, which puts us in a better position than most to weather the current storm and prepare for better times."

The last year has been a difficult period for the oil and gas industry, with prices falling and exploration losing favour with investors. Tower has suffered along with everyone else, but we nevertheless find ourselves with an attractive portfolio of exploration blocks in which our current work obligations are largely met, which puts us in a better position than most to weather the current storm and prepare for better times.

2014 began with a great deal of commercial activity. In addition to the fundraising for the Welwitschia well in Namibia operated by Repsol, we acquired Rift Petroleum which brought us several attractive exploration blocks in South Africa (working together with New Age) and also Zambia as operator, and we farmed into Block-2B in Kenya, working together with Taipan Resources and Premier Oil. In addition we were already negotiating as the preferred bidder for the Dissoni Block, offshore Cameroon.

We drilled two wells in frontier areas in Namibia and Kenya, both of which had offered material upside and had been validated by the presence of highly experienced farminees, Repsol and Premier Oil.

We were all deeply disappointed with the result of the Welwitschia well offshore Namibia, which we completed in June, not merely because of the lack of reservoir in the Maastrichtian and Palaeocene targets, but also due to the well's failure to test the deeper targets, notably the Albian carbonates. Nevertheless, we reached an amicable agreement with the operator Repsol regarding the cost of the well, our share of which was a little below budget, and the prospectivity of the deeper section remains. We are in discussions regarding next steps, but our current thinking is to wait for other operators to be ready to begin a fresh drilling campaign in the area before committing to a further well. We have taken the conservative course in writing down our Namibian assets in the meantime, but we continue to believe that Namibia will become a significant oil and gas province in the future, and we still intend to play a role in that.

The onshore Badada-1 well on Block-2B in Kenya, which was drilled after the year-end and in which we have a 15% interest, confirmed our geological model of the basin, but also failed to find a commercial discovery. We have prudently written off the cost of the well, but in fact we are still reviewing the further prospectivity of the block with the benefit of the data we have now obtained.

We are excited by the potential of our operated blocks in Zambia, where our geological fieldwork has been very promising. This has shown us that the ingredients for a working petroleum system appear to exist on our blocks. We are progressing into a new phase of the licence, which now consists of three one-year periods, and will be looking for a farminee to assist in the exploration of this area.

We have negotiated a detailed work programme with the Government of Cameroon for the Dissoni Block, and now expect to be ready to sign a final PSC in mid-2015. During 2014 and the past few months we have already completed a significant amount of further preparatory work on this licence, and we intend to acquire 3D seismic during the next twelve months, probably with a partner.

We have other licences now in our pipeline, but we are not seeking to rush any of these discussions given the current funding climate.

Strategy

Our strategy for the year ahead is as follows:

- To maintain and to develop our high-impact exploration portfolio while minimising our forward commitments and costs where appropriate
- To farm-out some or all of the costs of future commitments where it is desirable or necessary to move our most exciting prospects along faster
- To seek opportunities through further asset or corporate transactions in order to optimise the portfolio

Moving forward

We are exploring several opportunities and will continue to do so until we find the right ones to execute, at the right time. In the meantime, we already have a good inventory of prospects, and we look forward to telling you more about these later in the year.

Setbacks are inevitable in the exploration business, but successful wells are usually achieved with the help of the data obtained from unsuccessful ones. We cannot expect every well we drill to succeed; but we do believe that we are building valuable data sets and relationships in several basins and countries, and that this effort will bear fruit in time.

Jeremy Asher
Chairman
15 May 2015

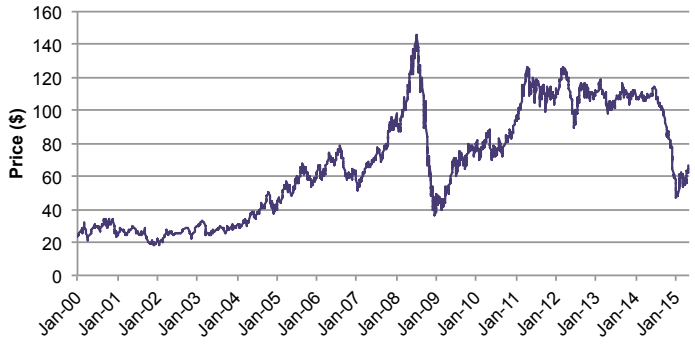
Graeme Thomson
Chief Executive Officer

Market Overview

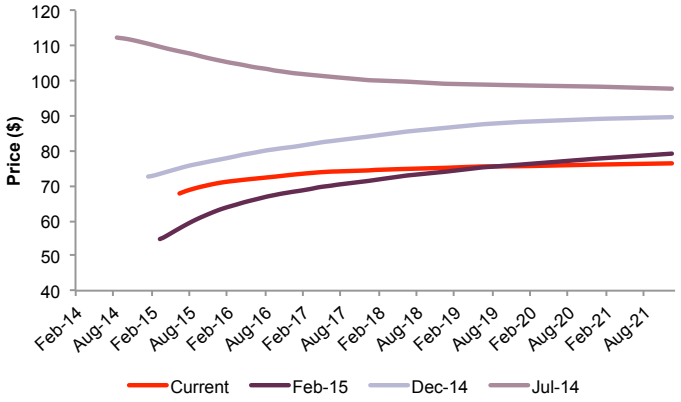
Oil Price Outlook

A rapid weakening in global oil markets has seen the Brent oil price fall from around US$112 per bbl in June 2014 to the recent levels of US$50-US$65 per bbl. This decline was compounded by OPEC's decision to leave its production quota of circa 30 million bopd unchanged. An uncertain demand outlook and sluggish growth from key developing economies, coupled with the rapid growth from the US shale producers, led to an over-supply and a build-up in inventory levels resulting in the oil price falling to its lowest level since 2009.

The industry has been quick to adapt to the lower oil price paradigm and the forward curve, which has now reverted from backwardation to contango, and across the sector there have been significant cuts in discretionary capital expenditure, particularly with respect to exploration and appraisal. Governments and the service providers to the industry have also started to acknowledge the weaker oil price outlook, and we expect this to be reflected in the terms being offered to industry both in the fiscal parameters of new licence awards and also in contractor rates for seismic and drilling services.



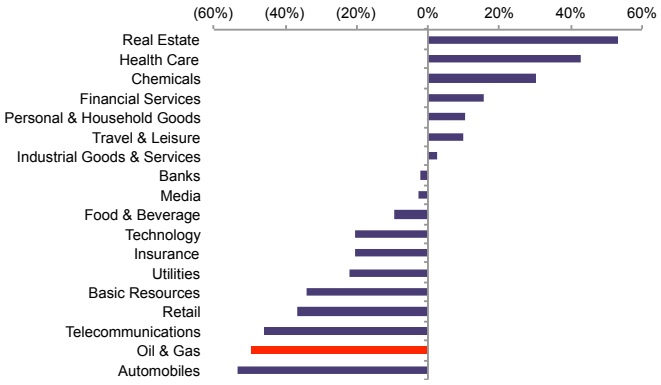
Brent Spot Oil Price (US$ per bbl)



Brent Forward Curve Evolution (US$ per bbl)

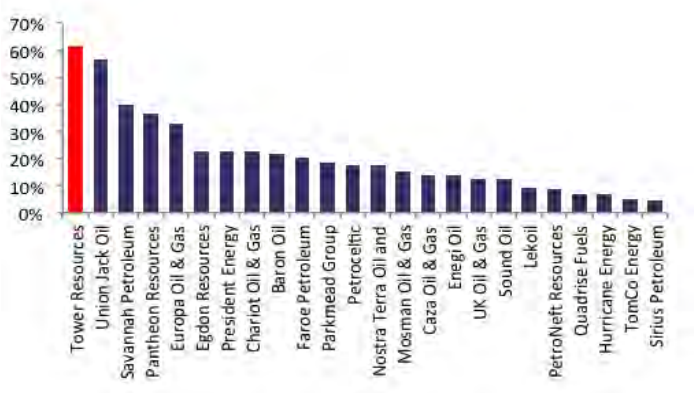
AIM Oil & Gas Sector Performance

The AIM Oil & Gas sector has been one of the worst performing sector on the London market in both an absolute and relative basis with the index falling over 55% since the beginning of 2014, with the pure explorers under-performing further. This has markedly reduced capital inflows into the small cap oil & gas sector and liquidity has suffered as a result.



AIM Sector Performance January 2014 to date

However, despite the challenging environment Tower was able to access US$32 million (gross) from the capital markets via a placing announced in April 2014 which was the largest placing in the AIM Oil & Gas sector as a function of market capitalisation in the year. This enabled the Company to fund its Namibian and Kenyan high-risk frontier wells and diversify its portfolio into Zambia and South Africa.



Money raised in the E&P sector during 2014 as a percentage of market capitalisation at the time of the capital raised

Despite the continued weakness in the Oil & Gas sector and the capital markets being severely restricted, the anticipated wave of M&A activity in the AIM sector is yet to appear. Perhaps this is due to the lack of access to the capital required to make even the enlarged portfolios viable. However, Shell's recent bid for BG Group may indicate that equity valuations have fallen too far which could trigger further consolidation within the sector. Our track record of completing deals both at the corporate and asset level should bode well for Tower given the landscape of distressed oil & gas equity valuations and corporate solutions being sought.

2014 and Onwards

Strategic Report

Tower's strategy has focused on building a high impact portfolio of exploration opportunities which allow shareholders the opportunity to capture material upside in the event of success. Most recently this has been achieved via the generation, financing and drilling of potentially high impact wells, with two such wells being drilled in the 12 months: Welwitschia-1/1A offshore Namibia and Badada-1 onshore Kenya. Despite these two wells not delivering the success we had hoped for, either of the wells had the potential to transform Tower's valuation.

During 2014 Tower pursued an acquisition strategy aimed at diversifying its portfolio outside of its core Namibian acreage position. This was achieved via the all-share acquisition of Rift Petroleum Holdings Limited and a farm-in to Block-2B, onshore Kenya. As a result, the Company now has a good portfolio of licence interests in several promising areas and we also have a pipeline of additional opportunities generated by our new ventures efforts. Our proven track record of growing the company, both organically via the application of new licences and by the acquisition route, bodes well for the opportunities for consolidation that the current environment may present.

In April 2014 we announced a placing to raise US$32 million. The proceeds of which were used to partially fund the drilling of the Welwitschia-1/1A well offshore Namibia, the farm-in and drilling costs for the Badada-1 well onshore Block-2B, Kenya and to fund progress on the new licences, other new ventures initiatives and working capital. We were extremely pleased with the level of support we achieved for the placing, given the difficult market conditions, which saw a number of new institutional investors come on to the share register for the first time. At the same time we acquired Rift Petroleum Holdings Limited with licences in Zambia and South Africa.

Given the collapse in the oil price during H2 2014 and the negative sentiment towards the exploration sector, our paramount thought has been to manage our portfolio in a prudent manner that will also allow us to capitalise on the opportunities arising from the downturn. To that end our priorities are:

- Maintaining and broadening of our licence portfolio while minimising forward commitments and costs
- Origination of opportunities through asset or corporate transactions in order to position the portfolio more favourably given the adverse conditions in the sector
- Where appropriate, farming out some of the costs of those commitments that cannot be deferred, or to accelerate activity
- Introduction of lower risk exploration opportunities in proven or emerging hydrocarbon basins
- Optimising the flexibility and optionality within the portfolio

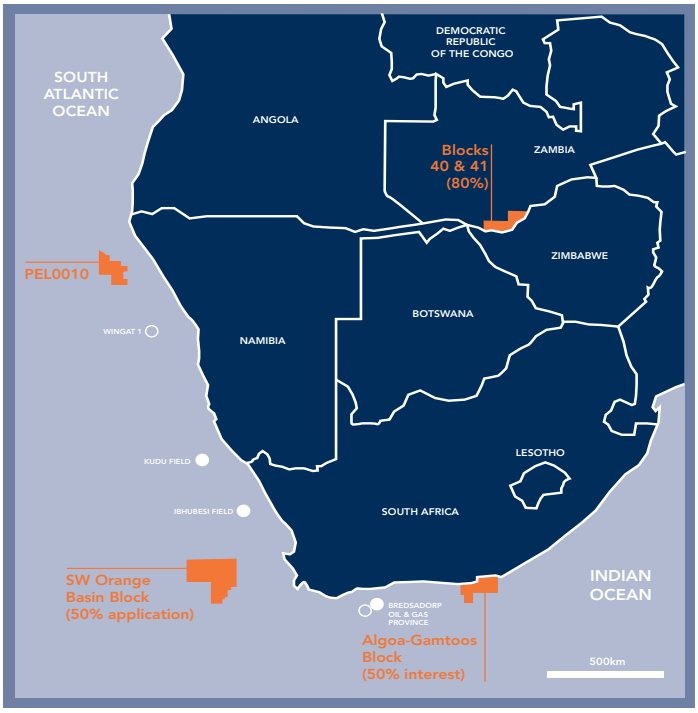
None of this can be achieved, of course, without building and retaining a management team with the skill set and experience to deliver on the outline strategy. During the latter stages of 2014 we were very pleased to recruit Eric Griffith as Asset Manager and Andrew Smith as Financial Controller and Company Secretary, who both have a wealth of experience gained within the industry.

Financial Report and 2015 Developments

The Group's loss for the year ended 31 December 2014 increased to US$56.6 million (2013: US$3.3 million) due primarily to the impairment of our Namibia and Kenya assets. Cash balance at 31 December 2014 amounted to US$7.9 million (2013: US$17.5 million) with exploration and evaluation expenditure for the period totalling US$39.4 million (2013: US$7.7 million).

Two elements of funding were achieved by the Group during 2014. On 24 January 2014, Tower announced that it had raised a £0.82 million (gross) at an average issue price of 4.2p per share via a draw-down on its Equity Financing Facility (EFF) with Darwin Strategic Limited. This limited equity issue was undertaken with a strict floor price in place, in order to provide further shares to the market on days of shortage during the first three weeks of January 2014.

On 9 April 2014 the Company announced that it had placed 550,000,000 new ordinary shares at a price of 3.5 pence per share to raise gross proceeds of £19.3 million (US$32.0 million) by means of a placing and subscription with institutional and other investors.



Tower's acreage position in Southern Africa

Acquisition of Rift Petroleum Holdings Limited

On 9 April 2014 Tower entered into a share purchase agreement to acquire the entire issued share capital of Rift Petroleum in exchange for 550 million Tower Shares. Rift Petroleum was a private exploration group focused on the emerging offshore South African region with additional licences located onshore Zambia.

The acquisition gave Tower Resources exposure to a 50% interest in two South African offshore areas. A number of oil majors have acquired acreage in the region, including Exxon, Total, Anadarko and Shell, paying entry premiums in the hundreds of millions of dollars.

Rift Petroleum's 50% interest in the Algoa-Gamtoos licence, alongside New Age Energy Algoa (Pty) Ltd, covers seven blocks and 11,809km². It is located between two licence areas that have recently been farmed into by Exxon and Total. The Algoa-Gamtoos licence consists of three prospective basins, Algoa to the east, Gamtoos to the west and the Outeniqua deep-water basin.

New 3D seismic in the Algoa Canyon play became available during late 2014, whilst mapping of 2013 2D seismic has been completed across the Gamtoos and Deepwater plays. A formal farm-out process in respect of the Algoa-Gamtoos licence is planned in due course.

Rift Petroleum also has rights (subject to various conditions) to acquire a 50% interest in any exploration right granted to New African Global Energy SA (Pty) Ltd pursuant to an application it is making under a Technical Co-operation Permit (TCP) over the SW Orange Basin area covering three blocks and 21,500km². The application to convert the TCP into an Exploration Right has been lodged with PASA (Petroleum Authority of South Africa) and is awaiting formal confirmation with the Ministry of Energy.

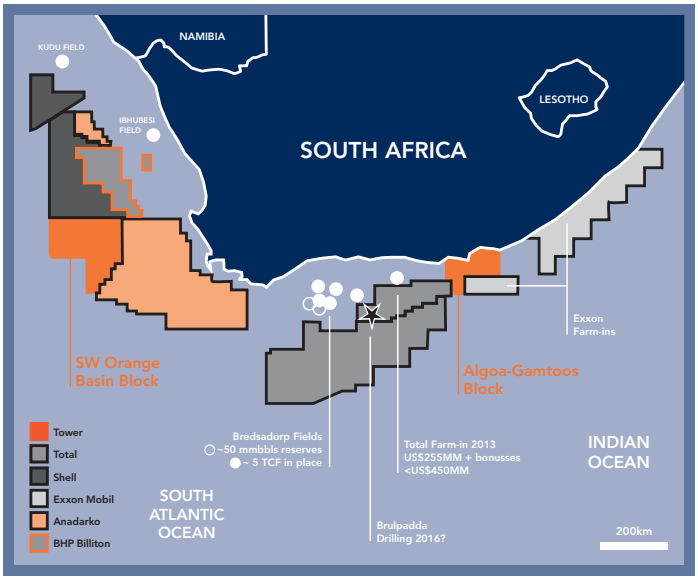
The acquisition of Rift Petroleum also gave Tower an operating 80% interest in two blocks (Block 40 and 41) onshore Zambia. During 2014 we completed an extensive scope of geological fieldwork which is detailed later in this report.

Farm-in to Block-2B, Kenya

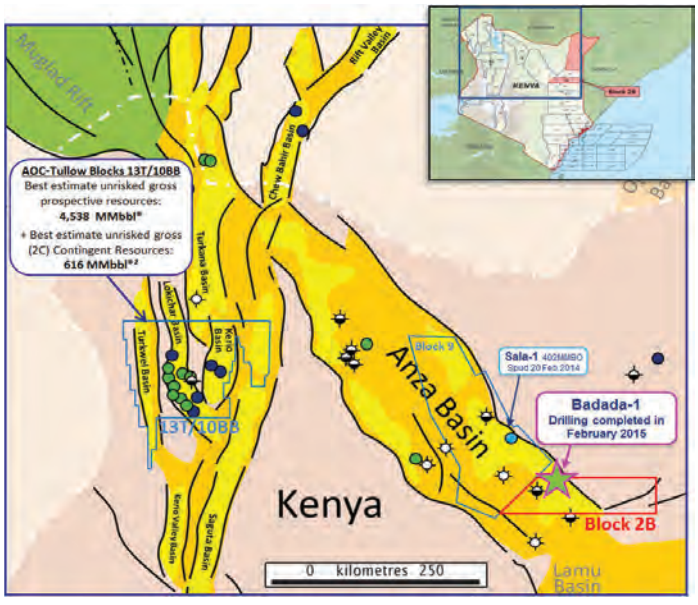
Tower Resources (Kenya) Limited, a wholly owned subsidiary of Tower Resources, acquired a 15% interest in Block-2B, Kenya, from Lion Petroleum Corporation, a wholly owned subsidiary of Taipan Resources Inc. ("Taipan") on 9 April 2014. Taipan hold a 30% interest and is the operator of the licence. The remainder of the licence was held by Premier Oil, who farmed in for a 55% interest in December 2013.

In consideration for the farm-in, Tower Resources paid Taipan Resources US$4.5 million in cash and nine million Tower Resources Shares. A contingent payment of US$1.0 million would become due if a second well was spud in Block-2B.

Taipan Resources announced an independent assessment of Block-2B, completed by Sproule International Limited, in February 2014. The total estimated mean gross unrisked prospective resources, based on 19 exploration leads on Block-2B, was reported as 1,593mmboe, an increase of 388 per cent on the earlier estimated figure of 410mmboe. Tower's estimate of the gross unrisked prospective resources to be tested by Badada-1 ranged from 16mmboe (P90) to 402mmboe (P10) with a Pmean of 169mmboe. This compared to the Operator's gross mean unrisked recoverable resources estimate of 251 mmboe *(Source: Sproule International Limited, February 2014).*

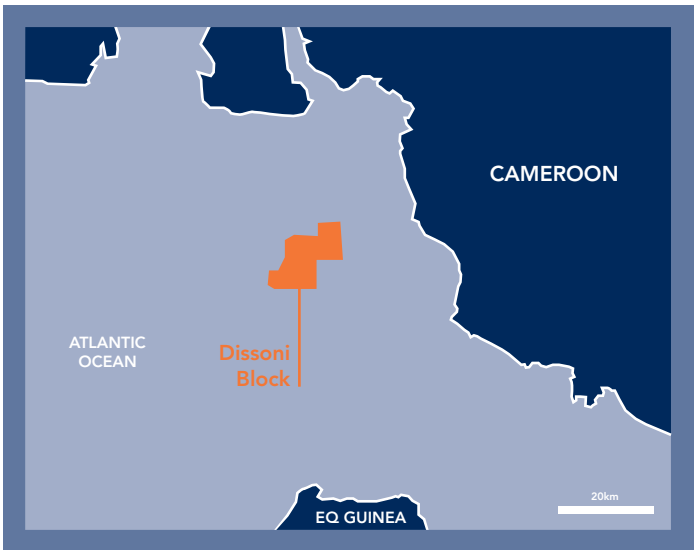


South Africa's offshore licence holders



Block-2B and Anza Basin position within the Tertiary East African Rift System

Cameroon



Licence Summary

Dissoni Block (Preferred Bidder, 100% PSC Application)

Licence Size: 119km^2

1st Exploration Phase (3 years from commencement)

Entry: Expected mid-2015

Tower believes that Cameroon is underexplored despite containing several proven petroleum systems. Our first venture in Cameroon will be the Dissoni offshore block which has been in negotiation since 2013 but we see the opportunity to build a significant portfolio here.

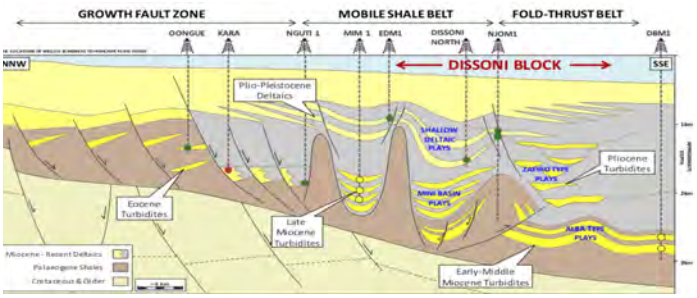
Tower was selected as preferred bidder in September 2013 and negotiations regarding the Production Sharing Contract (PSC) have entered the final stages and are anticipated to reach a conclusion in mid-2015.

Dissoni lies in the prolific Rio del Rey basin, which is the eastern part of the Niger Delta. To date over 1 billion bbls has been produced and remaining reserves are estimated at 405 million boe *(Source: Wood Mackenzie)*, but this has primarily come from shallow producing sands at depths of less than 2,000 metres. There has been very little exploration for deeper targets, which is partly due to poor seismic imaging.

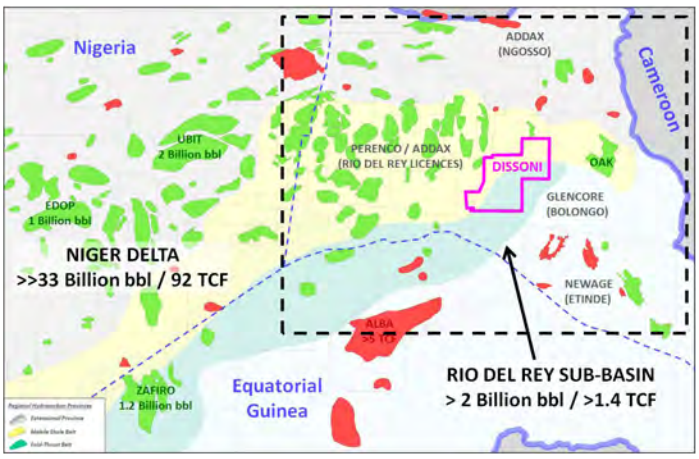
The Dissoni block has the potential for up to four distinct play systems, including the established producing play in which three discovery wells, two gas (Rumpi-1, Njonji-2) and one oil (Njonji-1), have been drilled already on the block. These are currently viewed as sub-commercial, but with better quality seismic we see potential to add incremental oil reserves to achieve commerciality. There is also significant potential to develop prospects at deeper levels, in both structural and stratigraphic traps, once better imaging has been achieved.

The existence of infrastructure in adjacent blocks means that development of a 20 million bbl field would be economically viable, even at current prices. There is already 7 million bbls discovered on the block *(Source: Total)*, and we believe there is potential to add reserves at low cost and low risk in the established play.

On signing of the PSC our priority will be the acquisition of 3D seismic in late 2015 or early 2016. The initial exploration period is for three years, and we hope to be drilling in 2017/18. Drilling costs in this shallow water area would be less than $20million, at least for the shallow targets. A partner will be sought to share Tower's financial commitment and provide additional technical input.

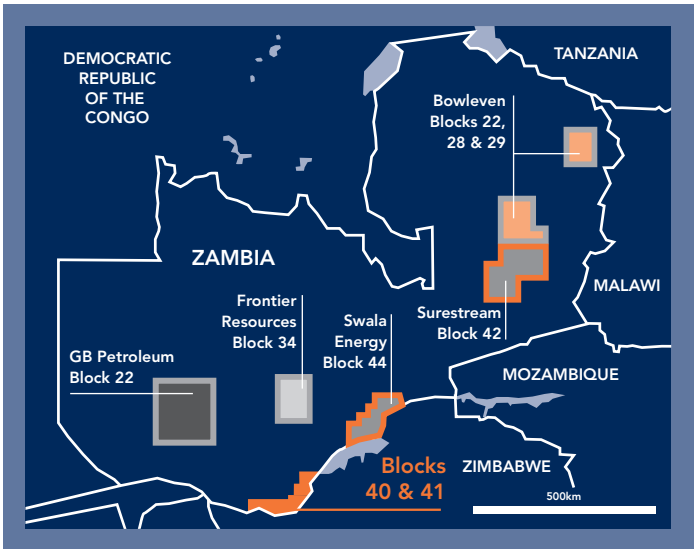


Regional Schematic Cross-Section of the Rio del Rey Basin



Rio del Rey Sub-Basin of the Niger Delta and position of the Dissoni Block

Zambia



Licence Summary

Blocks 40 & 41 (80% Operated)
Zambesi Basin
Operator: Rift Petroleum (Zambia) Limited
Licence Size: 6,946km^2
2nd Work Period (3 years from Commencement)

Entry: April 2014

Tower Resources became an Operator in Zambia upon the acquisition of Rift Petroleum in April 2014 with an 80% interest in Blocks 40 & 41. Since that time the Company has successfully completed all of its Initial Period commitments in this frontier basin and is well positioned for the next exploration period.

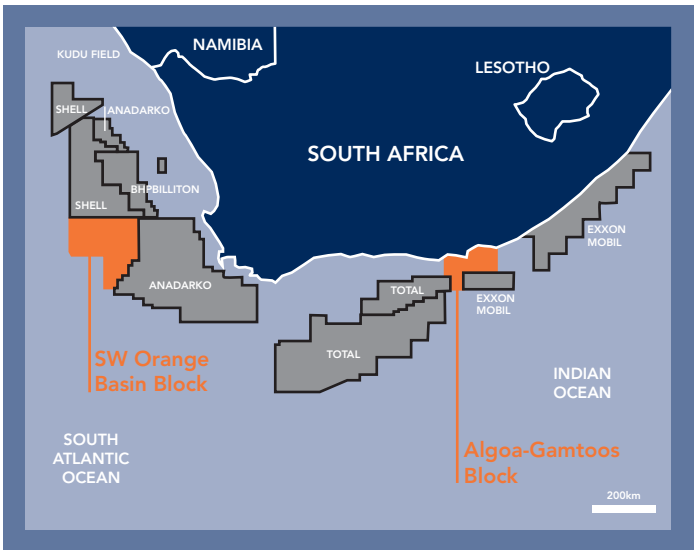
During August 2014 Tower completed an extensive programme of geological fieldwork in Blocks 40 and 41 within the Zambesi basin, as part of the Initial Period work programme. The fieldwork comprised the evaluation of geophysical data, geochemical analysis and rock sampling to assess the potential for source rock generation and reservoir presence. The final results from this geological fieldwork have now been submitted to the Zambian Ministry of Mines and Energy. The results from this fieldwork are encouraging and indicate that elements for a working petroleum system are present.

The three-year Secondary Period has been split into three one-year periods with respective commitments to (1) further field work, (2) airborne gravity and magnetic data acquisition and interpretation and (3) a 2D seismic programme. The acreage can be relinquished at the end of each year if results are discouraging, so commitments are light and proportionate to prospectivity. Tower will be looking for partners to fund this work which will be needed to define prospects to be drilled in 2017/18.

Measurements and sampling at field sections in Block 40 & 41, Zambia

Fieldwork team in transit in Zambia

South Africa



Licence Summary

Algoa-Gamtoos Block (50% Operated)
Operator: New Age Energy Algoa (Pty) Ltd,
New African Global Energy SA (Pty) Ltd
Licence Size: 11,809km^2
1st Renewal Period (Pending)

SW Orange Basin Block TCP (50% Operated)
Operator: New Age Energy Algoa (Pty) Ltd,
New African Global Energy SA (Pty) Ltd
Licence Size: 27,508km^2
Exploration Right (2 years from Commencement)

Entry: April 2014

Tower's non-operated interests in the Algoa-Gamtoos and SW Orange basins, offshore South Africa, were also part of the acquisition of Rift Petroleum. The operator of the Algoa-Gamtoos and SW Orange Basin licences are New Age Energy Algoa (Pty) Ltd and New African Global Energy SA (Pty) Ltd, respectively. The acreage is surrounded by the majors (Exxon, Total, Shell and Anadarko) highlighting the potential prospectivity of this emerging region and its importance to the wider oil industry.

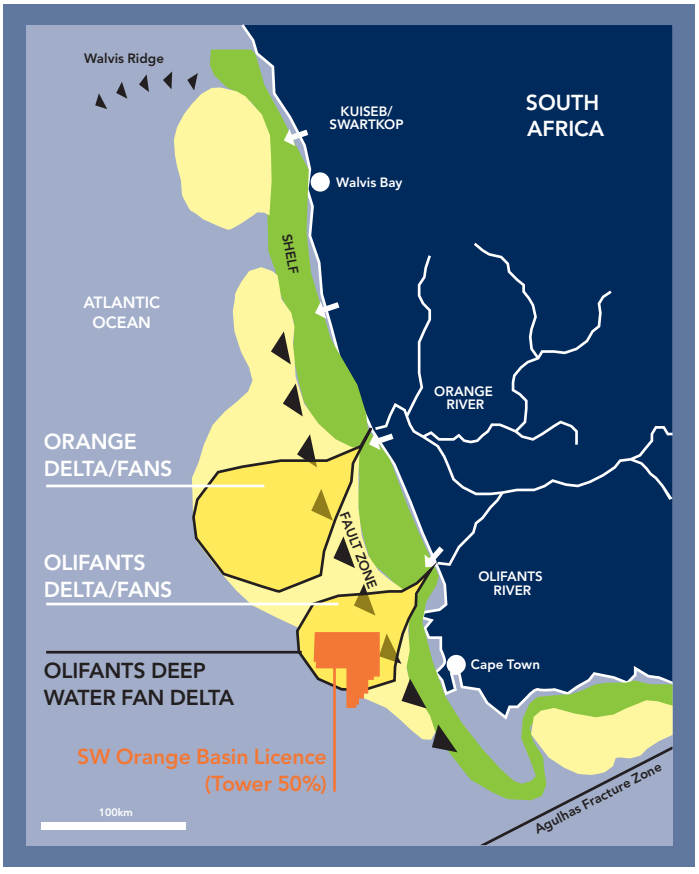
On the Algoa-Gamtoos blocks, the processing and interpretation of 3D seismic data acquired in 2014 has continued, along with the synthesis of additional data, which will more clearly define prospectivity. The JV decided to merge the new 3D data with an older 3D acquired by Pioneer Natural Resources SA and we now have a first class data set of 1,080km^2 of 3D seismic with which to assess the prospectivity of the Algoa canyon systems and associated plays.

The First Renewal Application to the Algoa-Gamtoos Exploration Right has been submitted to the Petroleum Authority of South Africa (PASA) and we expect this to be approved in H2 2015. We anticipate that the completion of the technical studies will demonstrate improved prospectivity. We will not need to make a drilling commitment before the next renewal in 2017, but we hope to be in a position to drill in late 2016/17. Tower's on-going licence commitments are low and we would expect to farm-out part of our interest in advance of any decision to drill a well.

The South West (SW) Orange basin offshore the west coast of South Africa, 230km west of Cape Town is currently held under a Technical Co-operation Permit (TCP). The licence covers a total area of c.27,508km^2 and represents one of Tower's largest acreage positions. An application for the conversion of the SW Orange Basin TCP into a three year Exploration Right has been submitted to PASA. A formal response to the application is expected later in the year.

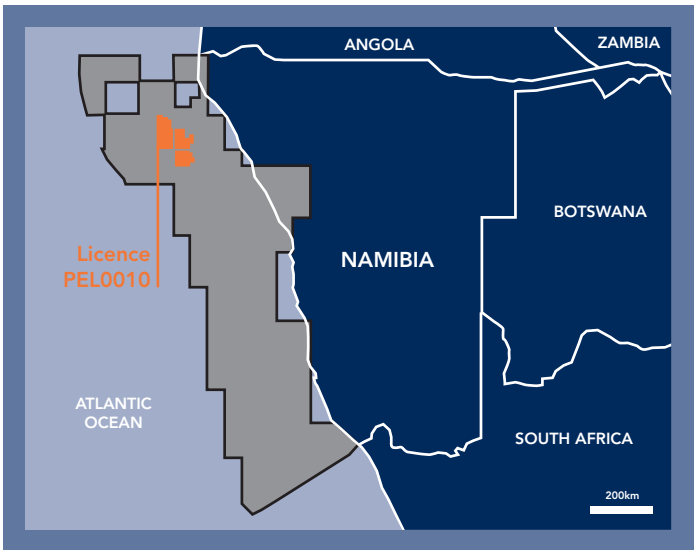
Activity offshore South Africa increased during 2013/14. Total spudded the deep-water Brulpadda-1 exploration well in August 2014 in Block 11B/12B of the Outeniqua basin (adjacent to Algoa-Gamtoos) to test the newly defined, and highly rated, deep-water play in the basin. However, due to technical issues with the rig the drilling of Brulpadda-1 was abandoned with a view to returning to drill in 2016.

Concerns about the regulatory environment around Exploration and Production activities in South Africa have been lessened by the Government's decision to consult further with the industry; latest discussions between industry body OPASA and the Government have been very encouraging.



Orange Basin Petroleum System

Namibia



Licence Summary

Licence 0010 (Non-Operated 30%)
(Blocks 1910A, 1911 and 2011A)
Walvis Basin, offshore Namibia
Operator: Repsol
Licence Size: ~12,000km^2
3rd Exploration Phase (Expires 23 August 2015)

Entry: 2005

Tower retains a 30% interest in Repsol-operated Licence 0010 (Blocks 1910A, 1911 and 2011A) located in the Walvis Basin, offshore Namibia. The licence was originally awarded 100% to Tower's subsidiary Neptune Petroleum (Namibia) in 2005.

On 23 April 2014 the Rowan Renaissance, a 6th generation new build drillship contracted to Repsol on a multi-well programme, commenced drilling operations on PEL0010 and spudded the Welwitschia-1 well, which was targeting net risked recoverable resources of 496 mmboe *(Source: Oilfield International CPR July 2013)* to Tower's 30% interest, making it one of the highest potential impact frontier exploration wells to be drilled in 2014. It was planned to intersect up to five separate reservoir targets ranging from the Palaeocene-Maastrichtian to the Albian-Carbonate sequence at a potential total depth (TD) of 3,000m TVDSS (Total Vertical Depth Sub-Sea). The well was estimated to take up to 46 days to drill. Unfortunately only three of these targets were reached and all three reservoirs proved to be poorly developed.

The well was beset by operational difficulties. Firstly, the spudding of the well was delayed due to late arrival of the rig to Walvis Bay. Secondly, a wellhead housing "slumped" beneath the sea-bed resulting in a decision to re-spud the well as Welwitschia-1A some 50 metres from the original well location on 1 May 2014. Thirdly, a series of faults developed with the Blow-Out-Preventer ("BOP") control system which resulted in drilling being suspended for a period of two weeks whilst systems were changed out.

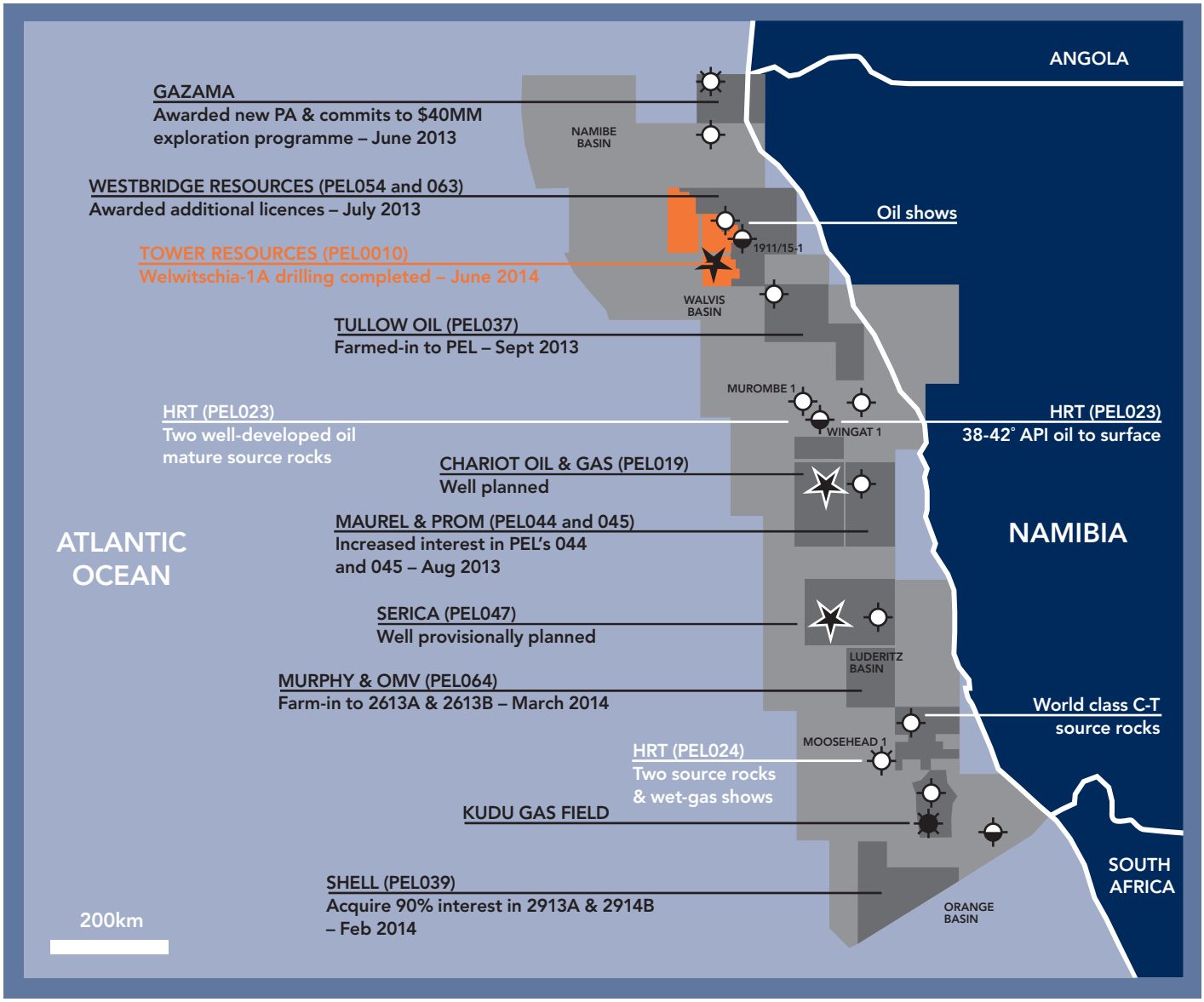
Once operations were re-commenced the Welwitschia-1 well was drilled to 2,454 metres TVDRT (Total Vertical Depth Below Rotary Table), thus meeting the firm commitment to drill to 2,400m, but logging evaluations indicated that the Palaeocene, Maastrichtian and upper Campanian section reservoirs were poorly developed and no hydrocarbons were encountered.

In addition, due to the late spudding and the operational delays already incurred, it was well into the winter season in the South Atlantic and weather was becoming a significant issue too. It was estimated by the operator that to drill to the original proposed TD would cost an additional $40 million (gross), with considerable uncertainty over additional weather delays and the partners decided to plug and abandon the well at this depth.

Rowan Renaissance drillship

"Tower remain of the view that oil will be discovered in commercial quantities offshore Namibia and we note plans announced by other international companies for contingent drilling in late 2016/17."

Namibia continued



Tower Resources Namibian acreage position with key exploration wells and licence activity

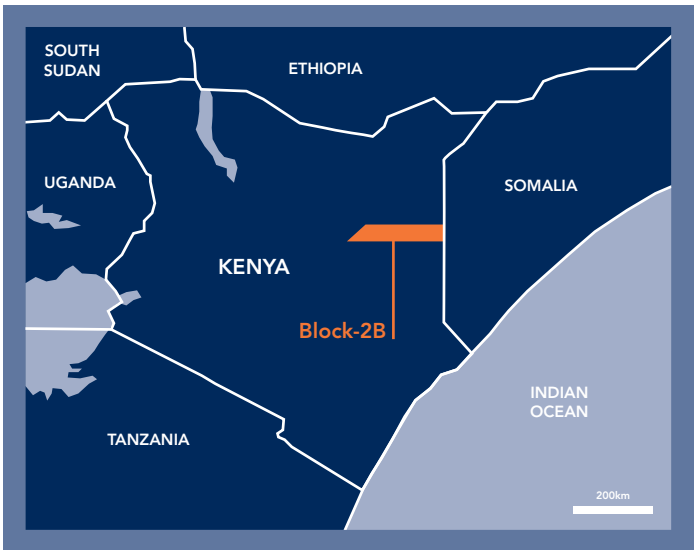
The combination of late rig-delivery, operational issues and the onset of winter weather conditions resulted in 34 days of non-productive time (NPT) within the overall drilling programme of 54 days. As a direct result of this NPT the cost of the Welwitschia-1/1A drilling programme was forecast to exceed the US$101 million gross well and licence costs budget by approximately US$15 million. As previously announced, this resulted in a cost dispute between the joint venture partners and the operator, Repsol. Of the total estimated gross well cost of US$110 million (net US$33.0 million), on completion of drilling Neptune had settled US$25.3 million.

On 19 December 2014 Tower announced that an agreement had been reached settling Neptune's share of drilling the well and all other licence costs at US$28.3 million. Consequently, a final cash payment of US$3.0 million was made by Neptune in full and final settlement of all costs associated with the well and the Licence exploration period which ended on 22nd August 2014.

The current exploration period on PEL0010 extends to 22nd August 2015 and all current licence commitments have been met. The current work programme is designed to obtain a fuller understanding of the well results and the implications for the remaining prospectivity of the Licence, especially the large untested deeper targets, including the Albian-carbonates. Our attention is now focussed on a reassessment of this potential in the light of the extra data obtained from the well which we are now able to tie to the excellent quality 3D seismic data.

We remain of the view that oil will be discovered in commercial quantities offshore Namibia and we note plans announced by other international companies for drilling in late 2016/17. There has also been considerable seismic acquisition in late 2014 and into 2015. Namibia remains very under-explored and offers significant potential for major discoveries.

Kenya



Licence Summary

Block-2B (Non-operated 15%)
Anza Basin
Operator: Taipan Resources Inc
Licence Size: 5,458km^2
1st Additional Exploration Period (Expires 30 November 2015)

Entry: June 2014

Tower announced the result of the onshore Kenya Block-2B Badada-1 well on 23 February 2015. Following the completion of logging operations the well was plugged and abandoned as a dry hole. The well took a total of 51 days to drill compared to the Operator's initial estimate of 70 days.

The Operator, Lion Petroleum Inc. ("Lion" 30%), a subsidiary of Taipan Resources Inc., is in discussions with the Kenyan Ministry of Energy as how best to complete its evaluation of the remaining prospectivity of Block-2B. Premier Oil gave notice to exit the joint venture in March 2015 and the interests of Lion and Tower will be adjusted on a pro-rated basis for the remainder of the current licence phase.

Both Lion and Tower wish to fully integrate the well data into the block-wide geological models to assess further potential in both the Tertiary and Cretaceous and to this end a 6 month licence extension 30 November 2015 has been granted by the government, to allow for adequate data analysis prior to a decision being made on entering the next exploration phase.

Badada-1 was the first well to target Tertiary rather than Cretaceous age source and reservoirs within the Anza Basin and the well results should enable us to make better predictions of seal and source for any future drilling, thus reducing prospect specific risks.

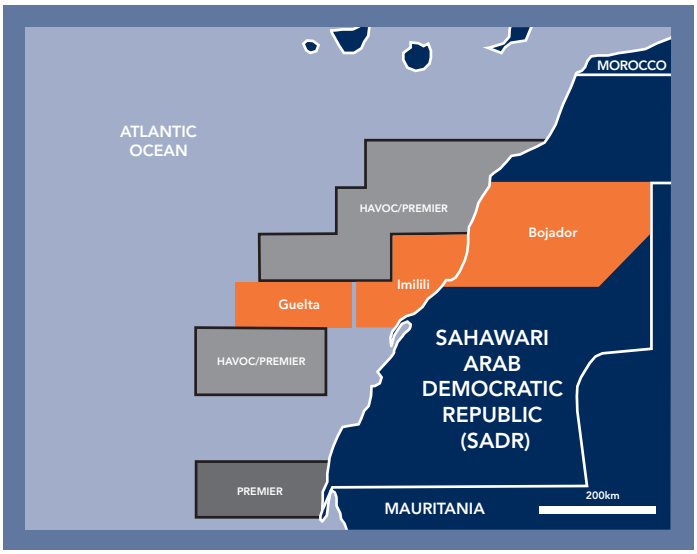
Financial commitments for the current exploration phase are fully met and we do not anticipate significant additional expenditure this year.

With respect to other licence matters, on 12 December 2014 Tower announced the granting of injunctive relief in relation to the injunction served on 17 November 2014 against Lion, its ultimate parent Taipan Resources Inc., Premier Oil plc, the County Government of Wajir, the Ministry of Energy and Petroleum, the Attorney General and the National Land Commission. This injunctive relief allowed for drilling operations at the of the Badada-1 wellsite to be conducted.

The injunction preventing physical operations over the bulk of Block-2B is still in effect (though full wellsite remediation has been completed) and further court hearings in relation to the injunction are expected in Q2 2015. The named parties believe the claims have no merit. However, whilst the injunction remains in place the Joint Venture is unable to carry out any further physical operations within the bulk of the block.

GW-190 Rig operations at Badada-1, December 2014

Sahawari Arab Democratic Republic (SADR)



Licence Summary

Guelta, Imlili and Bojador (50% Non-Operated)

1 Onshore/2 Offshore

Operator: Hague and London Oil plc ("HALO", 50%).

Licence size 72,698km^2

Assurance Agreements (Expires 2020)

Entry: 2006

Through its wholly owned subsidiary, Comet Petroleum Limited, Tower Resources holds a 50% interest in the offshore Guelta and Imlili blocks and the onshore Bojador block in the SADR; both of which are Operated by Hague and London Oil plc ("HALO", 50%).

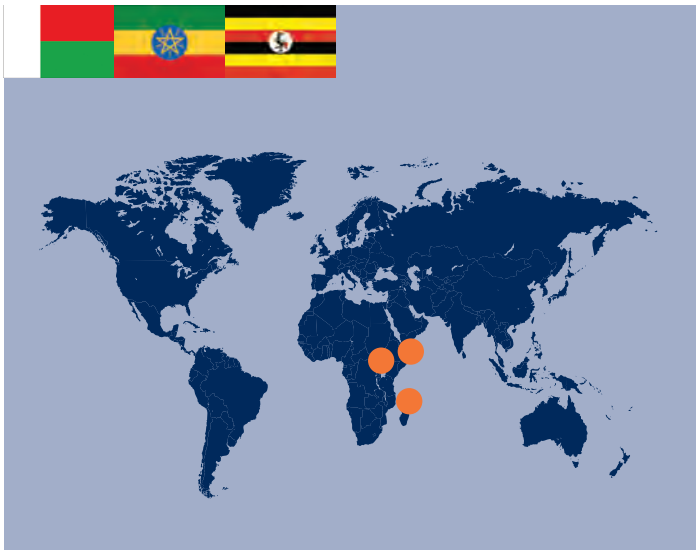
The SADR is the territory known as Western Sahara, which lies to the South of Morocco and is recognized by the United Nations as a non-self-governing territory. Morocco has occupied this territory since 1975 and has issued licences which cover the same acreage as those issued by SADR. The sovereignty of the territory remains in dispute, and until this is resolved there is little that can be done to advance exploration of these blocks.

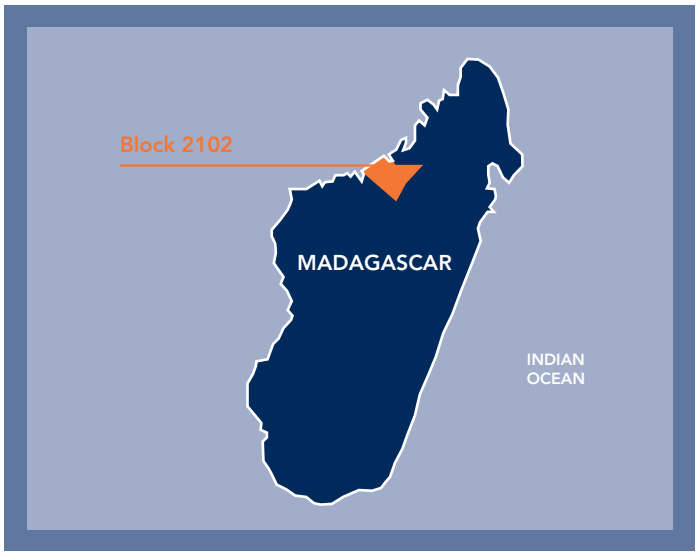
In December 2014 Kosmos Energy ("Kosmos" 55%) and partners (ONHYM 25%, Cairn Energy 20%) commenced the drilling of the CB-1 exploration well in the Morocco awarded offshore Cap Boujdour block in the Aaiun Basin. The well encountered 14 metres of net gas and condensate pay in clastic reservoirs over a gross hydrocarbon bearing interval of approximately 500 metres. The discovery was non-commercial and the well was plugged and abandoned, but it is nevertheless encouraging. It is reported that Kosmos will analyse the results and integrate with recently acquired 3D seismic data across the block with potential to drill a second well.

The significance of this well result, located some 50 kms North of the Guelta Block and some 60 km west of the Imlili block, is that a working petroleum system has been established thus significantly de-risking plays along this part of the Atlantic margin, and raising the potential value of the acreage that Tower holds.

"The significance of this well result, located some 50 kms North of the Guelta Block and some 60 km west of the Imlili block, is that a working petroleum system has been established thus significantly de-risking plays along this part of the Atlantic margin."

New Ventures





Overview

Tower has a pro-active approach to new ventures, which requires a depth and breadth of skills and capacity that is provided by our Outsourced Exploration Department (OExD®). In addition to the specific new ventures activities highlighted below, we have also recently submitted a number of new licence applications in countries where we have an existing interest and we are awaiting the results of those applications. We are in direct out of round negotiation with other governments in Africa.

Madagascar Block 2102 (In Negotiation)

Following the acquisition of Wilton Petroleum in 2013, we continue to be in discussions with the new government in Madagascar to obtain a licence over the previously held area of Block 2102. This is ongoing and we are optimistic of a positive outcome.

Ethiopia Blocks AB3 and AB6 (100% Application)

Following an internal review of an application made by Rift Petroleum (Ethiopia), for Blocks AB3 and AB6, the application was withdrawn.

Licence Summary

Marovoay Block 2102 (In Negotiation)

Majunga Basin

Licence Size: 8,444km^2

New applications and licensing rounds

New applications have also been made on three other licences in Tower's target areas. Work has continued to identify new opportunities, both corporate and asset-based, to assist Tower in its stated objectives of building its exploration assets, including operating licences, and increasing its exposure to high-impact drilling opportunities in both proven/emerging hydrocarbon basins.

"New applications have also been made on three other licences in Tower's target areas."

Financial Review

Selected financial data

	2014	2013
Loss after tax ($)	(56,603,489)	(3,336,128)
Net cash investment in oil and gas assets ($)	39,429,653	7,658,658
Acquisition of subsidiary undertakings ($)	32,216,737	3,725,474
Year-end cash ($)	7,941,833	17,454,712
Year-end share price (p)	0.65p	4.68p
Share price change (%)	(86%)	99%

Highlights

- **Exploration and evaluation expenditure $39.4 million (2013: $7.7 million)**
- **All share acquisition of Rift Group (100%) totalling $32.2 million**
- **Farm-in to Kenya Block-2B for $4.8 million ($4.5 million cash)**
- **Cash balance at year-end of $7.9 million (2013: $17.5 million)**

Loss for year

The 2014 loss totalled $56.6 million (2013: loss $3.3 million) and includes the following items:

	2014 $	2013 $
Share-based payment charges	(1,664,731)	(627,340)
Impairment of exploration and evaluation expenditure	(50,569,455)	–
Pre-licence expenditure	(4,584,545)	(1,284,554)
Overhead recharged to pre-licence costs and capitalised within intangible exploration and evaluation assets	4,029,312	–

During 2014, the Group impaired exploration and evaluation expenditures incurred on its assets in Namibia ($42.4 million) and Kenya ($8.2 million) following the announcement of unsuccessful drilling campaigns in June 2014 and February 2015 respectively, details of which are provided within the Operations Review. Included within impairments is Goodwill totalling $4.0 million with respect to Namibia.

The Group continues to actively seek out and appraise new venture opportunities that it believes will materially enhance shareholder value and spent a total of $4.6 million (2013: $1.2 million) on pre-licence expenditures during the year. Included within these costs were $1.9 million of administrative overheads recharged (2013: $nil). Further overheads of $2.1 million have been capitalised within intangible exploration and evaluation assets.

The Group administrative overhead net of exceptional items noted above increased by $293k during the year, primarily in relation to the recruitment of new employees.

Exploration and Evaluation Expenditure

The Group invested the following amounts in the exploration for oil and gas during the year (excluding Fair Value adjustment relating to the acquisition of Rift $20.4 million):

	2014 $	2013 $
Namibia	29,777,743	7,536,158
Kenya	8,210,746	–
Zambia	1,326,260	–
South Africa	32,296,402	–
SADR	35,082	122,500
Total	71,646,233	7,658,658

At the year-end, following the prudent impairments in Namibia and Kenya, the Group had capitalised the following amounts within intangible exploration and evaluation assets:

	2014 $	2013 $
Namibia	–	12,624,754
Zambia	1,326,260	–
South Africa	32,296,402	–
SADR	381,483	302,613
Total	34,004,145	12,927,367

Business Risks

Principal business risks

The Directors have identified the following current principal risks in relation to the Group's future performance. The relative importance of risks faced by the Group can, and is likely to change with progress in the Group's strategy and developments in the external business environment.

1 Restrictions in capital markets impacting available financial resource. The Group's assets are not yet developed to a stage where it could secure debt finance against proven reserves and, therefore, it relies upon the ability to raise money from capital markets to finance its exploration and evaluation activities. Any down-turn or closure of capital markets may restrict the amount and price at which the Group can issue new shares, which may in-turn impact upon the ambition of its forward exploration programmes.

2 Exploration activities within the Group's licences may not result in a commercial discovery. The historic industry average exploration drilling success rate is approximately one success for every five wells. There is no certainty of success from the existing portfolio. Tower mitigates the risk through the experience and expertise of the Group's specialists, the application of appropriate technology, and the selection of prospective exploration assets.

3 Tower does not operate all of the Group's licences where exploration drilling is anticipated as the next operational activity. The Group is often dependent on other operators for the performance of activities and will be largely unable to direct, control or influence the activities and costs of the operators. By farming-out prior to drilling activities, the Group has and intends to reduce its cost exposure and transfer operatorship to other, normally larger and more experienced, operators for drilling activities, with a consequent increase in the Group's dependence on other operators for the performance of these activities.

4 Some of the Group's assets are located in countries where the medium-long term political and fiscal stability is uncertain. Country risk is mitigated by monitoring the political, regulatory, and security environment within the countries in which Tower holds assets, engaging in constructive discussions where and when appropriate, and introducing third-party expertise if this may assist in the resolution of issues affecting the Group's assets. The Group seeks to acquire additional assets for the exploration portfolio, which may assist in diversifying country risk. The Group's assets in SADR are currently affected by a country-specific situation. The SADR is the democratically elected government of the territory known as Western Sahara, which lies to the south of Morocco and is recognised 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 the exploration of these blocks.

5 Cost escalation and budget overruns. The Group closely monitors actual performance against pre-approved work programmes and budgets, however, given the nature and inherent risks involved in the exploration for oil and gas, operational cost overruns and cost escalation with respect to supply constrained services can quickly become material. The Group seeks to mitigate these factors by farming-down material commitments wherever possible and in carefully selecting reputable joint-venture partners. Where the Group cannot farm-down a material interest before committing to expenditures, it will undertake a tendering process with a view to selecting the contractor with a suitable track record and credentials for the proposed work.

6 Attracting and retaining experienced and skilled employees. The Group considers its investment in skilled and competent human capital to be the key to delivering material future success for shareholders and has adopted a proportionate remuneration strategy, in consultation with Kepler Associates and industry best practice, that the Remuneration Committee consider sufficient to attract and retain key talent. The Group actively encourages its employees to undertake programmes of professional development and closely monitors industry benchmarks to ensure that an appropriately balanced package is being offered to employees and Directors alike.

The Directors regularly review these and other risks using information obtained or developed from external and internal sources, and will take actions as appropriate to mitigate these risks. Effective risk mitigation may be critical to Tower in achieving its strategic objectives and protecting its assets, personnel and reputation.

Graeme Thomson
Chief Executive Officer
15 May 2015

Board of Directors

Director	Biography
Jeremy Asher BSc (Econ), MBA, MEI Chairman	Jeremy, in addition to his role in Tower, is Chairman of Agile Energy Limited, a privately held energy investment company, and a Director of NYSE-listed Pacific Drilling SA, where he chairs the Remuneration Committee. During 2014 he also served as Deputy Chairman of LSE-listed Gulf Keystone Petroleum Ltd (until June 2014) and TASE-listed Oil Refineries Ltd (until December 2014). He is also a member of the London Business School's Global Advisory Council.
Graeme Thomson FCA, MA, BA, MEI, MIoD Chief Executive Officer	Graeme has served as CEO of Tower since 1 June 2012. From July 2011 until December 2013 he was a non-executive Director of Desire Petroleum plc, where he chaired the Audit Committee. He was a non-executive Director of Frontier Resources International plc from 2011 to 2012. Between 2009 and 2012 he advised a range of energy and other companies on their financial and commercial affairs.
Peter Blakey BSc (Hons), CEng MIEE Non-executive Director	Peter 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.
Peter Taylor BSc (Hons), CEng, MIMechE Non-executive Director	Peter 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.
Philip Swatman FCA, BA Senior Independent Non-executive Director	Philip qualified as a Chartered Accountant with KPMG after graduating from Christ Church, Oxford. He joined NM Rothschild Corporate Finance in 1979, became a Director in 1986 and subsequently Managing Director and Co-Head of Investment Banking. He was Vice-Chairman- Investment Banking from 2001 until retirement in September 2008. During his career the bank made significant progress as a leading global advisory firm and a permanent fixture at the top of the major M&A league tables.

Age	Appointed	
56	2010	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.
58	2012	From 2000 to 2009 he was a founder, Company Secretary, CFO and finally CEO of Sterling Energy plc, and from 2005-2008 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.
74	2006	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 was also a founding member of Neptune Petroleum Ltd.
67	2006	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.
65	2012	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 and a non-executive Director of Investec Structured Products Calculus VCT plc, Mytrah Energy and New England Seafood International. He is currently Chairman of Cambria Automobile plc where he is also Chairman of the Audit Committee and is on the Remuneration Committee.

Senior Management

Nigel Quinton
BA, MA, FGS
Head of Exploration

Andrew Matharu
BEng (Hons), PhD, CEng, MIChemE, MEI
Vice President, Corporate Affairs

Biography	Nigel is a geoscientist with over 30 years' experience in international exploration and production with BP, Dragon Oil and Hardy Oil & Gas. Nigel was a co-founder of Sterling Energy plc and served as Managing Director from start-up in 2000 until its listing on AIM 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.	Andrew joined Tower on 11 March 2013 from Westhouse Securities Limited, where he was Head of Oil & Gas and focussed on the small and mid-cap E&P sector. He has over 18 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 University of Sheffield, a PhD in Chemical Engineering from the University of Cambridge and is a Chartered Engineer.
Age	53	45
Joined	2013	2013

Eric Griffith
BSc, MSc
Asset Manager

Eric graduated from Imperial College London and University of Aberdeen and has over 20 years' experience in Upstream E&P across the world. He has worked for major IOC's (Chevron and ConocoPhillips) as well as independents (Burlington Resources) and joins Tower Resources after a seven year spell at Centrica Energy E&P. There he worked in the Business Development team and upon the successful acquisitions of Venture Production in 2009, and the Suncor Trinidad assets in 2010, he managed the integration of these businesses and was then appointed International Business Manager. Mr. Griffith has a technical background but has extensive experience in business development, commercial and asset management roles. These roles have covered exploration, appraisal and development projects in Trinidad & Tobago, Egypt, Algeria, Indonesia, across the Former Soviet Union and the UK. He has led representations at senior stakeholder and Government level to win bid rounds and has successfully gained approvals for Field Development Plans in PSC environments.

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2014

Andrew Smith
BA (Hons), FCA
Financial Controller
and Company Secretary

Andrew joined Tower from Sterling Energy plc where he was the Group Financial Controller and Company Secretary for the AIM listed, Africa focused exploration-producer. There he worked closely on the company's exploration assets in Kurdistan, Madagascar and Cameroon as well as managing the key financial relationships on the oil producing Chinguetti licence in Mauritania. He also worked on securing the company's entry into Somaliland in 2013. Andrew spent a number of years working in the real-time passenger information industry before moving into the oil and gas sector in 2006 with Matra Petroleum plc. There he worked as the Group Financial Controller and helped facilitate Matra's move into the Russian Federation as well as divesting its legacy acreage in Eastern Europe and participating in numerous equity fundraising rounds. Andrew also worked for Xcite Energy plc on the appraisal and re-development of its North Sea Bentley field. Andrew holds a BA degree in Accounting from Staffordshire University and is a qualified Chartered Accountant.

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2014

Rashid Mugabe
BSc, MSc
Regional Manager

Rashid joined Tower in July 2007 from Omudima Services Limited and OSHFA Limited, consulting firms in Health, Safety and Environment (HSE) in Uganda. Rashid had been involved in HSE consulting assignments for the early oil and gas projects in Uganda's Albertine Graben and other sectors. He has over 11 years' experience in the oil and gas sector and commenced his career as an Environmentalist and Cleaner Production practitioner. Rashid has great experience in upstream oil & gas business management particularly in HSE, project management and stakeholder management. He holds a Bachelor's degree in Natural Resources from Makerere University in Uganda and a Master's degree in Safety and Risk Management from Heriot-Watt University, UK.

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2007

Audit Committee Report

Application of UK corporate governance code principles

Throughout the year-ended 31 December 2014 the Board has sought to comply with a number of the provisions of the UK Corporate Governance Code ("the Code") in so far as it considers them to be appropriate to a company of the size and nature of Tower. The Directors make no statement of compliance with the Code overall and do not explain in detail any aspect of the Code with which they do not comply.

Board composition, operation and independence

The Board currently comprises the Chairman, one executive Director and three non-executive Directors. Each of the Board members have extensive knowledge of the oil and gas industry combined with general business and financial skills and bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. The Board meets regularly throughout the year and all the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively.

The Board is responsible to the Shareholders for the proper management of the Company. A Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 31.

The Board has a formal schedule of matters specifically reserved for its decision. These include strategic planning, business acquisitions or disposals, authorisation of major capital expenditure and material contractual arrangements, changes to the Group's capital structure, setting policies for the conduct of business, approval of budgets, remuneration policy of Directors and senior management, and taking on debt and approval of Financial Statements. Other matters are delegated to the Committees of the Board and executive Directors, supported by policies for reporting to the Board.

The Group maintains Directors' and Officers' liability insurance cover, the level of which is reviewed annually, and provides the Directors with indemnity.

Board meetings and attendance

The following table summarises the number of Board and committee meetings held during the year and the attendance record of the individual Directors:

	Board Meetings	Audit Committee	Remuneration Committee
Number of meetings in year	**9**	**2**	**4**
Jeremy Asher	9	–*	–*
Graeme Thomson	9	–*	–*
Peter Blakey	8	1	4
Peter Taylor	9	2	4
Philip Swatman	9	2	4

* not a committee member

An important part of the role of the Audit Committee is its responsibility for reviewing the effectiveness of the Group's financial reporting, internal control policies, and procedures for the identification, assessment and reporting of risk. The latter two areas are integral to the Group's core management processes and the Committee devotes significant time to their review. Further information on the risk management and internal control systems is provided within the Strategic Report.

One of the key governance requirements of the Group's financial statements is for the report and accounts to be fair, balanced and understandable. The co-ordination and review of the Group-wide input into the Annual Report and Accounts is a sizeable exercise performed within an exacting time-frame which runs alongside the formal audit process undertaken by the external Auditors. Arriving at a position where initially the Audit Committee, and then the Board, is satisfied with the overall fairness, balance and clarity of the document is underpinned by the following:

- comprehensive guidance issued to contributors at operational levels;
- a verification process dealing with the factual content of the reports;
- comprehensive reviews undertaken at different levels that aim to ensure consistency and overall balance; and
- comprehensive review by the senior management team.

The Audit Committee has also sought to remove any duplication and has sequenced information in as logical a manner as possible without compromising compliance with UK regulatory and accounting requirements.

An essential part of the integrity of the financial statements are the key assumptions and estimates or judgments that have to be made. The Committee reviews key judgments prior to publication of the financial statements at the full and half year, as well as considering significant issues throughout the year. In particular, this includes reviewing any materially subjective assumptions within the Group's activities to enable an appropriate determination of asset valuation and provisioning. The Committee reviewed and was satisfied that the judgments exercised by management on material items contained within the Annual Report were reasonable.

Additionally, the Committee also considered management's assessment of going concern with respect to the Group's cash position and its commitments for the next 12 months and, whilst there is expected to be a requirement for the Company to raise additional funding, possibly in 2015, the relatively low future financial commitments in addition to the experience and track record of the enhanced team in raising finance satisfied the Committee that the going concern basis of preparation was still appropriate.

The Audit Committee has considered the Group's internal control and risk management policies and systems, their effectiveness and the requirements for an internal audit function in the context of the Group's overall risk management system. The Committee is satisfied that the Group does not currently require an internal audit function; however, it will continue to periodically review the situation.

The Committee has recommended to the Board that shareholders support the re-appointment of the Auditors at the 2015 AGM.

Philip Swatman
Chairman, Audit Committee
15 May 2015

Members
This Committee comprises:

- Philip Swatman (Chairman)
- Peter Blakey
- Peter Taylor

Summary of responsibilities

- Reviewing the effectiveness of the Group's financial reporting, internal control policies and procedures for the identification, assessment and reporting of risk;
- monitoring the integrity of the Group's financial statements;
- monitoring the effectiveness of the internal control environment;
- making recommendations to the Board on the appointment of the Auditors;
- agreeing the scope of the Auditors' annual audit programme and reviewing the output;
- keeping the relationship with the Auditors under review;
- assessing the effectiveness of the audit process; and
- developing and implementing policy on the engagement of the Auditors to supply non-audit services.

The external Auditors have unrestricted access to the Chairman of the Audit Committee. Audit Committee meetings are also attended by the external Auditor where appropriate and, by invitation, the Chairman, Chief Executive Officer, any other Directors and senior management.

Remuneration Committee Report

The Remuneration Committee ("Committee") convened four times during the year and has been actively engaged on all matters of corporate remuneration. Over the past year, the Committee has considered the following matters:

- the 2014 share option awards;
- Director and employee remuneration and bonus reviews;
- the appropriate levels of remuneration for new members of the Tower team.

During 2014 Tower delivered on its commitment to drill the Welwitschia-1 well in Namibia despite increasingly challenging market conditions and whilst the result was disappointing, the team at Tower worked tirelessly before, during and after drilling operations to ensure that the best possible outcomes were achieved, given the circumstances. As was announced in June and December 2014 the Company successfully challenged costs charged to the JV with respect to the drilling of the Welwitschia-1 well, securing a net reduction to Tower of $4.7 million.

In April 2014, after substantial negotiation the Company announced both the acquisition of the Rift Group of companies and the farm-in to the Kenya Block-2B licence. Following these additions to the Group's portfolio and the concurrent $32.0 million fundraising, a bonus totalling $638,677 was paid to a Director and employees.

Directors and employees are only eligible to participate in the Group bonus scheme at the absolute discretion of the Remuneration Committee. Annual bonuses are capped as follows:

- CEO: one times basic salary;
- Senior managers: nine months basic salary;
- Selected other employees: six months basic salary.

The Committee, when reviewing base salaries, consider matters of retention, motivation, the economic climate, and the challenges facing the business; they also consider appropriate industry benchmarks. The annual salary levels for executive Directors are noted in the Directors' Report on page 29.

During the year the Company engaged Kepler Associates to provide a report and recommendations on remuneration to the Remuneration Committee, the main provisions of which have been implemented.

Peter Taylor
Chairman, Remuneration Committee
15 May 2015

Members
This Committee comprises:

- Peter Taylor (Chairman)
- Peter Blakey
- Philip Swatman

Summary of responsibilities

- Agreeing a policy for the remuneration of the Chairman, executive Director, non-executive Directors and other senior executives;
- Within the agreed policy, determining individual remuneration packages for the Chairman, executive Director, non-executive Directors and other senior executives;
- Agreeing the policy on terms and conditions to be included in service agreements for the Chairman, executive Director, non-executive Directors and other senior executives, including termination payments and compensation commitments, where applicable; and
- Approving any employee incentive schemes and the performance conditions to be used for such schemes including share performance targets.

Nominations Committee

The Board does not feel that, at this time, the establishment of a formal Nominations Committee is merited given its current composition. The Board will continue to evaluate the requirement for a formal standing Nominations Committee on a periodic basis.

Communications with Shareholders

The Board is accountable to the Company's shareholders and as such it is important for the Board to appreciate the aspirations of the shareholders and equally that the shareholders understand how the actions of the Board and short-term financial performance relate to the achievement of the Company's longer term goals.

The Board reports to the shareholders on its stewardship of the Company through the publication of interim and final results each year. Press releases are issued throughout the year and the Company maintains a website (www.towerresources.co.uk) on which press releases, corporate presentations and Annual Reports are available to view. Additionally this Annual Report contains extensive information about the Company's activities. Enquiries from individual shareholders on matters relating to the business of the Company are welcomed. Shareholders and other interested parties can subscribe to receive notification of news updates and other documents from the Company via email. In addition the executive Directors meet with major shareholders to discuss the progress of the Company.

The Chairman and CEO provide periodic feedback to the Board following meetings with shareholders. The Senior Independent Director also attends some shareholder meetings to ensure the Board is appraised of all feedback provided by such meetings.

The Annual General Meeting provides an opportunity for communication with all Shareholders and the Board encourages the Shareholders to attend and welcomes their participation. The Directors attend the Annual General Meeting and are available to answer questions. Details of resolutions to be proposed at the Annual General Meeting to be held on 18 June 2015 can be found in the notice of the meeting and on the Company's website.

Conflicts of Interest

The Company has in place procedures for the disclosure and review of any conflicts, or potential conflicts of interest which the Directors may have and for the authorisation of such conflicts by the Board. In deciding whether to authorise a conflict matter or a potential conflict the Directors must have regard to their general duties under the Companies Act 2006.

Directors' Report

The Directors present the Report and Financial Statements on the affairs of Tower and its subsidiaries, together with the financial statements and Auditors' Report for the year-ended 31 December 2014.

Principal activity and business review

The principal activity of the Group and Company throughout the year remained the exploration for oil and gas in Africa. The significant developments during 2014, and more recently, the other activities of the Group, as well as the future strategy and prospects for the Group, are reviewed in detail in the Chairman and Chief Executive's Joint Statement and the Strategic Report section of this report.

The Group operates through overseas branches and subsidiary undertakings as appropriate to the fiscal environment. Subsidiary undertakings of the Group are set out in note 13 to the financial statements.

Results and dividends

The Group loss for the financial year was $56.6 million (2013: loss of $3.3 million). This leaves an accumulated Group retained loss of $103.7 million (2013: loss $48.8million) to be carried forward. The Directors do not recommend the payment of a dividend (2013: $nil).

Going concern

The Group's business activities, future development, financial performance and position are discussed in the Strategic Report. In addition, note 19 to the financial statements include the Group's objectives, policies and processes for managing its capital financial risk: details of its financial instruments and its exposures to credit risk and liquidity risk. The Group's capital management policy is to raise sufficient funding to finance the Group's near term exploration and development objectives.

At 31 December 2014 the Group had cash balances of $7.9 million and the Group is expected to need to raise additional funds, possibly in 2015, in order to maintain sufficient cash resources for its working capital needs and its committed capital expenditure programmes for the next twelve months. The Directors are confident that they can raise sufficient funds from either capital markets, private investment or existing facilities and as a consequence, believe that both the Group and Company are well placed to manage their business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate access to resources to continue in operational existence for the foreseeable future and continue to meet, as and when they fall due, its planned and committed exploration and development activities and other 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 these financial statements.

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 doubt on the Group's ability to continue to operate as planned and to 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.

Capital structure

Details of the issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 17 to the financial statements. The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights. Details of the employee share schemes are set out in note 21. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

Directors

The Directors who served during the year were as follows:
Mr Jeremy Asher (Chairman)
Mr Graeme Thomson (Chief Executive Officer)
Mr Peter Blakey (non-executive Director)
Mr Philip Swatman (non-executive Director)
Mr Peter Taylor (non-executive Director)

Biographical details of serving Directors can be found in the Board of Directors section of this report on pages 20 and 21.

Directors and election rotation

With regard to the appointment and replacement of the Directors, the Company is governed by its Articles of Association, the Code, the Companies Acts and related legislation. The powers of Directors are described in the Corporate Governance section.

In accordance with Article 25.2 of the Company's Articles of Association Philip Swatman retires by rotation and offers himself for re-election at the forthcoming AGM.

Directors and their interests

The Directors, who served during the year and subsequently, together with their beneficial interests in the issued share capital of the Company, were as follows:

	Ordinary shares of 0.1p each 15 May 15	Share options and warrants 15 May 15	Ordinary shares of 0.1p each 22 April 14	Share options and warrants 22 April 14
Jeremy Asher [1]	275,400,000	10,817,890	275,000,000	11,453,190
Graeme Thomson	10,000,000	90,998,351	10,000,000	25,998,351
Peter Blakey	99,130,216	7,873,081	98,296,882	9,196,615
Peter Taylor	106,596,883	7,873,081	105,763,549	9,196,615
Philip Swatman [2]	4,500,000	3,499,450	4,500,000	3,499,450

[1] These shares are held by Agile Energy Limited, a company owned by the Asher Family Trust and of which Jeremy Asher is a lifetime beneficiary.
[2] Of these shares, 2,000,000 are held by Raigersfield Capital Limited, a family company of which Mr Swatman and his wife are directors and together own 52% of the issued share capital.

Beneficial shareholdings include the shareholdings of a Director's spouse and infant children.

Directors' Remuneration and service contracts

Jeremy Asher (Chairman) is paid at the rate of £60,000 p.a.
Graeme Thomson (Chief Executive Officer) is paid at the rate of £299,180 p.a.
Peter Blakey (non-executive Director) is paid at the rate of £35,000 p.a.
Philip Swatman (Senior Independent non-executive Director) is paid at the rate of £40,000 p.a.
Peter Taylor (non-executive Director) is paid at the rate of £40,000 p.a.

The remuneration paid to the Directors during the 12 months ended 31 December 2014 was as follows:

	Fees/ salaries in cash $	Bonus $	Total cash remuneration $	Non-cash share warrants $	Non-cash share-based payments $	Total non-cash remuneration $	2014 Total $	2013 Total $
Jeremy Asher	81,800	–	81,800	26,142	–	26,142	107,942	158,781
Graeme Thomson	482,232	476,954	959,186	26,142	641,388	667,530	1,626,716	605,827
Peter Blakey	32,622	–	32,622	26,142	–	26,142	58,764	59,521
Peter Taylor	37,200	–	37,200	26,142	–	26,142	63,342	59,521
Philip Swatman	58,800	–	58,800	8,714	6,485	15,199	73,999	71,762
Total	692,654	476,954	1,169,608	113,282	647,873	761,155	1,930,763	955,412

Directors' Report continued

Substantial shareholdings

Except for the holdings of ordinary shares listed below, the Company has not been notified by or become aware of any persons holding 3% or more of the 3,819,995,426 issued ordinary shares of 0.1 pence each of the Company at 15 May 2015:

	Number	%
Quantum Pacific Finance Holdings Limited	368,223,680	9.6%
Rift Petroleum Holdings Group Limited	299,248,925	7.8%
Morgan Stanley	282,351,673	7.4%
Mr Jeremy Asher	275,400,000	7.2%

Business risk

A summary of the principal and general business risks can be found within the Strategic Report.

Financial instruments

Information about the use of financial instruments, the Group's policy and objectives for financial risk management is given in note 19 to the financial statements.

Auditors

Each of the persons who are Directors at the date of approval of this Report and Financial Statements confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's Auditors are unaware; and
- the Directors have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

UHY Hacker Young has expressed its willingness to continue in office as Auditors and a resolution to appoint UHY Hacker Young will be proposed at the forthcoming Annual General Meeting.

Graeme Thomson
Chief Executive Officer
15 May 2015

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The Directors are responsible for ensuring the Annual Report is made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' responsibility statement

We confirm that to the best of our knowledge that the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and the Report and Financial Statements include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

Graeme Thomson
Chief Executive Officer
15 May 2015

Independent Auditors' Report

We have audited the financial statements of Tower Resources plc for the year-ended 31 December 2014 which comprise the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 31, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at:
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 of the Parent Company's affairs as at 31 December 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements 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 disclosure made in note 1c) to the financial statements concerning the Group's ability to continue as a going concern. Along with similar sized exploration companies, the Company raises finance for its exploration and appraisal activities in discrete tranches. As discussed in note 1c) the Company will need to raise further funds in order to meet its budgeted operating and planned exploration costs for the next year.

These conditions indicate the existence of a material uncertainty which may cast 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 (such as impairment of assets) if the Group and Company were unable to continue as a going concern.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report and the Strategic 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company 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, Statutory Auditor
London
15 May 2015

Consolidated Statement of Comprehensive Income

Year-ended 31 December 2014

	Note	2014 $	2013 $
Revenue		–	–
Cost of sales		–	–
Gross profit		–	–
Other administrative expenses		(1,447,548)	(2,442,106)
Pre-licence expenditures		(4,584,545)	(1,284,554)
Impairment of explorartion and evaluation assets	12	(50,569,455)	–
Total administrative expenses		(56,601,548)	(3,726,660)
Group operating loss		(56,601,548)	(3,726,660)
Finance income		10,066	27,413
Finance expense	6	(12,007)	(121,506)
Gain on acquisition of subsidiary		–	484,625
Loss for the year before taxation		(56,603,489)	(3,336,128)
Taxation	7	–	–
Loss for the year after taxation		(56,603,489)	(3,336,128)
Other comprehensive income		–	–
Total comprehensive expense for the year		(56,603,489)	(3,336,128)
Basic loss per share (USc)	10	(1.64c)	(0.16c)
Diluted loss per share (USc)	10	(1.64c)	(0.16c)

Consolidated Statement of Financial Position

As at 31 December 2014

	Note	2014 $	2013 $
Non-current assets			
Property, plant and equipment	11	2,611	966
Exploration and evaluation assets	12	34,004,145	12,927,367
		34,006,756	12,928,333
Current assets			
Trade and other receivables	14	2,313,714	2,285,381
Cash and cash equivalents[1]		7,941,833	17,454,712
		10,255,547	19,740,093
Total assets		44,262,303	32,668,426
Current liabilities			
Trade and other payables	15	4,058,445	3,073,677
Total liabilities		4,058,445	3,073,677
Net assets		40,203,858	29,594,749
Equity			
Share capital	17	6,346,538	4,398,933
Share premium	17	137,554,592	73,954,330
Retained losses	18	(103,697,272)	(48,758,514)
Total shareholders' equity		40,203,858	29,594,749

[1]Includes restricted cash of $693k (2013: $nil).

The financial statements of Tower Resources plc, registered number 05305345 were approved by the Board of Directors and authorised for issue on 15 May 2015.

Signed on behalf of the Board of Directors

Graeme Thomson
Chief Executive Officer
15 May 2015

Consolidated Statement of Changes in Equity

Year-ended 31 December 2014

	Share capital $	Share premium $	Share-based payments reserve [1] $	Retained losses $	Total $
At 1 January 2013	**2,837,320**	**58,272,549**	**1,740,739**	**(47,790,465)**	**15,060,143**
Shares issued for cash net of costs	1,362,116	13,184,577	–	–	14,546,693
Shares issued on acquisition of subsidiary	194,460	2,430,750	–	–	2,625,210
Shares issued on settlement of third party fees	5,037	66,454	–	–	71,491
Total comprehensive income for the year	–	–	627,340	(3,336,128)	(2,708,788)
At 31 December 2013	**4,398,933**	**73,954,330**	**2,368,079**	**(51,126,593)**	**29,594,749**
Shares issued for cash net of costs	949,602	31,066,041	–	–	32,015,643
Shares issued on acquisition of subsidiary	920,700	31,295,880	–	–	32,216,580
Shares issued on settlement of third party fees	60,177	841,944	–	–	902,121
Shares issued on exercise of options/warrants	17,126	396,397	–	–	413,523
Total comprehensive income for the year	–	–	1,664,731	(56,603,489)	(54,938,758)
Transfers between reserves	–	–	(456,128)	456,128	–
At 31 December 2014	**6,346,538**	**137,554,592**	**3,576,682**	**(107,273,954)**	**40,203,858**

[1]The share-based payment reserve has been included within the retained loss reserve and is a non-distributable reserve.

Consolidated Statement of Cash Flows

Year-ended 31 December 2014

	Note	2014 $	2013 $
Cash outflow from operating activities			
Group operating loss for the year		(56,601,548)	(3,726,660)
Depreciation of property, plant and equipment	11	563	112
Share-based payments	21	1,664,731	627,340
Impairment of intangible exploration and evaluation assets	12	50,569,455	–
Operating cash flow before changes in working capital		(4,366,799)	(3,099,208)
Increase in receivables and prepayments		(28,333)	(1,054,133)
Increase in trade and other payables		984,768	526,714
Cash used in operations		(3,410,364)	(3,626,627)
Interest received		10,066	27,414
Cash used in operating activities		(3,400,298)	(3,599,213)
Investing activities			
Exploration and evaluation costs	12	(39,429,653)	(7,658,658)
Purchase of property, plant and equipment	11	(2,208)	(1,078)
Release of restricted cash held in escrow		–	5,600,000
Acquisition of subsidiary (net of cash acquired)		–	4,210,099
Net cash used in investing activities		(39,431,861)	2,150,363
Financing activities			
Cash proceeds from issue of ordinary share capital net of issue costs	17	33,331,287	14,546,693
Finance costs	6	(12,007)	(121,506)
Net cash from financing activities		33,319,280	14,425,187
(Decrease)/increase in cash and cash equivalents		(9,512,879)	12,976,337
Cash and cash equivalents at beginning of year		17,454,712	4,478,375
Cash and cash equivalents at end of year[1]		7,941,833	17,454,712

[1]Includes restricted cash of $693k (2013: $nil).

Company Statement of Financial Position

As at 31 December 2014

	Note	2014 $	2013 $
Non-current assets			
Property, plant and equipment	11	2,611	966
Loans to subsidiary undertakings	13	2,333,976	8,925,565
Investments in subsidiary undertakings	13	37,613,657	9,394,225
		39,950,244	18,320,756
Current assets			
Trade and other receivables	14	386,013	1,048,146
Cash and cash equivalents		3,468,597	10,561,942
		3,854,610	11,610,088
Total assets		43,804,854	29,930,844
Non current liabilities			
Loans from subsidiary undertaking	16	2,807,039	–
		2,807,039	–
Current liabilities			
Trade and other payables	15	1,211,836	623,627
		1,211,836	623,627
Total liabilities		4,018,875	623,627
Net assets		39,785,979	29,307,217
Equity			
Share capital	17	6,346,538	4,398,933
Share premium	17	137,554,592	73,954,330
Retained losses	18	(104,115,151)	(49,046,046)
Total shareholders' equity		39,785,979	29,307,217

The financial statements of Tower Resources plc, registered number 05305345 were approved by the Board of Directors and authorised for issue on 15 May 2015.

Signed on behalf of the Board of Directors

Graeme Thomson
Chief Executive Officer
15 May 2015

Company Statement of Changes in Equity

Year-ended 31 December 2014

	Share capital $	Share premium $	Share-based payments reserve [1] $	Retained losses $	Total $
At 1 January 2013	**2,837,320**	**58,272,549**	**1,740,739**	**(48,015,986)**	**14,834,622**
Shares issued for cash net of costs	1,362,116	13,184,577	–	–	14,546,693
Shares issued on acquisition of subsidiary	194,460	2,430,750	–	–	2,625,210
Shares issued on settlement of third party fees	5,037	66,454	–	–	71,491
Total comprehensive income for the year	–	–	627,340	(3,398,139)	(2,770,799)
At 31 December 2013	**4,398,933**	**73,954,330**	**2,368,079**	**(51,414,125)**	**29,307,217**
Shares issued for cash net of costs	949,602	31,066,041	–	–	32,015,643
Shares issued on acquisition of subsidiary	920,700	31,295,880	–	–	32,216,580
Shares issued on settlement of third party fees	60,177	841,944	–	–	902,121
Shares issued on exercise of options/warrants	17,126	396,397	–	–	413,523
Total comprehensive income for the year	–	–	1,664,731	(56,733,836)	(55,069,105)
Transfers between reserves	–	–	(456,128)	456,128	–
At 31 December 2014	**6,346,538**	**137,554,592**	**3,576,682**	**(107,691,833)**	**39,785,979**

[1]The share-based payment reserve has been included within the retained loss reserve and is a non-distributable reserve.

Company Statement of Cash Flows

Year-ended 31 December 2014

	Note	2014 $	2013 $
Cash outflow from operating activities			
Operating loss for the year	9	(56,737,371)	(3,302,531)
Depreciation of property, plant and equipment	11	563	112
Share-based payments	21	1,664,731	627,340
Impairment of investments in subsidiaries	13	3,997,305	–
Impairment of loans due from subsidiaries	13	51,264,327	460,029
Operating cash flow before changes in working capital		189,555	(2,215,050)
Decrease/(increase) in receivables and prepayments		662,133	(987,802)
Increase in trade and other payables		588,209	502,348
Cash used from/(used in) operations		1,439,897	(2,700,504)
Interest received		9,806	25,899
Cash used from/(used in) operating activities		1,449,703	(2,674,605)
Investing activities			
Purchase of property, plant and equipment	11	(2,208)	(1,078)
Loans granted to subsidiary undertakings	13	(41,865,699)	(8,256,006)
Release of restricted cash held in escrow		–	5,300,000
Acquisition of subsidiary	22	–	(2,677,773)
Net cash from investing activities		(41,867,907)	(5,634,857)
Financing activities			
Cash proceeds from issue of ordinary share capital net of issue costs	17	33,331,130	14,618,184
Finance costs	6	(6,271)	(121,506)
Net cash from financing activities		33,324,859	14,496,678
(Decrease)/increase in cash and cash equivalents		(7,093,345)	6,187,216
Cash and cash equivalents at beginning of year		10,561,942	4,374,726
Cash and cash equivalents at end of year		3,468,597	10,561,942

Notes to the Financial Statements

1 Accounting policies

a) General information

Tower Resources plc is a public company incorporated in the United Kingdom under the UK Companies Act. The address of the registered office is One America Square, Crosswall, London, EC3N 2SG. The Company and the Group are engaged in the exploration for oil and gas.

These financial statements are presented in US dollars as this is the currency in which the majority of the Group's expenditures are transacted and the functional currency of the Company.

b) Basis of accounting and adoption of new and revised standards

i New and amended standards adopted by the Group:

The following new standards and amendments to standards are mandatory for the first time for the Group for the financial year beginning 1 January 2014. Except as noted, the implementation of these standards did not have a material effect on the Group.

Standard	Effective date	Impact on initial application
IFRS 10 – Consolidated Financial Statements	1 January 2014	No impact
IFRS 11 – Joint Arrangements 1	1 January 2014	No impact
IFRS 12 – Disclosure of Interests in Other Entities	1 January 2014	No impact
IAS 27 – Amendment - Separate Financial Statements	1 January 2014	No impact
IAS 28 – Amendment - Investments in Associates and Joint Ventures	1 January 2014	No impact
IAS 32 – Offsetting Financial Assets and Financial Liabilities	1 January 2014	No impact
IAS 36 – Recoverable amounts disclosures for non-financial assets	1 January 2014	No impact
IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014	No impact
IFRIC 21 – Levies	17 June 2014	No impact

No other IFRS issued and adopted but not yet effective are expected to have a material impact on the Group's financial statements.

ii Standards, amendments and interpretations, which are effective for reporting periods beginning after the date of these financial statements which have not been adopted early:

Standard	Description	Impact on initial application
IAS 1[1]	Presentation of Financial Statements (Amendments)	1 January 2016
IAS 19	Defined Benefit Plans (Amendments)	1 February 2015
IAS 16 and IAS 38[1]	Acceptable Methods of Depreciation and Amortisation (Amendments)	1 January 2016
IAS 27[1]	Separate Financial Statements	1 January 2016
IFRS 9[1]	Financial Instruments	1 January 2018
IFRS 10 and IAS 28[1]	Investments in Associates and Joint Ventures (Amendments)	1 January 2016
IFRS 10, 12 and IAS 28	Investment Entities (Amendments)	1 January 2016
IFRS 11[1]	Joint Arrangements (Amendments)	1 January 2016
IFRS 15[1]	Revenue from Contract with Customers	1 January 2017
Annual Improvements to IFRSs	(2010-2012 Cycle)	1 February 2015
Annual Improvements to IFRSs	(2011-2013 Cycle)	1 January 2015
Annual Improvements to IFRSs[1]	(2012-2014 Cycle)	1 January 2016

[1] Not yet endorsed by the EU.

The Directors have not fully assessed the impact of all standards but do not expect them to have a material impact.

c) Going concern
The Group's business activities, future development, financial performance and position are discussed in the Strategic Report. In addition, note 19 to the financial statements include the Group's objectives, policies and processes for managing its capital financial risk: details of its financial instruments and its exposures to credit risk and liquidity risk. The Group's capital management policy is to raise sufficient funding to finance the Group's near term exploration and development objectives.

At 31 December 2014 the Group had cash balances of $7.9 million and the Group is expected to need to raise additional funds, possibly in 2015, in order to maintain sufficient cash resources for its working capital needs and its committed capital expenditure programmes for the next twelve months. The Directors are confident that they can raise sufficient funds from either capital markets, private investment or existing facilities (see note 6) and as a consequence, believe that both the Group and Company are well placed to manage their business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Group has adequate access to resources to continue in operational existence for the foreseeable future and continue to meet, as and when they fall due, its planned and committed exploration and development activities and other 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 these financial statements.

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 doubt on the Group's ability to continue to operate as planned and to 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.

d) 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

As a Consolidated Statement of Comprehensive Income is published, a separate Statement of Comprehensive Income for the Parent Company has not been published in accordance with section 408 of the Companies Act 2006.

e) Goodwill
Goodwill is the difference between the amount paid on acquisition of subsidiary undertakings and the aggregate fair value of their 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 indications that its carrying value is not recoverable. Goodwill is shown at cost less any provision for impairment in value. If a subsidiary undertaking is sold, any unimpaired goodwill arising on its acquisition is reflected in the calculation of any profit or loss on sale.

f) Jointly controlled operations
Jointly controlled operations are arrangements in which the Group holds an interest on a long term basis which are jointly controlled by the Group and one or more ventures under a contractual arrangement. The Group's exploration, development and production activities are sometimes conducted jointly with other companies in this way. Since these arrangements do not constitute entities in their own right, the consolidated financial statements reflect the relevant proportion of costs, revenues, assets and liabilities applicable to the Group's interests.

g) 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.

Notes to the Financial Statements continued

1 Accounting policies continued

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.

h) 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.

i) 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.

j) Property, plant and equipment

Property, 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, fixtures, fittings and equipment – Straight line over 4 years

The assets' residual values and useful lives are reviewed and adjusted if necessary at each year-end. Profits or losses on disposals of plant and equipment are determined by comparing the sale proceeds with the carrying amount and are included in the statement of comprehensive income. Items are reviewed for impairment if and when events 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.

k) 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.

l) Share-based payments

The Company makes share-based payments to certain Directors or employees 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.

m) 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 exchange rate at 31 December 2014 was £1 = $1.5532 (2013: £1 = $ 1.6574).

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.

n) Taxation

i Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible on other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

ii 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.

o) Financial instruments
The Group's Financial Instruments comprise of cash and cash equivalents, loans and receivables. There are no other categories of financial instrument.

i 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.

ii 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.

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

p) Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issue costs.

q) Share capital
Ordinary shares are classified as equity. Proceeds received from the issue of ordinary shares above the nominal value are 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.

r) Provisions
Provisions are recognised when the Group has a present obligation as a result of a past event and it is probable that the Group would be required to settle that obligation. Provisions are measured at the managements' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

s) Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers have been identified as the executive Board members.

Notes to the Financial Statements continued

2 Critical accounting judgements and key sources of estimation uncertainty

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 managements' 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), changes to commodity prices and licence renewal dates and commitments.

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 the 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.

3 Operating segments

The Group has two reportable operating segments: Africa and Head Office. Non-current 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 table reconciles 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 2013.

	Africa		Head Office		Total	
	2014 $	2013 $	2014 $	2013 $	2014 $	2013 $
Administrative expenses [1]	51,095,781	868,405	(744,072)	946,249	50,351,709	1,814,654
Pre-licence expenditures	40,277	–	4,544,268	1,284,554	4,584,545	1,284,554
Share-based payment charges	–	–	1,664,731	627,340	1,664,731	627,340
Depreciation of property, plant and equipment	–	–	563	112	563	112
Interest income	(260)	–	(9,806)	(27,413)	(10,066)	(27,413)
Financing costs	5,736	–	6,271	121,506	12,007	121,506
Gain on acquisition of subsidiary	–	–	–	(484,625)	–	(484,625)
Loss by reportable segment	51,141,534	868,405	5,461,955	2,467,723	56,603,489	3,336,128
Total assets by reportable segment [2, 3]	40,405,082	11,181,234	3,857,221	21,487,192	44,262,303	32,668,426
Total liabilities by reportable segment [4]	(2,846,609)	(1,124,018)	(1,211,836)	(1,949,659)	(4,058,445)	(3,073,677)

[1] Administrative expenses include $50.6 million of intangible exploration and evaluation asset impairments in relation to the Africa segment.
[2] Included within total assets of $40.4 million are $381k (SADR), $1.3 million (Zambia) and $33.6 million (South Africa).
[3] Carrying amounts of segment assets exclude investments in subsidiaries.
[4] Carrying amounts of segment liabilities exclude intra-group financing.

4 Operating segments

Loss from operations is stated after charging/(crediting):

	Total	
	2014 $	2013 $
Share-based payment charges	1,664,731	627,340
Staff costs	2,089,322	1,015,392
Rental of properties	99,026	95,130
Profit/(loss) on foreign currencies	66,639	(783,051)
Depreciation of property, plant and equipment	563	112
Impairment of exploration and evaluation assets	50,569,455	–
An analysis of auditor's remuneration is as follows:		
Fees payable to the Group's auditors for the audit of the Group's annual accounts	35,165	35,000
Fees payable to the Group's auditors for non-audit assurance services	7,811	9,371
Total audit fees	42,976	44,371

During the year the Company impaired assets totalling $50.6 million in accordance with IAS 36 "Impairment of Assets" following the drilling of exploration wells in Namibia and Kenya. Full details of the impairment are provided in note 12.

Notes to the Financial Statements continued

5 Employee information

The average monthly number of employees of the Group (including Directors) was:

	2014	2013
Head office	4	4
Africa	2	2
Total	6	6

Group employee costs during the year (including executive Directors) amounted to:

	2014 $	2013 $
Wages and salaries	1,879,749	910,433
Social security costs	209,573	104,959
Share-based payment charges	1,664,731	627,340
Total	3,754,053	1,642,732

During the year, a bonus totalling $639k (2013: $nil) was paid to a Director and employees, details of which are noted within the Remuneration Report.

Key management personnel include Directors whose remuneration, including non-cash share-based payment charges, was $1.9 million (2013: $955k); see Directors' Report for additional detail.

A portion of the Group's staff costs and associated overheads are recharged to the joint venture partners, expensed as pre-licence expenditure or capitalised where they are directly attributable to on-going capital projects. In 2014 this portion amounted to $4.0 million (2013: $nil million).

6 Finance costs

During the period covered by these financial statements the Company incurred costs of $12k (2013: $122k) of which $nil (2013: $122k) were associated with the former Standby Equity Distribution Agreement ("SEDA") and related Loan Agreement with YA Global Master SPV Ltd., an investment fund managed by Yorkville Advisors LLC.

7 Taxation

	2014 $	2013 $
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	56,603,489	(3,336,128)
Tax at the UK Corporation tax rate of 21.5% (2013: 23.25%)	(12,169,750)	(775,650)
Tax effects of:		
Expenses not deductible for tax purposes	11,230,350	82,775
Tax losses carried forward not recognised as a deferred tax asset	939,400	692,875
	–	–

8 Deferred tax

At the reporting date the Group had an unrecognised deferred tax asset of $2.8 million (2013: $1.5 million) relating to unused tax losses. No deferred tax asset has been recognised due to the uncertainty of future profit streams against which these losses could be utilised.

9 Parent company income statement

For the year-ended 31 December 2014 the Parent Company incurred a loss of $56.7 million (2013: $3.4 million) including the financing costs of $6k (2013: $122k) referred to in note 6, the share-based payments charge of $1.7 million (2013: $627k) and a provision for the impairment of advances to its Namibian, Kenyan and Ugandan operating subsidiaries of $55.2 million (2013: $460k). In accordance with the provisions of Section 408 of the Companies Act 2006, the Parent Company has not presented a statement of comprehensive income.

10 Loss per share

	Basic & Diluted 2014 $	2013 $
Loss for the year	56,603,489	3,336,128
Weighted average number of ordinary shares in issue during the year	3,460,088,323	2,027,603,775
Dilutive effect of share options outstanding	–	–
Fully diluted average number of ordinary shares during the year	3,460,088,323	2,027,603,775
Loss per share (USc)	1.64c	0.16c

The diluted weighted average number of shares in issue and to be issued is 3,486,340,881. 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.

11 Property, plant and equipment

Year-ended 31 December 2014	Group $	Company $
Cost		
At 1 January 2014	256,878	22,369
Additions during the year	2,208	2,208
Disposals during the year	(12,016)	(12,016)
At 31 December 2014	247,070	12,561
Depreciation		
At 1 January 2014	255,912	21,403
Eliminated on disposal	(12,016)	(12,016)
Charge for the year	563	563
At 31 December 2014	244,459	9,950
Net book value		
At 31 December 2014	2,611	2,611
At 31 December 2013	966	966

Notes to the Financial Statements continued

11 Property, plant and equipment continued

Year-ended 31 December 2013	Group $	Company $
Cost		
At 1 January 2013	255,800	21,291
Additions during the year	1,078	1,078
At 31 December 2013	256,878	22,369
Depreciation		
At 1 January 2013	255,800	21,291
Charge for the year	112	112
At 31 December 2013	255,912	21,403
Net book value		
At 31 December 2013	966	966
At 31 December 2012	–	–

12 Intangible Exploration and Evaluation (E&E) assets

	Exploration and evaluation $	Goodwill $	Total $
Cost			
At 1 January 2014	42,533,925	8,023,292	50,557,217
Additions during the year [1]	71,646,233	–	71,646,233
At 31 December 2014	114,180,158	8,023,292	122,203,450
Amortisation and impairment			
At 1 January 2014	(33,640,099)	(3,989,751)	(37,629,850)
Impairment during the year	(46,579,704)	(3,989,751)	(50,569,455)
At 31 December 2014	(80,219,803)	(7,979,502)	(88,199,305)
Net book value			
At 31 December 2014	33,960,355	43,790	34,004,145
At 31 December 2013	8,893,826	4,033,541	12,927,367

[1] Additions during the year of $71.6 million comprise consideration on acquisition of the Rift group of $32.2 million per note 22 and other net additions of $39.4 million.

In April 2014 the Company acquired 100% of the issued share capital of Rift Petroleum Holdings Limited and its subsidiary companies. The consideration totalled 550 million Tower shares with a fair value of $32.2 million. The book value of the assets acquired totalled $11.8 million generating a fair value adjustment on acquisition of $20.4 million.

Also in April 2014 the Company farmed-in to Block 2B in Kenya. The Company paid $4.5 million and issued 9 million Tower shares to Taipan Resources in exchange for a 15% interest in the exploration licence.

During the year the Company impaired assets totalling $50.6 million in accordance with IAS 36 "Impairment of Assets" following the drilling of exploration wells in Namibia and Kenya. The Directors believe that, whilst both licences evidence prospective potential it is prudent under the terms defined in note 2, impairment of capitalised exploration and evaluation expenditure, to make a full provision against their costs given the near-term nature of the licence renewal dates and that the relevant joint ventures have not made any formal application decisions in relation thereto. The carrying values will be reviewed annually.

12 Intangible Exploration and Evaluation (E&E) assets continued

In June 2014 the Company announced that the Welwitschia-1A well in Namibia did not encounter commercial accumulations of hydrocarbons and was to be plugged and abandoned. Amounts of $38.4 million of capitalised E&E costs and $4.0 million of Goodwill were impaired during the period with respect to Namibian operations. At 31 December 2014 the carrying value of the Namibian asset was $nil (2013: $12.6 million).

In February 2015 the Company announced that the Badada-1 well in Kenya did not encounter commercial accumulations of hydrocarbons and was to be plugged and abandoned. An amount of $8.2 million comprising capitalised E&E costs has been impaired with respect to the Badada-1 well at the year-end. At 31 December 2014 the carrying value of the Kenyan asset was $nil (2013: $nil million).

13 Investment in subsidiaries

Company	Loans to subsidiary undertakings $	Shares subsidiary undertakings $	Total $
Cost			
At 31 December 2013 and 1 January 2014	**46,778,946**	**13,391,530**	**60,170,476**
Net advances during the year	**41,865,699**	**–**	**41,865,699**
Acquisitions during the year (note 22)	**–**	**32,216,737**	**32,216,737**
Re-classified as non-current liabilities (note 16)	**2,807,039**	**–**	**2,807,039**
At 31 December 2014	**91,451,684**	**45,608,267**	**137,059,951**
Provision for impairment			
At 31 December 2013 and 1 January 2014	**(37,853,381)**	**(3,997,305)**	**(41,850,686)**
Provision for impairment	**(51,264,327)**	**(3,997,305)**	**(55,261,632)**
At 31 December 2014	**(89,117,708)**	**(7,994,610)**	**(97,112,318)**
Net book value			
At 31 December 2014	**2,333,976**	**37,613,657**	**39,947,633**
At 31 December 2013	8,925,565	9,394,225	18,319,790

Included within loans to subsidiary undertakings are amounts of $34.0 million and $8.2 million loaned in the year to the Company's Namibian and Kenyan subsidiaries for the drilling of the Welwitschia-1A and Badada-1 exploration wells respectively. At the year-end loans in relation to Namibian ($42.6 million), Kenya ($8.2 million) and Uganda ($441k) were fully impaired as the recoverability of these amounts was deemed unlikely.

During the year the Company acquired Rift Petroleum Holdings Limited and its subsidiary companies. The fair value of the consideration of 550 million Tower shares was $32.2 million (see note 22). The Company also established fully owned subsidiary investment vehicles for operations in Kenya and Cameroon totalling $2 and $155 respectively.

Notes to the Financial Statements continued

13 Investment in subsidiaries continued

The subsidiary undertakings at the year-end are as follows (these undertakings are included on consolidation):

	Country of incorporation 2014	Class of shares held 2014	Proportion of voting rights held 2014	Proportion of voting rights held 2013	Nature of business 2014
Tower Resources Cameroon Limited [1]	England & Wales	Ordinary	100%	–	Oil and gas exploration
Rift Petroleum Holdings Limited [1]	Isle of Man	Ordinary	100%	–	Holding company
Rift Petroleum Limited [2]	Zambia	Ordinary	100%	–	Oil and gas exploration
Rift Petroleum Limited [2]	Isle of Man	Ordinary	100%	–	Oil and gas exploration
Rift Petroleum (UK) Limited [2]	England & Wales	Ordinary	100%	–	Investment company
Rift Petroleum (Ethiopia) Limited [2]	Ethiopia	Ordinary	100%	–	Oil and gas exploration
Comet Petroleum Limited [1]	England & Wales	Ordinary	100%	100%	Holding company
Comet Petroleum (SADR) Limited [3]	British Virgin Islands	Ordinary	100%	100%	Oil and gas exploration
Tower Resources (Kenya) Limited [1]	England & Wales	Ordinary	100%	–	Oil and gas exploration
Tower Resources (Namibia) Limited [1]	England & Wales	Ordinary	100%	100%	Holding company
Neptune Petroleum (Namibia) Limited [4]	British Virgin Islands	Ordinary	100%	100%	Oil and gas exploration
Wilton Petroleum Limited [1]	England & Wales	Ordinary	100%	100%	Oil and gas exploration
Neptune Petroleum Limited [1]	England & Wales	Ordinary	100%	100%	Holding company
Neptune Petroleum (Uganda) Limited [5]	British Virgin Islands	Ordinary	100%	100%	Oil and gas exploration

[1] Held directly by the Company, Tower Resources plc.
[2] Held directly or indirectly through Rift Petroleum Holdings Limited.
[3] Held directly or indirectly through Comet Petroleum Limited.
[4] Held directly or indirectly through Tower Resources (Namibia) Limited.
[5] Held directly or indirectly through Neptune Petroleum Limited.

14 Trade and other receivables

	Group		Company	
	2014 $	2013 $	2014 $	2013 $
Trade and other receivables	2,313,714	2,285,381	386,013	1,048,146

15 Trade and other payables

	Group		Company	
	2014 $	2013 $	2014 $	2013 $
Trade and other payables	3,989,244	3,073,677	1,158,263	623,627
Accruals	69,201	–	53,573	–
	4,058,445	3,073,677	1,211,836	623,627

Group creditor payment days are approximately 35 days (2013: 45 days).

16 Non-current liabilities

	Group		Company	
	2014 $	2013 $	2014 $	2013 $
Loan from subsidiary undertaking	–	–	2,807,039	–

Non-current liabilities represent a loan from Wilton Petroleum Limited, a wholly owned subsidiary, to the Company.

17 Share capital

	2014 $	2013 $
Authorised, called up, allotted and fully paid		
3,804,900,944 (2013: 2,638,318,217) ordinary shares of 0.1p	6,346,538	4,398,933

The share capital issues during 2014 are summarised as follows:

	Number of shares	Share capital at nominal value $	Share premium $
At 1 January 2014	2,638,318,217	4,398,933	73,954,330
Shares issued for cash	579,475,280	966,727	31,462,438
Shares issued in lieu of fees payable	28,107,447	45,231	537,336
Shares issued on acquisition of subsidiary undertakings and as farm-in consideration	559,000,000	935,647	31,600,488
At 31 December 2014	3,804,900,944	6,346,538	137,554,592

18 Reserves

Reserves within equity are as follows:

Share capital
Amounts subscribed for share capital at nominal value.

Share premium account
The share premium account represents the amounts received by the Company on the issue of its shares which were in excess of the nominal value of the shares.

Retained losses
Cumulative net gains and losses recognised in the Statement of Comprehensive Income less any amounts reflected directly in other reserves.

19 Financial instruments

Capital risk management and liquidity risk
Capital structure of the Group and Company consists of cash and cash equivalents held for working capital purposes and equity attributable to the equity holders of the Parent, comprising issued capital, reserves and retained losses as disclosed in the Statement of Changes in Equity. The Group and Company uses cash flow models and budgets, which are regularly updated, to monitor liquidity risk.

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each material class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Due to the short term nature of these assets and liabilities such values approximate their fair values at 31 December 2014 and 31 December 2013.

Notes to the Financial Statements continued

19 Financial instruments continued

Group	Carrying amount/ fair value 2014 $	2013 $
Financial assets (classified as loans and receivables)		
Cash and cash equivalents[1]	7,941,833	17,454,712
Trade and other receivables	2,313,714	2,285,381
Total financial assets	10,255,547	19,740,093
Financial liabilities at amortised cost		
Trade and other payables	4,058,445	3,073,677
Total financial liabilities	4,058,445	3,073,677

[1] Includes restricted cash of $693k (2013: $nil).

Company	Carrying amount/ fair value 2014 $	2013 $
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	3,468,597	10,561,942
Trade and other receivables	386,013	1,048,146
Total financial assets	3,854,610	11,610,088
Financial liabilities at amortised cost		
Trade and other payables	1,211,836	623,627
Total financial liabilities	1,211,836	623,627

Financial risk management objectives

The Group's and Company's objective and policy is to use financial instruments to manage the risk profile of its underlying operations. The Group continually monitors financial risk including oil and gas price risk, interest rate risk, equity price risk, currency translation risk and liquidity risk and takes appropriate measures to ensure such risks are managed in a controlled manner including, where appropriate, through the use of financial derivatives. The Group and Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Interest rate risk management

The Group and Company does not have any outstanding borrowings and hence, the Group and Company is only exposed to interest rate risk on its short term cash deposits.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for derivative and non-derivative instruments at the reporting date and assuming the amount of the balances at the reporting date were outstanding for the whole year.

19 Financial instruments continued

A 100 basis point change represents management's estimate of a possible change in interest rates at the reporting date. If interest rates had been 100 basis points higher and all other variables were held constant the Group's profits and equity would be impacted as follows:

	Group Increase		Company Increase	
	2014 $	2013 $	2014 $	2013 $
Cash and cash equivalents	194,434	101,006	133,244	76,615

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:

	2014		2013	
	Floating interest rate $	Non-interest bearing $	Floating nterest rate $	Non-interest bearing $
Cash and cash equivalents held in US$	5,774,902	2,166,931	16,972,960	481,752

Foreign currency risk

The Group's and Company's reporting currency is the US dollar, being the currency in which the majority of the Group's revenue and expenditure is transacted. The US dollar is the functional currency of the Company and the majority of its subsidiaries. Less material elements of its management, services and treasury functions are transacted in pounds sterling. The majority of balances are held in US dollars with transfers to pounds sterling and other local currencies as required to meet local needs. The Group does not enter into derivative transactions to manage its foreign currency translation or transaction risk.

At the year-end the Group and Company maintained the following cash reserves:

	Group		Company	
Cash and cash equivalents	2014 $	2013 $	2014 $	2013 $
Cash and cash equivalents held in US$	6,203,407	16,841,370	1,746,046	9,952,509
Cash and cash equivalents held in GBP	1,737,150	612,432	1,722,551	609,433
Cash and cash equivalents held in other currencies	1,276	910	–	–
	7,941,833	17,454,712	3,468,597	10,561,942

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group or Company. The Group and Company reviews the credit risk of the entities that it sells its products to or that it enters into contractual arrangements with and will obtain guarantees and commercial letters of credit as may be considered necessary where risks are significant to the Group or Company.

Notes to the Financial Statements continued

20 Exploration expenditure commitments

The Group is committed to funding the following exploration expenditure commitments as at 31 December 2014:

	Country	Interest	Net commitment
PEL0010 [1]	Namibia	30%	741,300
Block 2B [2]	Kenya	15%	1,800,530
Imlili [3]	SADR	50%	–
Guelta [3]	SADR	50%	–
Bojador [3]	SADR	50%	–
Block 40 [4]	Zambia	80%	–
Block 41 [4]	Zambia	80%	–
Algoa-Gamtoos [4]	South Africa	50%	–
Orange basin [3]	South Africa	50%	–
			2,541,830

[1] Budget for extension period expiring August 2015.
[2] Commitment to fund remaining Badada-1 well costs at 31 December 2014.
[3] PSC pending formal award.
[4] Formal submissions made to enter next phase of exploration period.

21 Share-based payments

Options

Details of share options outstanding at 31 December 2014 are as follows:

	Number in issue
At 1 January 2014	57,500,000
Granted during the year	163,700,000
Exercised during the year	(4,000,000)
Lapsed during the year	(8,000,000)
At 31 December 2014	**209,200,000**

Date of grant	Number in issue	Option price (pence)	Latest exercise date
19 May 2011	1,000,000	5.475	19 May 2018
26 Apr 2012	1,500,000[1]	2.850	26 Apr 2017
01 Jun 2012	20,000,000[1]	3.025	01 Jun 2017
11 Mar 2013	4,000,000[1]	2.100	11 Mar 2016
07 Oct 2013	19,000,000[1]	1.320	07 Oct 2018
15 Apr 2014	75,000,000[1]	3.500	15 Apr 2019
27 Oct 2014	10,000,000[1]	0.750	27 Oct 2019
27 Dec 2014	78,700,000[1]	0.700	27 Dec 2019
	209,200,000		

[1] These options vest in the beneficiaries in equal tranches on the first, second and third anniversaries of grant.

21 Share-based payments continued

Warrants

Details of warrants outstanding at 31 December 2014 are as follows:

	Number in issue
At 1 January 2014	49,532,088
Exercised during the year	(6,225,280)
Lapsed during the year	(1,215,700)
At 31 December 2014	**42,091,108**

Date of grant	Number in issue	Warrant price (pence)	Latest exercise date
28 May 2010	5,433,962	1.325	28 May 2015
14 Oct 2010	712,783	3.720	14 Oct 2015
18 May 2011	1,716,893	5.475	18 May 2016
30 Jul 2012	10,014,581	3.225	30 Jul 2017
26 Jul 2013	24,212,889	1.225	26 Jul 2018
	42,091,108		

These warrants vest in the beneficiaries on the first anniversary of grant.

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

	2014 Number	2013 Number
Jeremy Asher	**10,817,890**	11,453,190
Graeme Thomson	**5,998,351**	5,998,351
Peter Blakey	**7,873,081**	9,196,615
Philip Swatman	**1,999,450**	1,999,450
Peter Taylor	**7,873,081**	9,196,615
Total	**34,561,853**	37,844,221

The weighted average exercise price of the share warrants was 1.93p (2013: 2.04p) pence with a weighted average contractual life of 2.79 years (2013: 3.26 years). At the year-end all warrants had fully vested (2013: 25.3 million).

In its Statement of Comprehensive Income the Company recognised share-based payment charges of $1.7 million (2013: $627k).

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 volatility applied in calculating the above charge varied between 82% and 140% (2013: 54% and 66%), depending upon the date of grant, and the risk free interest rate was 0.50%.

The Company's share price ranged between 0.54p and 6.62p (2013: 1.15p and 4.85p) during the year. The closing price on 31 December 2014 was 0.65p per share. The weighted average exercise price of the share options was 2.05p years (2013: 2.97p) with a weighted average contractual life of 4.28 years (2013: 3.12 years). The total number of options vested at the end of the year 45.3 million (2013: 19.2 million).

Notes to the Financial Statements continued

22 Acquisitions

In April 2014, the Group acquired 100% of the ordinary share capital in Rift Petroleum Holdings Limited, an Isle of Man company whose principal activity is as an investment holding company for its oil and gas exploration subsidiaries in South Africa and Zambia.

Details of the fair value of the identifiable assets and liabilities acquired and the purchase consideration are as follows:

	Book value of assets acquired $	Fair value adjustment $	[1] Fair value of assets acquired $
Intangible exploration and evaluation assets	11,862,849	20,353,731	32,216,580
Trade and other receivables	693,519	–	693,519
Cash	579,748	–	579,748
Trade and other payables	(1,273,267)	–	(1,273,267)
	11,862,849	20,353,731	32,216,580
Consideration paid (550 million ordinary shares with a fair value of 3.5p per share)			32,216,580

[1] The fair value of the consideration paid for Rift is considered to be the same as the fair value of the assets acquired.

23 Related party transactions

TM Services Limited ("TM") is controlled by two Directors of the Company, Mr. Peter Blakey and Mr. Peter Taylor. Included in the Group's operating loss is an amount of $280k (2013: $196k) paid to TM in respect of charges for office accommodation and administration assistance. The key management of the Group comprises 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:

	Group		Company	
	2014 $	2013 $	2014 $	2013 $
Short-term employee benefits	1,169,608	401,233	1,169,608	401,233
Share-based payments	761,155	554,179	761,155	554,179
	1,930,763	955,412	1,930,763	955,412

Further information on Directors' remuneration is detailed in the Directors' Report.

The Company has no other disclosable related party transactions.

24 Control

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

25 Subsequent events

On 7 January 2015, Tower announced the spud of the Badada-1 well on Block 2B, onshore Kenya.

On 23 February 2015, Tower announced that the Badada-1 well had not encountered commercial accumulations of hydrocarbons and was to be plugged and abandoned.

On 19 March 2015, Tower announced that the £20.0 million EFF funding facility with Darwin Strategic Limited was due to expire on 23 March 2015 and that Tower had decided not to renew this facility.

On 24 March 2015, Tower announced the issue of 15.0 million ordinary shares under contractual arrangements as part payment for services provided in the fourth quarter of 2014.

Corporate Directory

Registered Company Name
Tower Resources PLC

Directors

Jeremy Asher	Chairman
Graeme Thomson	Chief Executive Officer
Peter Blakey	Non-executive Director
Philip Swatman	Senior Independent Non-executive Director
Peter Taylor	Non-executive Director

Company Secretary
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Rift Petroleum Limited
Comet Petroleum Limited
Comet Petroleum (SADR) Limited
Tower Resources (Kenya) Limited
Tower Resources (Namibia) Limited
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