Company Number 05305345

Tower Resources

Oil and Gas Exploration

TOWER RESOURCES PLC

GROUP ANNUAL REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2011

CONTENTS

DIRECTORS, SECRETARY AND ADVISERS

Directors:	Jeremy Asher - Chairman Peter Taylor Peter Blakey Mark Savage Philip Swatman (from 26 April 2012) – Senior Independent Director
Company Secretary:	John Bottomley
Company Number:	05305345
Registered Office:	One America Square Crosswall London EC3N 2SG
Nominated Adviser and Broker:	Northland Capital Partners Limited 60 Gresham Street London EC2V 7BB
Joint Broker:	Investec Bank PLC 2 Gresham Street London EC2V 7QP
Solicitors:	Watson Farley & Williams LLP 15 Appold Street London EC2Y 2HB
Group Auditors:	UHY Hacker Young LLP Quadrant House 4 Thomas More Square London E1W 1YW
Registrars:	Capita IRG Bourne House 34 Beckenham Road Beckenham Kent, BR3 4TU
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Dear Shareholder,

2011 proved to be a difficult year for Tower, and the unsuccessful outcome at Mvule-1 after the year-end has been disappointing for all of us. Nevertheless, we have in fact seen considerable progress with our Namibian license, despite the difficult environment, and we have been busy both before and since the year-end in restructuring the board and management of the Company. So far, the outward signs of this progress have been the updated Competent Person's Report, issued in June 2011 based on the 3D seismic interpretation of the Namibian Delta structure; the fact that the operator Arcadia are now in advanced farm-out discussions which we expect will facilitate the drilling of the first exploration well on the Delta structure in 2013; and the appointment of Philip Swatman as Senior Independent Director of Tower last month. But I hope that we will see considerable further progress in the months ahead, both in Namibia and also in the form of additional executive and non-executive appointments, which will only have been possible as a result of the work which has already been done.

In total, I believe that the Company's prospects in Namibia have never looked more exciting, and the Board feels we have some real momentum as we put in place the right company infrastructure to take advantage of these prospects and other opportunities during the year ahead.

Namibia

The 3D seismic interpretation and the Competent Person's Report ("CPR") completed during the first half of 2011 identified two very large prospects and three large leads in the Delta structure, which we believe can all be targeted by a single well, and have good chances of success relative to other offshore opportunities. The size of the structure bears emphasis: the five identified targets within it, if all oil bearing, are estimated by Oilfield International Limited ("OIL") to contain some 9.3 billion barrels of recoverable oil and 14.5 TCF of gas (making even the gas probably economic to recover).

The 3D seismic interpretation was largely completed by mid-April 2011. This work involved structural mapping, prospect definition and mapping of AVO anomalies. Clear structural closure, sustained reservoir thickness and direct hydrocarbon indicators – AVO anomalies and pockmarks – have been confirmed. All these factors combine to provide greater assurance of the presence of reservoir, migration of hydrocarbons into Delta and their retention under the regional seal. The AVO anomalies at the main Maastrichtian prospect level form a widespread and consistent pattern that closely coincides with the outline of the structure, peaking at the crest. Additional potential is confirmed at the Palaeocene horizon (defined as a lead in the previous 2010 CPR) but also at two other formations deeper than the Maastrichtian: the Campanian and Albian. The remaining interpretation work focused on detailed fine tuning of the AVO attributes to get the best possible understanding of the significance of the hydrocarbon indicators in determining optimum well locations and estimating a chance of success.

On completion of the interpretation work, OIL performed a comprehensive independent review of the 3D seismic information and published an updated CPR at the end of June 2011. The CPR update focused on the newly acquired high quality 3D seismic data over the Delta structure. OIL conducted a detailed review of the structure and calculated Expected Monetary Values (EMVs) of the prospects and leads identified. OIL also updated the EMVs of two other structures, Alpha and Gamma, which were the subject of the previous June 2010 CPR.

The full June 2011 CPR was also discussed in our interim results announcement and is available on our website, and I recommend shareholders to look at it and especially the charts on pages 6-10 of the summary. The main conclusions of the CPR are summarised below:

- The Delta Maastrichtian prospect remains the principal target for an exploration well, with an economic chance of success of 31.4%. Unrisked prospective recoverable resources at the 50% probability level (P50) have been estimated at 2.2 billion barrels and 3.4 TCF of natural gas in the volatile oil case, 267 million barrels and 8.1 TCF of natural gas in the gas condensate case, and 19 million barrels and 8.2 TCF of natural gas in the dry gas case. OIL ascribes relative probabilities to these cases, for the Delta structure, as being 50% oil, 40% gas condensate, and 10% dry gas; the reasoning behind this is based on the relative maturities of the various oil kitchens and the indicators of fluid migration from the deeper Cretaceous section up into the Late Cretaceous and Palaeocene reservoir section.

- The Delta Palaeocene prospect is the second target for an exploration well, with an estimated economic chance of success of 18.7%. Unrisked prospective recoverable resources at the 50% probability level (P50) have been estimated at 3.5 billion barrels and 5.1 TCF of natural gas in the volatile oil case, 249 million barrels and 11.9 TCF of natural gas in the gas condensate case, and 28 million barrels and 11.9 TCF of natural gas in the dry gas case.

- The remaining leads in the Delta Structure are contained in the Upper Campanian, the Campanian Wedge, and the Albian, with estimated economic chances of success in the range 8.0-9.3%. Unrisked P50 prospective recoverable resources from these three leads amount to 3.6 billion barrels of oil and 6 TCF of gas for the volatile oil cases and a further 14 TCF of gas in the predominantly gas cases.

- Unrisked P50 prospective recoverable resources from the two leads already identified in the Palaeocene Gamma and Alpha structures, with economic chances of success of 9.3% and 11.8% respectively, amount to a further 3 billion barrels and 5 TCF of gas for the volatile oil cases, and a further 11 TCF of gas in the predominantly gas cases.

- In summary, the unrisked P50 prospective recoverable resources currently identified in the license range from 12.3 billion barrels of oil and 19 TCF of gas in the volatile oil case, to 45 TCF of gas in a predominantly gas case; of which the Delta structure alone accounts for 9.3 billion barrels of oil and over 14 TCF of gas, or 34 TCF of gas in the predominantly gas case.

- Of this, 15% is attributable to Tower, amounting to 1.4 billion barrels of oil (net, attributable to Tower) in the Delta structure alone and 1.8 billion barrels in the license as a whole, plus gas. The risked estimate of the net prospective recoverable resources attributable to Tower, taking into account the risk of the different oil and gas cases as well as the economic chances of success in each target, is 126 million barrels of oil and 603 BCF of gas.

- OIL has calculated an EMV for Tower's net prospective recoverable resources, based on assumed field development plans for each case and a forward oil price in the region of $105 per barrel. The EMV10 of the Delta targets alone is $1,866 million, of which $744 million is accounted for by the Delta Maastrichtian prospect, and $776 million by the Delta Palaeocene prospect. The leads in the Gamma and Alpha structures give rise to a further EMV10 of $288 million.

The risked EMV10 of Tower's interest in the Delta structure, of $1,866 million, corresponds to roughly 80p per share, with the value of the resources attributable to Tower in the event of an oil discovery being a multiple of that.

We hope that the first exploration well will spud by the middle of 2013, and will test all five zones of interest in the Delta Structure, including two prospects and three leads targeting a best estimate resource potential of 9.3 billion barrels of recoverable oil in the oil case, or 34 TCF of gas.

Arcadia Namibia Expro, the operator and 85% interest holder, has notified the Company that it is now at an advanced stage of discussions with its preferred farm-in partner. The timetable for completing the farm-out process and finalising a firm agreement is still uncertain but, as I write this, your Board are comfortable with the progress being made.

Uganda

As we explained in our last half-year report, the additional 2D seismic survey interpretation combined with the aero-gravity gradiometry survey and the geochemical survey allowed us to update our basin model for the EA5 license and led us to choose the location for our third and final commitment well, Mvule-1.

The well was spudded on February 12 2012, after the end of the 2011 financial year, near the town of Obongi and proved 576 metres of exploration section before TD in crystalline basement at 589 metres on February 21 2012. Only trace hydrocarbons were encountered and the well was subsequently declared dry, plugged and abandoned.

The well was drilled within a tight schedule dictated by the constraints of rig availability and the impending end of the third license period on March 26 2012. The overall operation, including mobilization of the K900 rig, drilling and de-mobilization, was completed smoothly and efficiently despite some initial delay due to unconsolidated shallow ground In general, contractor performance and cooperation was commendable.

The geological column included a thick sequence of hard lacustrine clays overlying a basal section with at least 25m of good quality clean fluvial sands. The section clearly confirmed the anticipated seal and reservoir potential of the geological model, based on which the well location had been chosen. We therefore believe that the lack of hydrocarbon charge must be ascribed to insufficient northward lateral seal or to deficient migration. These two conditions had previously been identified as the greatest risks in calculating the chance of success.

Mvule-1 was the third well of the exploration programme and was guided by information gained from the previous two wells in addition to the subsequent surveys and analysis. The failure of this well coupled with the apparent accuracy of our final geological model made us reluctant to propose a further exploration phase. We are currently completing the restoration of the site, and we are also taking steps to reduce our overheads in Uganda to a minimum level, since we do not know how long it will be before the Government will be ready to issue further licenses. However, we believe that we have now built a good geological understanding of the area, and earned goodwill and trust in the region, which we hope we will be able to put to good use in the future.

I would like to take this opportunity to thank publicly our loyal staff in Uganda, and the Government and West Nile communities who have supported us unstintingly, for whom the outcome on the EA5 license has been even more disappointing than for us.

Western Sahara

In 2008 Tower acquired Comet Petroleum, which held 50% interests in two blocks (Guelta and Bojador) in the Saharawi Arab Democratic Republic ("SADR"), the other 50% interest being held by Wessex Exploration PLC ("Wessex"). Guelta is a large 15,760 square km offshore block, and Bojador is an even larger 44,298 square km onshore block. The SADR is the democratically elected government of the territory known as Western Sahara, which lies to the South of Morocco and is recognized by the United Nations as a non-self-governing territory. As we have pointed out before, the sovereignty of the territory remains in dispute, and until this is resolved there is little that can be done to advance exploration of these blocks. In the meantime the cost of retaining them is also minimal, and if the sovereignty of the territory is resolved favourably in due course, then these will be attractive and prospective blocks.

In October 2011, Tower and Wessex signed an Assurance Agreement for a further production-sharing contract covering the Imlili block, which is a 16,965 square km offshore block lying directly between the Guelta offshore block and the Bojador onshore block. As with the Guelta and Bojador blocks, the Imlili block will be operated by Wessex. As we commented at the time, the award of the block gives Tower and Wessex joint control over a swathe of prospective acreage more than 500 kilometres long in a dip direction, extending from the outcrop in the east to the deep water in the west. The Imlili Block was poorly explored more than five decades ago but is known to be underlain by a stratigraphic section of Mesozoic and Tertiary clastic deltaic facies rocks in excess of 4,000m thick. A small salt basin also underlies the block. A few exploratory wells drilled in the block and surrounds in the early sixties had oil shows in good quality sandstones, and the geologic data available suggests the presence of all of the ingredients necessary for a working petroleum system.

Financial developments

The Group's loss for the year ended 31 December 2011 was $30,621,855, an increase of $29,310,402 over the loss of $1,311,453 incurred in 2010, mainly comprising the $29,044,871 in capitalized exploration costs and goodwill in Uganda that we have written off in view of the Mvule-1 result. Capital expenditure on exploration studies, drilling operations, license management costs and license fees amounted to $7,974,397 in 2011, almost entirely in Uganda, since our costs in Namibia are presently fully carried by the operator Arcadia. Cash balances at 31 December 2011 amounted to $2,176,937.

After the end of the 2011 financial year we established an £8 million standby equity distribution agreement ("SEDA") and a $3.125 million loan agreement with YA Global Master SPV Ltd ("Yorkville"), which allowed us to take advantage of rig availability and to get the Mvule-1 well underway without having to raise equity funds immediately. Some shareholders may remember that, in our last interim report, we had announced our intention to issue only the smallest amount of equity possible consistent with our working capital requirements, and this was why we had restricted our placing to $4 million at 2.5 pence per share in October 2011 rather than issuing considerably more shares at lower prices. As a result we were instead able to issue some shares under the SEDA at 3.8 pence per share and more via a private placing at 3 pence per share in February 2012, together raising £6 million. This in turn allowed us to repay the $3.125 million loan to Yorkville, complete Mvule-1, and leave a comfortable balance of cash while issuing substantially fewer shares than would have been necessary had the Company raised all of the funds in 2011.

Another important aspect of the February 2012 placing was that the shares were placed entirely with institutions, and in particular we are pleased to welcome Henderson Global Investors to the shareholder register. Tower has a substantial and loyal group of private shareholders and I hope that we will reward their patience with superb returns over the years ahead. But we would also like to increase the number of institutions invested in Tower, because they can provide the depth of capital required for value-creating strategic transactions.

In March 2012 we also entered a £20 million equity finance facility ("EFF") with Darwin Strategic Limited ("Darwin"). This facility works in a similar way to the Yorkville SEDA, but has more capacity. Our aim is not to use either facility to raise money for strategic transactions: we would generally prefer to place shares directly with institutions, who we would usually expect to hold them rather than reselling them. But the facilities provide useful flexibility and a backstop for funding.

Board and Management Changes

In November 2011, Peter Kingston informed the Board that he would like to step down as Chairman, but he agreed to stay on as Chief Executive to see the Mvule-1 well to its conclusion, and he resigned this position on March 6, 2012. During the previous five years Peter had established the Company as a credible onshore operator in Uganda, overseeing seismic, geochemical and aero-gravity surveys and the drilling of three wells, usually under time constraints and always within tight budgets. At the same time, he established high standards of corporate social responsibility of which we are all proud. But, as Peter himself remarked, with operations in Uganda due to move into a different phase whatever the outcome of Mvule-1, it was perhaps a good time for a change.

Since I took over as Chairman, one of my top priorities has been the recruitment of a new CEO, and we have been undertaking a wide-ranging search for the right person. This is not an appointment we wish to rush, and we are fortunate to have a capable board of experienced directors who are closely engaged with the Company and have been happy to step in alongside me in managing the business from day to day in the meantime, and also developing our forward strategy.

Another priority has been the appointment of a Senior Independent Director, and we are delighted to welcome Philip Swatman to the Board. Philip will chair the Audit Committee and sit on the Remuneration Committee, and we look forward to the substantial contribution I am sure he will bring. At the same time Mark Savage, one of the Company's founding directors, is also stepping down due to other personal commitments, but we hope he will remain a positively engaged shareholder for a long time to come. Our intention is to appoint a further independent director in due course.

Future strategy

Our aim as a company has always been to identify high-impact exploration opportunities and secure them for our shareholders before their value is fully realized in the wider market. This will not change. Our focus to date has been in sub-Saharan Africa, and while we would not rule out other areas if a superb opportunity warrants, we believe that there are still good opportunities in Africa, and in particular in Namibia and East Africa where we already have considerable familiarity.

We are also fortunate to have an interest in three very attractive blocks in Namibia as our starting point, as the 2011 CPR forcefully demonstrates. But we do not intend merely to sit on this interest and see what it holds, or what happens in Western Sahara; neither will we do deals for the sake of it. We intend to look for more opportunities as attractive as the interests we already hold, and which we are confident we can finance in a value-accretive manner.

The last few months have seen renewed interest in Namibia, with major companies entering the region and Chariot about to embark on a significant well. While Chariot's result will not necessarily affect the chance of success of our well, a positive result would of course be encouraging.

Finally, the Board and I would like to thank all of our shareholders for their support, especially during a difficult 2011, and we hope that 2012 and 2013 will more than make up for this.

Jeremy Asher
Chairman

2 May 2012

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and the independent auditors' report, for the year ended 31 December 2011.

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

Principal activity, business review and future development

The Tower Group's (Tower's) principal activity is the exploration for oil and gas in Africa, conducted through operating subsidiaries in Uganda and Namibia, Neptune Petroleum (Uganda) Limited and Neptune Petroleum (Namibia) Limited respectively, and through Comet Petroleum (SADR) Limited.

In Namibia, Tower owns 15% of the 0010 license, comprising offshore blocks 1910A, 1911 and 2011A, after agreeing to assign 85% to Arcadia Petroleum Limited in return for that company funding all of the exploration commitments attached to the Production Sharing Agreement, including a 3D seismic survey, the first exploration well and an optional second exploration well. A two-year extension to the First Exploration Period for the Namibian license was agreed in September 2007 after 735 km of 2D seismic was completed during 2007. Further purchase of seismic data was made in 2008 and interpreted. License commitments for the First Exploration Period were fulfilled during 2009 and Arcadia and Tower elected to continue into a two-year Second Exploration Period in September 2009, during which a 1600 square km 3D seismic programme was completed and interpreted, and an updated Competent Person's Report was issued in June 2011. The Second Exploration Renewal Period became effective from the end of August 2011, and the operator Arcadia is currently in advanced discussions to farm out a portion of its interest (not Tower's interest) in the license with a view to drilling the first exploration well in 2013. Tower is currently actively pursuing ways to increase its interests in the Namibian offshore area.

In Uganda, Tower in 2011 operated the EA-5 license, in which it had a 100% interest following the decision of Global Petroleum (which had held an option to take a 25% interest) not to take up its option. During the year, the Company obtained further 2D seismic, geochemical and aero-gravity data, following which the location for the Mvule-1 well, the third and final commitment well during the current exploration phase of the license, was agreed with the Government of Uganda. The Mvule-1 well was drilled after the end of the financial year, in February 2012, but was not successful, and as a result Tower relinquished the EA-5 license at the end of the exploration phase on 26 March 2012. The Company will look at further opportunities in Uganda when the Government of Uganda is ready to proceed with further licensing, and remains interested in opportunities in East Africa more generally.

Through its subsidiary Comet Petroleum (SADR) Limited, Tower also has a 50% interest in three exploration licenses in the Saharawi Arab Democratic Republic. Operations cannot begin there before the sovereignty of the region has been finally resolved, and there are currently no signs that this will be achieved in the near future.

The Company is convinced of the potential for significant shareholder value generation in the sub-Saharan Africa E&P space and continues to evaluate opportunities to expand its asset base in the region.

Principal risks and uncertainties facing the Group

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

Changes in share capital

Details of movements in share capital, share options and share warrants during the year are set out in notes 16 and 17.

Results and dividends

The Group results for the year are set out in the financial statements on pages 14 - 19.

Administration expenses for the year ended 31 December 2011, including a provision of $179,276 in respect of share-based payments, amounted to $1,561,876 - an increase of $250,423 over the previous year.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

During 2011 the Company raised a total of $10,556,022 (net of costs) through the issue of ordinary shares towards the funding of working capital and the seismic and drilling costs for the third commitment drilling (Mvule-1) in Uganda. In the last quarter of 2011 Global Petroleum Ltd., which had retained an option to earn a 25% interest in the license as a result of its contribution to the funding of the first two wells, carried out an independent technical review of the Mvule-1 prospect to its satisfaction, but following further discussions decided not to exercise that option

As has already been announced, the result of that well was disappointing and the decision was taken to cap and abandon it. The Directors have decided to make provision in these financial statements for impairment of the total Exploration and Evaluation costs in Uganda to date, totalling $25,055,120 and also to make provision for impairment of the Goodwill applicable to the original acquisition of the Uganda assets of Neptune Petroleum Limited, amounting to $3,989,751.

As a result of the above provisions, the deficit on the Statement of Comprehensive Income for the year totalled $30,621,855.

All operational expenditure for the Namibian project continues to be met by the Licence operator, Arcadia Expro Namibia (PTY) Limited. The Group has a 15% carried interest until completion of the drilling of the proposed Namibian well, and the operator is well advanced in its farm-out process, with substantial discussions taking place with several potential funding partners.

The Directors do not recommend the declaration of a dividend for the year ended 31 December 2011 (*2010: Nil*).

It is not meaningful to consider a review of financial key performance indicators ("KPIs") in respect of the period under review.

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

Information to shareholders – website
The Company maintains a website (www.towerresources.co.uk) to facilitate the provision of information to both current and potential investors.

Political and charitable contributions
The Group does not make political contributions. It has a policy of making social investments in its areas of operations where the investment is directly or indirectly related to its impact on or engagement with communities.

Directors
The following Directors held office during the year:

Jeremy Asher (Chairman)
Peter Kingston (Chief Executive) – resigned 6 March 2012
Peter Taylor
Peter Blakey
Mark Savage

Philip Swatman was appointed Senior Independent Director with effect from 26 April 2012.

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Directors' Interests
The beneficial and non-beneficial interests in the Company's shares of the Directors and their families at 31 December 2011 were as follows:

	31 December 2011		**31 December 2010**	
	Ordinary shares of 0.1p each	*Share options*	*Ordinary shares of 0.1p each*	*Share options*
Mark Savage	107,700,000	-	100,000,000	-
Jeremy Asher	97,250,000	-	87,500,000	-
Peter Taylor	93,685,772	-	85,985,772	-
Peter Blakey	91,185,772	-	83,485,772	-
Peter Kingston	2,974,545	7,000,000	2,474,545	7,000,000

The Directors' interests in the Company's share warrants are disclosed in note 17 to the financial statements. Upon his resignation from the Board in March 2012 Peter Kingston exercised 5 million of his share options, with the remainder lapsing.

Directors' remuneration and service contracts
Peter Kingston served throughout the year and was paid at the rate of £120,000 p.a. up to 30 April 2011 and thereafter at the rate of £150,000 p.a. In May 2011 he waived his entitlement to fees totalling £30,000 in consideration for the allotment to him of share warrants (see note 17 to the financial statements). Of that amount £22,500 was waived during the year ended 31 December 2011 and the balance of £7,500 was waived in March 2012. He resigned from the Board with effect from 6 March 2012.

Peter Blakey and Peter Taylor were each entitled to receive fees of £25,000 per annum, although they have each waived payment of £20,000 in consideration of the grant to them of share warrants (see note 17 to the financial statements).

Similarly, each of the other Directors has waived his standard fee of £12,000 per annum in consideration for the allotment of share warrants (see note 17 to the financial statements).

The remuneration paid to the Directors during the 12 months ended 31 December 2011 was as follows:

	Fees/Salaries	*Share based payments*	*2011 Total*	*2010 Total*
	$	*$*	*$*	*$*
Peter Kingston	188,585	57,216	245,801	151,750
Peter Taylor	7,470	38,144	45,614	29,000
Peter Blakey	7,470	38,144	45,614	29,000
Mark Savage	-	22,886	22,886	17,400
Jeremy Asher	-	22,886	22,886	17,400
	203,525	179,276	382,801	244,550

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2011

Substantial shareholders

In accordance with Chapter 5 of the FSA's Disclosure and Transparency Rules, the Company has been notified that as at 16 April 2012 the following interests of 3% or more existed in its ordinary share capital:

	Number of Ordinary Shares	*%*
Bayview Investments LLC	109,700,000	7.69
Agile Energy Limited	104,250,000	7.31
Peter Taylor	95,685,772	6.71
Peter Blakey	93,185,772	6.53
Henderson Global Investors	87,810,000	6.15

Bayview Investments LLC is controlled by Mark Savage, and Agile Energy Limited is controlled by The Asher Family Trust, of which Jeremy Asher is the settlor and lifetime beneficiary.

Suppliers' payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. The Group's average creditors' payment period at 31 December 2011 was 45 days.

Going concern

The Company has modest commitments remaining in Uganda, is fully carried by the operator Arcadia in Namibia, and has very modest on-going obligations in the SADR. The Company has a substantial balance of cash and has over £27 million available to it under its Equity Financing facility and its Standby Equity Distribution Agreement.

Having made appropriate enquiries and examining those areas which could give rise to financial exposure, the Directors are satisfied that no material or significant exposures exist and that the Group has access to adequate resources to enable it to continue its operations for at least the next 12 months. For this reason the Directors continue to adopt the going concern basis in preparing the accounts. (See Note 1.2 on page 20)

Internal controls

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

Audit Committee

The Audit Committee meets twice each year to discuss the half yearly and annual results. For the annual results, the independent auditors, UHY Hacker Young LLP, are invited to discuss the results and their assessment of internal controls. The Chairman of the Audit Committee was Jeremy Asher until 28 November 2011, when he left the Audit Committee, and Mark Savage thereafter. The other participating members of the Committee during the year were Peter Taylor and Peter Blakey. Mark Savage intends to retire from the Board of the Company following the approval of these accounts, and will be succeeded as Chairman of the Audit Committee by Philip Swatman.

Remuneration Committee

The Remuneration Committee meets as required and met once during 2011. The Chairman of the Remuneration Committee is Peter Taylor and the other participating members during the year were Mark Savage and Peter Blakey.

Statement of responsibilities of those charged with governance

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

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

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

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

Statement of disclosure to the auditors

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

Auditors

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

By order of the board

Jeremy Asher
Chairman

2 May 2012

DIRECTORS' BIOGRAPHIES

Jeremy Asher - Chairman
Jeremy Asher is Chairman of Agile Energy Limited, a privately held energy investment company and a director of several other energy-related companies including NYSE-listed Pacific Drilling SA, where he chairs the Remuneration Committee, and Better Place BV and its subsidiary Better Place Denmark A/S (companies developing infrastructure to support mass deployment of electric vehicles). He is also a member of the London Business School's Global Advisory Council. Following several years as a management consultant, he ran the global oil products trading business at Glencore AG and then acquired, developed and sold the 275,000 b/d Beta oil refinery at Wilhelmshaven in Germany. He was CEO of PA Consulting Group between 1998 and 2001 overseeing significant expansion and globalisation of the business. He replaced Peter Kingston as Chairman of Tower Resources Plc on 28 November 2011.

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

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

Mark Savage B.Bus
Mark Savage was born and educated in the United States of America where he received a business degree from the University of Colorado and was a senior executive for a number of US banks before he joined an Australian based merchant bank. Mr Savage has experience in debt and equity markets as well as in the corporate advisory areas. He has held directorships with a number of public companies. Mr Savage is a director of Global Petroleum Ltd, a dual ASX and AIM listed company and Chairman of CGA Mining Limited which is a dual ASX and TSX listed company.

Philip Swatman MA, FCA
Philip was Vice-Chairman of Investment Banking at NM Rothschild from 2001 until his retirement in September 2008, having originally joined NM Rothschild in 1979 as a Corporate Financier, becoming a Director in 1986. He subsequently became a Managing Director and later Co-Head of Investment Banking. During his career with NM Rothschild, the bank made significant progress in repositioning itself as a leading global advisory firm and a permanent fixture at or near the top of the major M&A league tables. He was accordingly 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 plc against a hostile bid from St Gobain, and the sale of Abbot Group plc to First Reserve. He qualified as a Chartered Accountant with KPMG after graduating from Christ Church, Oxford. He is a Fellow of the Institute of Chartered Accountants, Chairman of Cambria Automobiles plc, and a non-executive Director at New England Seafood International, Investec Structured Products Calculus VCT PLC and Mytrah Energy Limited.

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF TOWER RESOURCES PLC

We have audited the Group and Parent Company financial statements of Tower Resources plc for the year ended 31 December 2011 (the "financial statements") which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Cash Flows, together with the related notes. These financial statements have been prepared in accordance with the basis and the accounting policies set out herein.

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

Respective responsibilities of directors and auditors
As explained more fully under 'Statement of Responsibilities of those charged with Governance' on page 11 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view of the Group's affairs.

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

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

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Colin Wright (Senior Statutory Auditor)
For and on behalf of UHY Hacker Young LLP
Chartered Accountants
Statutory Auditor
2 May 2012

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

TOWER RESOURCES PLC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	*Year ended 31 December 2011 $*	*Year ended 31 December 2010 $*
Continuing operations			
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Administrative expenses before charges for share-based payments and impairment		(1,450,570)	(1,171,593)
Share-based payments	18	(179,276)	(180,921)
Impairment of exploration and evaluation assets	9	(25,055,120)	-
Impairment of goodwill	9	(3,989,751)	-
Total administrative expenses		(30,674,717)	(1,352,514)
Group operating loss	2	(30,674,717)	(1,352,514)
Finance income		52,862	41,061
Loss before taxation		(30,621,855)	(1,311,453)
Taxation	4	-	-
Loss for the period		(30,621,855)	(1,311,453)
Other comprehensive income		**-**	**-**
Total comprehensive income		(30,621,855)	(1,311,453)
Attributable to:			
Equity holders of the Company		(30,621,855)	(1,311,453)
Loss per share (cents)	5		
Basic		(2.78) c	(0.13) c
Diluted		(2.78) c	(0.13) c

The results shown above relate entirely to continuing operations.

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Share Capital *$*	*Share Premium* *$*	*Share-based Payments Reserve* *$*	*Retained Losses* *$*	*Total Equity* *$*
CONSOLIDATED					
Balance at 1 January 2010	1,858,511	29,029,560	1,192,880	(4,724,827)	27,356,124
Share issues less costs	38,900	1,017,660	-	-	1,056,560
Total comprehensive income for the year	-	-	180,921	(1,311,453)	(1,130,532)
Balance at 1 January 2011	1,897,411	30,047,220	1,373,801	(6,036,280)	27,282,152
Share issues less costs	312,893	10,243,129	-	-	10,556,022
Total comprehensive income for the year	-	-	179,276	(30,621,855)	(30,442,579)
Balance at 31 December 2011	2,210,304	40,290,349	1,553,077	(36,658135)	7,395,595
COMPANY					
Balance at 1 January 2010	1,858,511	29,029,560	1,192,880	(2,818,823)	29,262,128
Share issues less costs	38,900	1,017,660	-	-	1,056,560
Total comprehensive income for the year	-	-	180,921	(743,957)	(563,036)
Balance at 1 January 2011	1,897,411	30,047,220	1,373,801	(3,562,780)	29,755,652
Share issues less costs	312,893	10,243,129	-	-	10,556,022
Total comprehensive income for the year	-	-	179,276	(34,621,376)	(34,442,100)
Balance at 31 December 2011	2,210,304	40,290,349	1,553,077	(38,184,156)	5,869,574

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Notes	*31 December 2011* *$*	*31 December 2010* *$*
ASSETS			
Non-Current Assets			
Plant and equipment	8	149,124	170,677
Goodwill	9	4,033,541	8,023,292
Intangible exploration and evaluation assets	9	1,050,307	18,131,030
		5,232,972	26,324,999
Current Assets			
Trade and other receivables	11	1,044,668	274,947
Cash and cash equivalents		2,176,937	1,213,428
		3,221,605	1,488,375
Total Assets		8,454,577	27,813,374
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(1,058,982)	(531,222)
Total Liabilities		(1,058,982)	(531,222)
Net Assets		7,395,595	27,282,152
EQUITY			
Capital and Reserves			
Share capital	16	2,210,304	1,897,411
Share premium	16	40,290,349	30,047,220
Share-based payments reserve	18	1,553,077	1,373,801
Retained losses		(36,658,135)	(6,036,280)
Shareholders' Funds		7,395,595	27,282,152

The financial statements were approved by the Board of Directors on 2 May 2012 and signed on its behalf by:

Jeremy Asher
Chairman

Company Number: 05305345

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Notes	*31 December 2011* *$*	*31 December 2010* *$*
ASSETS			
Non-Current Assets			
Plant and equipment	8	1,355	7,858
Loans to subsidiary undertakings	10	1,006,672	21,048,497
Investment in subsidiary undertakings	10	4,091,241	8,088,546
		5,099,268	29,144,901
Current Assets			
Trade and other receivables	11	100,484	52,319
Cash and cash equivalents		1,392,068	806,506
		1,492,552	858,825
Total Assets		6,591,820	30,003,726
LIABILITIES			
Current Liabilities			
Trade and other payables	12	(722,246)	(248,074)
Total Liabilities		(722,246)	(248,074)
Net Assets		5,869,574	29,755,652
EQUITY			
Capital and Reserves			
Share capital	16	2,210,304	1,897,411
Share premium	16	40,290,349	30,047,220
Share-based payments reserve	18	1,553,077	1,373,801
Retained losses		(38,184,156)	(3,562,780)
Shareholders' Equity		5,869,574	29,755,652

The financial statements were approved by the Board of Directors on 2 May 2012 and signed on its behalf by:

Jeremy Asher
Chairman

Company Number: 05305345

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Year ended 31 December 2011 $	*Year ended 31 December 2010* $
Cash flow from operating activities		
Group operating loss for the year	(30,674,717)	(1,352,514)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	42,268	38,535
Share-based payments charge	179,276	180,921
Impairment of exploration & evaluation assets	25,055,120	-
Impairment of goodwill	3,989,751	-
Operating loss before changes in working capital	(1,408,302)	(1,133,058)
(Increase) / decrease in receivables and prepayments	(769,721)	748,789
Increase / (decrease) in trade and other payables	527,760	(47,414)
Cash used in operations	(1,650,263)	(431,683)
Interest received	52,862	41,061
Net cash used in operating activities	(1,597,401)	(390,622)
Investing activities		
Funds used in exploration and evaluation (net of farm-in receivables)	(7,974,397)	(7,966,961)
Payments to purchase plant and equipment	(20,715)	(67,023)
Net cash used in investing activities	(7,995,112)	(8,033,984)
Financing activities		
Cash proceeds from issue of shares	11,082,596	1,095,000
Share issue costs	(526,574)	(38,440)
Net cash from financing activities	10,556,022	1,056,560
Increase / (decrease) in cash and cash equivalents	963,509	(7,368,046)
Cash and cash equivalents at beginning of period	1,213,428	8,581,474
Cash and cash equivalents at end of period	2,176,937	1,213,428

COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

	Year ended 31 December 2011 $	*Year ended 31 December 2010 $*
Cash flow from operating activities		
Operating loss	(34,646,834)	(770,675)
Adjustments for items not requiring an outlay of funds:		
Depreciation of plant and equipment	6,503	4,143
Share-based payments charge	179,276	180,921
Impairment of exploration & evaluation assets	29,886,213	-
Impairment of investment in subsidiary	3,997,305	-
Operating loss before changes in working capital	(577,537)	(585,611)
(Increase) / decrease in receivables and prepayments	(48,165)	493,010
Increase in trade and other payables	474,171	102,116
Cash (used in) / from operations	(151,531)	9,515
Interest received	25,459	26,718
Net cash (used in) / from operating activities	(126,072)	36,233
Investing activities		
Loans granted to subsidiaries	(9,844,388)	(7,234,383)
Net cash used in investing activities	(9,844,388)	(7,234,383)
Financing activities		
Cash proceeds from issue of shares	11,082,596	1,095,000
Share issue costs	(526,574)	(38,440)
Net cash from financing activities	10,556,022	1,056,560
Increase / (decrease) in cash and cash equivalents	585,562	(6,141,590)
Cash and cash equivalents at beginning of period	806,506	6,948,096
Cash and cash equivalents at end of period	1,392,068	806,506

1. Accounting policies

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

1.1 Basis of preparation

The financial statements are prepared on a going concern basis, under the historical cost convention and in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS"), and in accordance with the Companies Act 2006. The Parent Company's financial statements have also been prepared in accordance with IFRS and the Companies Act 2006.

The Group and Company financial statements are presented in US Dollars.

1.2 Going concern

The operations of the Group are currently being financed from funds which the Company has raised from private and public placings of its shares. The Group has not yet earned revenue as it is still in the exploration phase of its business. The Group is reliant on the continuing support from its existing and future shareholders. The Company has modest commitments remaining in Uganda, is fully carried by the operator Arcadia in Namibia, and has very modest on-going obligations in the SADR. The Company has a substantial balance of cash and has over £27 million available to it under its Equity Financing facility and its Standby Equity Distribution Agreement.

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

1.3 IFRS Standards and interpretations in issue but not yet effective

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

International Financial Reporting Standards (IFRS)		***Effective date***
IFRS 9	Financial Instruments	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013

The Group has not early adopted these amended standards and interpretations. The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the periods of initial application.

1.4 Basis of consolidation

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

1.5 Goodwill

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

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

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

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

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

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

1.8 **Decommissioning costs**

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

1.9 **Plant and equipment**

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each year end.

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

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

1.10 **Investments**

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

1.11 **Share based payments**

The Company made share-based payments to certain directors by the issue of share options and 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 fees or remuneration settled by way of the grant of such options or warrants. The expense is recognised on a straight-line basis over the period from the date of award to the date of vesting, based on the Company's best estimate of shares that will eventually vest.

1.12 **Foreign currency translation**

(i) Functional and presentational currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ("the functional currency") which is considered by the Directors to be the U.S Dollar. The effective exchange rate at 31 December 2011 was £1 = US$1.55 (*2010: £1 = US$ 1.57*)

(ii) Transactions and balances

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

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

1.13 **Deferred taxation**

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

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

1.14 **Cash and cash equivalents**

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

1.15 **Receivables**

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

1.16 **Payables**

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

1.17 **Share capital**

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

1.18 **Critical accounting judgements and estimates**

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

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

Recoverability of inter-company balances

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

Impairment of capitalised exploration and evaluation expenditure

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

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

Impairment of goodwill

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

Share-based payment transactions

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

2. **Group operating loss**

The Group's operating loss is stated after charging the following items:

	Year ended 31 December 2011 *$*	*Year ended 31 December 2010* *$*
Share-based payments charge (note 18)	179,276	180,921
Employee costs, excluding share-based payments (note 7)	268,987	156,813
Rental of properties	61,603	62,150
Auditors' remuneration - audit services	39,374	39,400
- non-audit services	15,264	29,470
Depreciation of plant & equipment	42,268	38,535
Losses on foreign currency	103,936	177,603
Impairment of exploration & evaluation assets	25,055,120	-
Impairment of goodwill	3,989,751	-

'Auditors' remuneration - non-audit services' comprises $6,240 for reviewing the Group's 2011 half year results and $9,024 for tax services (*2010: $6,220 for reviewing the Group's half year results and $21,000 for tax services).* The comparative figures for 2010 also included $2,250 relating to the secondary auditors of the Company's operations in Uganda. Included in "Auditors' remuneration – audit services" is a secondary auditors' fee of $10,000 (*2010: $8,000*) relating to the audit of the Company's operations in Uganda.

3. **Operating segments**

The Group's business involves exploring for hydrocarbon liquids and gas. There are two reportable operating segments: Africa and Head Office. Fixed assets and operating liabilities are located in Africa, whilst the majority of current assets are carried at Head Office. The Group has not yet commenced production and therefore has no revenue. Each reportable segment adopts the same accounting policies.

In compliance with IFRS 8 'Operating Segments' the following tables reconcile the operational loss and the assets and liabilities of each reportable segment with the consolidated figures presented in these Financial Statements, together with comparative figures for the year ended 31 December 2010.

Year ended 31 December 2011:

	Africa *$*	*Head Office* *$*	*Adjustments* *$*	*Consolidated* *$*
Administration costs	(50,588)	(1,357,714)	-	(1,408,302)
Share related payments	-	(179,276)	-	(179,276)
Deprecation of plant and equipment	(35,765)	(6,503)	-	(42,268)
Interest income	27,403	25,459	-	52,862
Impairment	(29,044,871)	-	-	(29,044,871)
Loss by reportable segment	(29,103,821)	(1,518,034)	-	(30,621,855)
Total assets by reportable segment	6,916,880	6,591,820	(5,054,123)	8,454,577
Total liabilities by reportable segment	(3,489,776)	(722,246)	3,153,040	(1,058,982)

3. **Operating segments (continued)**

Year Ended 31 December 2010:

	Africa $	*Head Office* $	*Adjustments* $	*Consolidated* $
Administration costs	(29,877)	(1,103,182)	-	(1,133,059)
Share related payments	(59,121)	(121,800)	-	(180,921)
Deprecation of plant and equipment	(34,391)	(4,143)	-	(38,534)
Interest income	14,343	26,718	-	41,061
Loss by reportable segment	(109,046)	(1,202,407)	-	(1,311,453)
Total assets by reportable segment	32,599,268	29,924,818	(34,710,712)	27,813,374
Total liabilities by reportable segment	(32,700,795)	(83,591)	32,253,164	(531,222)

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

4. **Taxation**

	Year ended 31 December 2011 $	*Year ended 31 December 2010* $
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	(30,621,855)	(1,311,453)
Tax at the UK corporation tax rate of 26.5%	(8,114,792)	(298,047)
Tax effects of:		
Expenses not deductible for tax purposes	7,994,772	107,320
Tax losses carried forward not recognised as a deferred tax asset	120,020	190,727
	-	-

Factors that may affect future tax charges
At the year end date, the Group has unused tax losses available for offset against suitable future profits of approximately $2.53 million (*2010: $2 million*). A resulting deferred tax asset of $670,000 has not been recognised in respect of such losses due to the uncertainty of future profit streams.

5. **Loss per share**

	Year ended 31 December 2011	*Year ended 31 December 2010*
	$	*$*
Loss for the year	(30,621,855)	(1,311,453)
Weighted average number of shares in issue	1,102,053,167	1,011,609,331
Basic loss per share	(2.78c)	(0.13c)
Diluted loss per share	(2.78c)	(0.13c)

The diluted loss per share is the same as the basic loss per share because the conversion of share options and share warrants decreases the basic loss per share, and is thus anti-dilutive.

6. **Parent Company income statement**

In addition to a provision for impairment of the amount receivable from the Uganda subsidiary of $29,886,213 (*2010: nil*) and the provision of $3,997,305 for impairment of the amount at which the investment in Neptune Petroleum Limited is carried on its Balance Sheet, the Parent Company incurred a loss for the year ended 31 December 2011 of $737,858 (*2010: $743,957*). In accordance with the provisions of Section 408 of the Companies Act 2006, the Parent Company has not presented a statement of comprehensive income.

7. **Employee costs**

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

	Year ended 31 December 2011	*Year ended 31 December 2010*
	$	*$*
Wages, salaries and fees	693,877	834,712
Social security costs	51,217	97,622
Share-based payments (note 18)	179,276	180,921
	924,370	1,113,255

The amount capitalised in exploration and evaluation assets (note 9) was:

	$	*$*
Wages, salaries and fees	430,268	683,353
Social security costs	45,839	92,168
	476,107	775,521

The amount charged in administration expenses was:

	$	*$*
Wages, salaries and fees	263,609	151,359
Social security costs	5,378	5,454
Share-based payments	179,276	180,921
	448,263	337,734

7. **Employee costs (continued)**

	Year ended 31 December 2011	*Year ended 31 December 2010*
The total number of employees of the Group, including Directors, was	29	32

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

8. **Plant and equipment**

Year ended 31 December 2011:

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

Year Ended 31 December 2010:

	Group	*Company*
Cost	*$*	*$*
At 1 January 2010	213,455	21,291
Additions during the year	67,023	-
At 31 December 2010	280,478	21,291
Depreciation		
At 1 January 2010	71,266	9,290
Charge for the year	38,535	4,143
At 31 December 2010	109,801	13,433
Net book value		
At 31 December 2010	170,677	7,858
At 31 December 2009	142,189	12,001

9. Intangible assets

Group:	*Exploration and evaluation assets*	*Goodwill*	*Total*
	$	*$*	*$*
Cost			
At 1 January 2011	18,131,030	8,023,292	26,154,322
Additions	7,974,397	-	7,974,397
At 31 December 2011	26,105,427	8,023,292	34,128,719
Amortisation and impairment			
At 1 January 2011	-	-	-
Amortisation for the year	-	-	-
Provision for impairment	(25,055,120)	(3,989,751)	(29,044,871)
At 31 December 2011	(25,055,120)	(3,989,751)	(29,044,871)
Net book value			
At 31 December 2011	1,050,307	4,033,541	5,083,848
At 31 December 2010	18,131,030	8,023,292	26,154,322

Goodwill arose on the acquisition of the Company's subsidiary undertakings (note 10) in prior years. The goodwill has been impaired by $3,989,751 which represents the allocation of the goodwill to the Neptune Petroleum (Uganda) Limited, as explained below. The remaining balance consists of the goodwill in respect of Neptune Petroleum (Namibia) Limited.

The aggregate capitalised Exploration and Evaluation ("E&E") assets at 31 December 2011 in respect of the Group's Ugandan licence was $25,055,120 (including a provision of $441,560 for estimated decommissioning costs). Drilling of the third and final well under the terms of that licence commenced in March 2012 but failed to locate any oil reservoir and was plugged and abandoned. In view of the drilling results and the expiry date of the licence, a full impairment review was undertaken by the Directors in accordance with IFRS 6 and a decision made that the likelihood of recovery of the capitalised expenditure was such that full provision for impairment should be made in the Statement of Comprehensive Income for the year ended 31 December 2011 for the total costs at that date.

The remaining amount of capitalised E&E expenditure shown as an intangible asset at 31 December 2011 was $1,050,307 of which $870,193 related to the Group's Namibian licence and $180,114 related to the Group's SADR licence. These amounts have not been impaired because commercial reserves have not yet been established or the determination process has not been completed. The Directors have assessed the value of those intangible assets, and in their opinion, based on a review of the expiry dates of licenses and the likelihood of their renewal, available funds and the intention to continue exploration and evaluation, no impairment is necessary.

10. Investments – subsidiary undertakings

	Loans to subsidiary undertakings *$*	*Shares in subsidiary undertakings* *$*	*Total* *$*
Company			
Cost			
At 1 January 2011	21,048,497	8,088,546	29,137,043
Advances during the year	9,844,388	-	9,844,388
Provision for impairment	(29,886,213)	(3,997,305)	(33,883,518)
At 31 December 2011	1,006,672	4,091,241	5,097,913

The loans to subsidiary undertakings have no fixed repayment terms but are repayable in more than one year. The impairment represents the investment in Neptune Petroleum (Uganda) Limited.

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

The Company's direct or indirect subsidiaries at 31 December 2011, all of which have been consolidated into the Group Financial Statements and of which the Company controls 100% of the voting rights were:

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

(*) Formerly named Tower Resources (Uganda) Limited

11. Trade and other receivables

	31 December 2011		*31 December 2010*	
	Group *$*	*Company* *$*	*Group* *$*	*Company* *$*
Other receivables	1,044,668	100,484	274,947	52,319

Included in the above Group figure is an amount of $765,976 in respect of VAT repayable by the Government of Uganda to the Group's local operating subsidiary Neptune Petroleum (Uganda) Ltd. Of that amount $277,688 was repaid in January 2012 and discussions between local management and Government are still continuing regarding repayment of the balance.

12. **Trade and other payables**

	31 December 2011		*31 December 2010*	
	Group	*Company*	*Group*	*Company*
	$	*$*	*$*	*$*
Payables and accruals	1,058,982	722,246	531,222	248,074

The above amounts represent liabilities incurred by the Group in its normal commercial activities and are payable within a period of approximately 45 days.

13. **Financial instruments**

Interest rate risk
At 31 December 2011 the Group had US Dollar cash deposits of $904,557, Pound Sterling cash deposits of a US Dollar equivalent of $1,265,518, Euro cash deposits of a US Dollar equivalent of $497, and Uganda Shillings cash deposits of a US Dollar equivalent of $6,365. The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates on classes of financial assets and financial liabilities, was as follows:

	31 December 2011		*31 December 2010*	
	Floating interest rate	*Non - Interest Bearing*	*Floating interest rate*	*Non - Interest Bearing*
	$	*$*	*$*	*$*
Financial assets:				
Cash at bank	1,598,848	578,089	887,334	326,094

The effective weighted interest rate on interest-bearing deposits during the year was approximately 1.25%.

Capital requirements
The Group is not subject to any externally imposed capital requirements.

Debt
At 31 December 2011, the Group had no debt.

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

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

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

13. **Financial instruments (continued)**

Capital risk management

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

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

Credit risks

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

The Group's maximum exposure to credit risk is in respect of the trade and other receivables and cash and cash equivalents totalling $1,494,592.

14. **Exploration expenditure commitments**

In order to maintain its interest in its oil and gas licences the Group is committed to meet the certain conditions. In respect of its Uganda licence it is required to drill three wells, of which two had been drilled at 31 December 2011. At that date the Group was advanced in planning the drilling of the final third well which was commenced and completed in February 2012.

All exploration and evaluation commitments in Namibia continue to be funded by Arcadia Petroleum Limited, with Tower retaining a 15% carried interest in the licence.

	31 December 2011		*31 December 2010*	
	Group	*Company*	*Group*	*Company*
	$	*$*	*$*	*$*
Aggregate amount at the year end				
Payable within not more than one year	4,000,000	-	7,500,000	-
Payable between one and two years	-	-	-	-
	4,000,000	-	7,500,000	-

15. **Decommissioning expenditure**

The Directors have considered the need to make provision for the cost of decommissioning or rectifying any environmental damage as required under the Group's license obligations in Uganda. As at 31 December 2011 the estimated total outstanding decommissioning costs relating to the 2009 and 2010 wells is $88,000 and the estimated costs in respect of the final third well spudded in February 2012 is approximately $353,560. These costs have been reflected in the Statement of Comprehensive Income for 2011 within the provision for impairment of Exploration and Evaluation Costs and in trade and other payables in the Statement of Financial Position.

16. **Share capital and options**

	31 December 2011	*31December 2010*
	$	*$*
Authorised		
10,000,000,000 ordinary shares of 0.1p each	19,900,000	19,900,000
Allotted, called up and fully paid		
1,225,862,756 (*2010: 1,032,162,756*) ordinary shares of 0.1p each	2,210,304	1,897,411

The share capital issues during 2011 are summarised as follows:

	Number of 0.1p shares	*Share capital at nominal value $*	*Share premium $*
At 1 January 2011	1,032,162,756	1,897,411	30,047,220
Shares issued for cash	193,700,000	312,893	10,769,703
Cost of share issues	-	-	(526,574)
At 31 December 2011	1,225,862,756	2,210,304	40,290,349

Details of share options outstanding at 31 December 2011 are as follows:

	Number of options
At 1 January 2011	14,000,000
Granted during the year	-
Exercised during the year	-
Lapsed during the year	-
	14,000,000

Date of grant	*Exercisable between*	*Option price*	*Number of options*
2 February 2006	2/02/07-2/02/13	1.5p	1,000,000
2 February 2006	2/02/09-2/02/13	1.5p	2,000,000
9 February 2007	9/02/07 – 9/02/14	3.125p	1,000,000
3 May 2007	3/05/08 – 3/05/14	2.25p	3,000,000
20 September 2007	20/09/08 – 20/09/14	2.75p	2,000,000
1 July 2008	1/07/08 – 1/07/15	4.75p	1,000,000
1 October 2008	1/10/08 – 1/10/15	3.88p	3,000,000
28 May 2010	28/05/11 – 28/05/17	1.325p	1,000,000
			14,000,000

The Company's share price ranged between 2.60p and 9.01p during the year. The closing price on 31 December 2011 was 2.72p per share.

The average exercise price of the outstanding options at 31 December 2011 was 2.63p and the weighted average exercise price was 2.68p. The remaining average contractual life of the options was 2.73 years.

On his appointment on 26 April 2012 Philip Swatman was granted 1,500,000 options at a price of 2.85p per share, valid for 5 years, and which vest in three equal tranches on the first, second and third anniversary of that date.

17. **Share warrants**

Details of the warrants outstanding at 31 December 2011 are as follows:

	Number of warrants
At 1 January 2011	13,587,726
Granted during the year	1,716,893
At 31 December 2011	15,304,619

Date of grant	*Latest exercise date*	*Warrant price*	*Number of warrants*
20/04/09	20/04/12	3.00p	4,300,002
15/12/09	15/12/12	2.55p	2,235,318
28/05/10	28/05/13	1.325p	6,339,622
14/10/10	14/10/13	3.72p	712,784
18/05/11 (*)	18/05/16	5.48p	1,716,893
			15,304,619

(*) The Share Warrants granted on 18 May 2011 do not vest in the beneficiaries until 18 May 2012.

The interests of the Directors in the share warrants in issue at 31 December 2011 and 31 December 2010 are:

	31 December 2011	*31 December 2010*
Peter Kingston	4,341,697	3,793,752
Peter Blakey	3,198,264	2,832,968
Peter Taylor	3,198,264	2,832,968
Mark Savage	1,760,078	1,540,900
Jeremy Asher	1,760,078	1,540,900
	14,258,381	**12,541,488**

18. **Share-based payments**

	2011	*2010*
	$	*$*
The Group recognised the following expense in the Statement of Comprehensive Income in respect of its share based payment plans:		
IFRS 2 charge	179,276	180,921

The above charge is based on the requirements of IFRS 2 on share-based payments. For this purpose, the fair value of the options or warrants granted in settlement of directors fees and the remuneration of management during the year is calculated by using the Black Scholes option pricing model. For this purpose the expected volatility applied was 55.8% and the dividend rate 0.5%.

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

TM Services Limited ("TM") is controlled by two directors of the Company, Mr. Peter Blakey and Mr. Peter Taylor. Included in the Group's operating loss is an amount of $192,117 (*2010: $194,990*) paid to TM in respect of charges for office accommodation and administration.

The key management of the Group is considered to be 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. The remuneration of Directors is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors is shown in the Directors' Report.

	Year ended 31 December 2011	*Year ended 31 December 2010*
	$	*$*
Short-term employee benefits	203,525	122,750
Share-based payments	179,276	121,800
	382,801	244,550

20. **Control**

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

21. **Subsequent events**

On 6 January 2012 the Company entered into an £8 million Standby Equity Distribution Agreement ("SEDA") and a $3.125 million SEDA-backed Loan Agreement with YA Global Master SPV Ltd., an investment fund managed by Yorkville Advisors LLC. The Loan can be increased in tranches of $1 million up to a maximum of $6.125 million if required, whilst the SEDA will be available to finance repayments of the Loan. Taken together these arrangements will help to part-fund the costs of drilling the third and final commitment well, Mvule-1, on the EA5 licence area in Uganda and also provide flexibility over future funding requirements.

On 9 February 2012 the Company (i) raised £600,000 (approximately $945,000) by the issue to YA Global Master SPV Ltd of 15,789,472 ordinary shares pursuant to the above-mentioned SEDA at a price of 3.8p per share; and (ii) raised £5.41 million (approximately $8.5 million) before costs through a placing of 180,333,334 new ordinary shares of 0.1p each at 3p per share, of which approximately £5 million was contributed by new institutional investors and the balance by the Directors. Part of the proceeds of the placing were used to repay the $3.125 million loan from YA Global Master SPV Ltd.

On 22 February 2012, the Company's operations on the Mvule-1 exploration well in Uganda Licence EA5 were completed. The well reached its total depth at 590 metres – basement was penetrated at 576 metres. No significant hydrocarbon shows were encountered over the zone of interest and electric wireline logging and fluid sampling confirmed that the well was water bearing. The well was plugged and abandoned. Mvule-1 was the final well commitment on EA5 and the final Exploration period ended on 26 March 2012.

On 6 March 2012, Peter Kingston, who has already resigned as Chairman of the Company in November 2011, resigned his position as CEO and Director of the Company.

On 26 April 2012, the Company completed the appointment of Mr Philip Swatman as Senior Independent Director of the Company.

On 23 March 2012 the Company entered into a £20 million equity finance facility ("EFF") with Darwin Strategic Limited ("Darwin").