

COMPANY REGISTRATION NUMBER 05305345
TOWER RESOURCES PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 DECEMBER 2018



TOWER RESOURCES PLC

YEAR-ENDED 31 DECEMBER 2018

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TOWER RESOURCES PLC
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CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT

OVERVIEW

Tower Resources plc ("Tower", the "Company" or the "Group") is an upstream oil and gas company listed on the London Stock Exchange AIM market in London. Tower is an experienced international operator of oil and gas licenses with a focus on projects in Africa. Tower has high potential projects in Cameroon, South Africa and Namibia.

CHAIRMAN AND CHIEF EXECUTIVE'S STATEMENT


During 2018 we made considerable progress towards our goals, and the general state of our industry improved as well, despite a weakening in market sentiment during the last couple of months of the year. The challenge for the industry to maintain or increase production following the under-investment of the past few years, coupled with continuing uncertainty about some of the more politically sensitive sources of supply, have sustained oil price increases during 2018 and into the first few months of 2019, despite continuing worries about global slowdown and trade wars. Encouragingly, a number of recent discoveries have also reminded the industry of the value of exploration, which still forms a significant part of our portfolio, and Total's discovery at Brulpadda in South Africa, after the year-end, is especially relevant to our own adjoining license.

We made great progress on our Thali license in Cameroon in 2018, as discussed in the Operational Review below, and we are looking forward to the NJOM-3 well in 2019, and the prospect of reaching our first oil production from the Njonji structure in 2020. We were also delighted to enter a new petroleum agreement in Namibia in November 2018.

We did not raise any money in 2018, but in January 2019 we announced the appointment of Turner Pope Investments (TPI) Limited and Whitman Howard Limited as joint brokers and conducted a small placing of £1.7 million in January 2019. Both brokers have initiated research coverage of Tower, in February and April of 2019 respectively. We know that we need more funds to drill the NJOM-3 well and we believe we are now well advanced in raising those funds at the asset level. We raised a small bridging loan of \$750,000 in April 2019 to assist in reaching that goal.

Finally, Graeme Thomson is retiring from the Board with effect from today, and both I and the rest of the Tower Board take this opportunity to thank him for his many years of service to the Company, first as CEO between 2012 and 2016, and then as a non-executive director and Chairman of our Audit Committee. We will be adding a new director to the Board and to the audit committee before the next audit cycle, and we will be fortunate to have an equally conscientious director in his place.

The year ahead will be crucial for our company in many ways. Realising our plan for the Thali license in Cameroon can transform us; and Namibia and South Africa are both attracting a lot of industry attention, especially since the Brulpadda discovery in South Africa and recent farm-in activity from Exxon and Tullow in Namibia. Your board of directors and management appreciate your support and are excited about the opportunities ahead.



Jeremy Asher

Chairman and Chief Executive

3 June 2019

TOWER RESOURCES PLC

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STRATEGIC REPORT

Our strategy remains to shift our near-term focus towards lower risk exploration and development within proven basins, best characterised by our 2015 signature of the Thali PSC in the Rio Del Rey basin, offshore Cameroon. We have not abandoned high risk/reward exploration: we have a highly prospective license in South Africa, and we have also signed a new petroleum agreement in Namibia, covering blocks that we know well from our previous license. The Thali PSC also has a high reward upside in the deeper formations, which have not yet been tested by historical drilling. We continue to believe that all of our assets are attractive and valuable. But our strategy is to focus our current investment on the lower risk, earlier reward opportunities in Thali during this phase of the market cycle, before pursuing the other higher risk opportunities.

This strategy requires finding external finance at the asset level for our existing exploration commitments wherever possible, which is why we took the decision some time ago to convert our working interest in the SADR to a royalty interest, and why we are now supporting our partner and operator, NewAge Energy Algoa (Pty) Ltd (50%), in seeking a farm-in partner for our Algoa-Gamtoos block in South Africa. Our financial strategy remains to explore asset-level financing even for assets that we could also finance with our own equity, to achieve the most economic financing for each asset and the best value for shareholders.

As an operator, we believe that the scale of local operations is also important to create savings and synergies across blocks in the same basin. To some extent this can be achieved and reinforced through good relations with other local operators but controlling multiple blocks oneself is the most obvious way to achieve such synergies (where they can be found) to the benefit of one's host nation, one's partners, and one's investors alike. To this end, we are continuing to discuss a further PSC in Cameroon even while undertaking development of our existing one.

Keeping overhead costs appropriately low, and managing operating costs well, are always important, but especially so in this phase of the market cycle. We have always sought to keep fixed costs down, and total costs flexible, through outsourcing important functions such as our technical-subsurface relationship with the EPI Group, and we have reduced our corporate costs substantially since 2016, as our 2017 and 2018 figures confirm.

TOWER RESOURCES PLC YEAR-ENDED 31 DECEMBER 2018 STRATEGIC REPORT

OPERATIONAL REVIEW

On an operational level, we have had a very busy year and activity has only stepped up since the year-end.

In Cameroon, we have completed the reprocessing of the 3D seismic data over our Thali license in the shallow offshore, and the Environmental and Social Impact Assessment ("ESIA") required before we can begin drilling at Thali. We also commissioned and received a Reserve Report from Oilfield International Ltd (OIL) based on the reprocessed seismic data and some further analysis, and this has provided us with both an external estimate of the 2C contingent resources in the Njonji structure in our Thali license, and also the prospective resources in that Njonji structure and elsewhere in the license. The Reserve Report has also included an economic evaluation of those resources. In summary, the main conclusions of the Reserve Report included:

- Gross mean contingent resources of 18 MMbbls of oil across the proven Njonji-1 and Njonji-2 fault blocks (with low/best/high estimates of 5/15/34MMbbls) and with a development contingency probability of 80% on first phase and 70% on second phase;
- Gross mean prospective resources of 20 MMbbls of oil across the Njonji South and Njonji South-West fault blocks (with low/best/high estimates of 5/16/39 MMbbls);
- Gross mean prospective resources of 111 MMbbls of oil across four identified prospects located in the Dissoni South and Idenao areas in the northern part of the Thali licence (with low/best/high estimates of 21/84/237 MMbbls);
- Calculated EMV10s of US\$118 million for the contingent resources, and US\$82 million for the prospective resources, respectively.

Following this work, we received an extension of the current first exploration phase of our license, to September 2019, and we contracted with Vantage to charter the Topaz Driller jack-up rig to drill the NJOM-3 well on the Njonji structure during that extension. This is planned to be the first in a four-well phase of work to place the reservoirs in Njonji into an extended well test, beginning in the first renewal period of the license. We hope this well test will commence in 2020 and will mark our first substantial production of oil.

Since the year-end, we have completed the well engineering, ordered long lead items, and retained Bedrock Drilling, who managed the two wells on the Etinde block in Cameroon, also using the Topaz Driller, to manage this well. We have also now selected the full suite of contractors to provide services for the well including the test programme. The Topaz Driller is currently scheduled to move to the site in July.

In Zambia, we were frustrated by the slow progress of the new petroleum legislation, which has prevented us from agreeing a further work programme in respect of blocks 40 and 41. In light of this, we made the decision to write off our investment in Zambia during 2018, as reflected in our Interim Report. The present position is that our license obligations have been paid up to date, and we continue discussions with the Zambian Government, but we have not yet agreed a basis for moving forward.

In Namibia, we negotiated a new petroleum agreement in respect of blocks 1910A, 1911 and 1912B, covering 23,297km² in the Walvis Basin and Dolphin Graben. This is an under-explored region in which recent drilling results have proven the presence of a working oil-prone petroleum system and

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STRATEGIC REPORT

good quality turbidite and carbonate reservoirs. This is also an area that we know well, since blocks 1910A and 1911 formed part of Tower's original licence PEL0010, which Tower and its partners in that license, Repsol Exploration (Namibia) (Pty) Limited and Arcadia Expro Namibia (Pty) Ltd, relinquished in 2015. The current agreement is structured to comprise an Initial Exploration Period of four years (which may be extended to five in appropriate circumstances), followed by options for Tower and its partners to enter a First and Second Renewal Period of two years each. The work programme for the Initial Exploration Period comprises regional play fairway evaluation and acreage high-grading activities. Namibia has seen considerable commercial and operational activity, with the Cormorant and Prospect S wells being drilled by Tullow and Chariot respectively in the last quarter of 2018, and more recently Exxon and Tullow farming into several blocks since the year-end.

In South Africa, our co-venturer and operator NewAge has been conducting further studies on the considerable amount of 2D and 3D data that we have on the leads and prospects in the three basins that are present in our Algoa-Gamtoos license, while also waiting for the result of Total's Brulpadda well which was drilled on the license adjoining ours to the West, on a deepwater prospect in the Outeniqua basin. This basin is one of the three present in the license, so we were delighted to see, after the year-end, that Total has made a substantial, 1 billion boe gas/condensate discovery. NewAge is presently conducting a farm-out process, with the aim of bringing in an additional co-venturer before we begin the next two-year renewal phase of the license, which will involve further 3D seismic data acquisition and processing. Since the year-end, NewAge also updated its estimates of resources on the Algoa Gamtoos license, which now comprise unrisked mean prospective resources of 664 million boe recoverable from five leads and prospects in the Algoa, Gamtoos and Outeniqua basins, including a potential 364 million boe Deep Albian structure, analogous to Brulpadda in the Outeniqua Basin Slope.

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STRATEGIC REPORT

FINANCIAL REVIEW

Selected financial data

	2018	2017
Loss after tax (\$)	(3,821,683)	(1,615,477)
Net cash investment in oil and gas assets (\$)	1,345,833	649,009
Year-end cash (\$)	331,395	2,151,476
Year-end share price (p)	1.28p	0.78p

Highlights

- Thali PSC \$1.2 million (2017: \$431k) exploration and evaluation expenditure.
- Publication of Cameroon Reserves Report by Oilfield International Limited;
- Award of new Petroleum Agreement for an 80% operated interest in blocks 1910A, 1911 and 1912B, offshore Namibia, together with the National Petroleum Corporation of Namibia (NAMCOR);
- Reduced loss before impairment of \$1.0 million (2017: loss \$1.6 million)
- Impairment of Zambia licences totalling \$2.8 million (2017: \$nil); and
- Cash balance at year-end of \$331k (2017: \$2.2 million).

Post-reporting period events

- Placing and subscription to raise £1.7 million (gross) at placing price of 1.00 pence per share;
- Interim financing via a \$750,000 Bridging Loan Facility.

Loss for year

The 2018 loss totalled \$3.8 million (2017: loss \$1.6 million) and includes the following items:

	2018 \$	Variance \$	2017 \$
Share-based payment charges	(137,184)	22,923	(160,107)
Impairment of exploration and evaluation expenditure	(2,813,413)	(2,813,413)	-
Pre-licence expenditure	(4,829)	13,263	(18,092)
Overhead recharged to pre-licence costs and capitalised within intangible exploration and evaluation assets	-	(58,726)	58,726
Foreign exchange losses	48,694	(65,887)	114,581
Finance income / expense	4,033	6,693	(2,660)
Other administrative expenses	(918,984)	688,941	(1,607,925)
Loss for the year after taxation	(3,821,683)	(2,206,206)	(1,615,477)

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STRATEGIC REPORT

During 2018 the Company has put a significant amount of time and focus on the both the acquisition and reprocessing of new seismic in Cameroon and the issuance of an updated Reserve Report incorporating the new data and conclusions from this work. On the back of corroborative and encouraging evaluation work from this, the Company was able to secure a one year extension on its Thali licence in Cameroon and also commit to contracting the Topaz Driller from Vantage Drilling International for the 2019 NJOM3 appraisal well.

In November 2018 the Company announced that it had successfully been awarded an 80% operated interest in blocks 1910A, 1911 and 1912B, offshore Namibia, together with the National Petroleum Corporation of Namibia. The initial commitments for these licences are minimal and are covered in note 19.

During the year the Group took the decision to impair the carrying value of its Zambian licences in full as the Directors continue to await the review of the country's petroleum law and have not yet agreed with the Government of Zambia the next phase of work, if any, in respect of Blocks 40 and 41. This uncertainty has led the Directors to fully impair amounts totalling \$2.8 million (2017: \$nil million) in accordance with IAS 36 "Impairment of Assets" due to the lack of clarity regarding both future work programme and the fiscal terms.

Exploration and evaluation expenditure

The Group invested the following amounts in the exploration for oil and gas during the year:

	2018 \$	2017 \$
Cameroon	1,214,414	430,055
Namibia	4,697	-
Zambia	16,297	22,949
South Africa	110,425	196,005
Total	1,345,833	649,009

The majority of the Group's expenditure on exploration and evaluation activities has been in Cameroon, where as has been previously noted the acquisition and reprocessing of new seismic in Cameroon, the issuance of an updated Reserves Report and NJOM3 well planning and long-lead item acquisitions have been the focus. The Namibian Petroleum Agreement was only completed in November 2018, while expenditures in Zambia and South Africa have been limited to care-and-maintenance pending the clarification of certain fiscal and operating matters in those jurisdictions.

At the year-end the Group had capitalised the following amounts within intangible exploration and evaluation assets:

	2018 \$	2017 \$
Cameroon	6,880,340	5,665,926
Zambia	-	2,797,117
South Africa	12,761,362	12,650,937
Namibia	4,697	-
Total	19,646,399	21,113,980

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STRATEGIC REPORT

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.

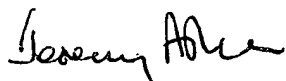
- 1. Oil price and gas price / foreign exchange volatility.** The carrying value of the Group's assets is underpinned by current and future oil prices, particularly in high-cost exploration environments such as deep-water offshore acreage. Volatility in oil and gas price markets make it more difficult for the Group to accurately value their assets at any given time. The Group is primarily financed in the United Kingdom from the proceeds of shares issued on the AIM in pounds Sterling. The majority of the Group's operational expenditure is denominated in US Dollars and currency fluctuations may adversely affect the cost of that expenditure.
- 2. 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 at the asset-level or from capital markets to finance its exploration and evaluation activities. Any downturn 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. The Group will need to raise further funds within the next 12 months or agree a farm out or other asset-level transaction involving one or more of the Group's licences, in order to meet all of its forward commitments. The Directors believe that there are a number of options available to them either through capital markets, farm-outs or asset disposals with respect to raising these funds. There can, however, be no guarantee that the required funds may be raised or transactions completed within the necessary timeframes.
- 3. 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, by farm-outs to other industry participants and the selection of prospective exploration assets.
- 4. 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.
- 5. 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 countries in which the Group currently have direct interests (Cameroon, South Africa, Namibia and Zambia) are considered to be medium-low risk by the Board of Directors. The Group's royalty interests in SADR, however, are currently affected by a country-specific situation. 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.
- 6. 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

TOWER RESOURCES PLC YEAR-ENDED 31 DECEMBER 2018 STRATEGIC REPORT

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.

7. **Attracting and retaining experienced and skilled individuals.** 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 accordance with industry best practice, that the Remuneration Committee consider sufficient to attract and retain key talent.

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.



Jeremy Asher

Chairman and Chief Executive

3 June 2019

TOWER RESOURCES PLC

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CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Jeremy Asher BSc (Econ), MBA, MEI – Chairman and Chief Executive Officer

Jeremy Asher, aged 60, in addition to his role in Tower, is Chairman of Agile Energy Limited, a privately held energy investment company, and until November 2018 was a Director of Pacific Drilling SA, where he chaired the Remuneration Committee and was a member of the Restructuring Committee. He has also served as Deputy Chairman of LSE-listed Gulf Keystone Petroleum Ltd (until June 2014) and TASE-listed Oil Refineries Ltd (until December 2014). Following several years as a management consultant, he ran the global oil products trading business at Glencore AG and then acquired, developed and sold the 275,000 b/d Beta oil refinery at Wilhelmshaven in Germany. Between 1998 and 2001 he was CEO of PA Consulting Group, and since that time has been an investor and Director in various public and private companies.

Graeme Thomson FCA, MA, BA, MEI, MloD – non-executive Director

Graeme Thomson, aged 62, served as CEO of Tower from 2012 to 2016, after which he stepped down to non-executive Director. Until December 2013 he was a non-executive Director of Desire Petroleum plc from July 2011, 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. 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.

David M Thomas - Independent Non-Executive Director

Mr Thomas, aged 69 is a geologist with over 30 years of experience in the oil and gas industry, primarily in North and West Africa. After working in Libya for Occidental Petroleum and Tunisia for Tenneco (now British Gas) in the 1970s and 1980s, Mr Thomas returned to London as International Chief Geologist for Kuwait Petroleum Corporation and later founded a consulting company offering a range of petroleum advisory services. Mr Thomas served most recently as managing director of MedOil PLC and has been a director of AIM-quoted Thalassa Holdings since 2008.

Peter Taylor – non-executive Director

Peter Taylor, aged 72, is Joint Chairman of TM Services Ltd, an international oil and gas consulting company. In 1991 he was a founder and Director of TM Oil Productions Ltd which became Dana Petroleum plc and one of the leading UK oil and gas exploration companies before being taken over in 2010 by KNOC for £2bn. He was founder member of Consort Resources Ltd, a significant North Sea gas transportation and production company and was also a founder and Director of Planet Oil Ltd, which reversed into Hardman Resources in 1998. Planet held various interests including Mauritania, Guyane (formerly French Guiana) and Uganda. He was a founding member and Director of Star Petroleum plc which was incorporated into Global Petroleum Ltd, and also a founding member of Neptune Petroleum Ltd which was acquired by Tower. He is a Director of Global Petroleum Ltd, listed on the ASX and AIM. He was co-founder of Jupiter Petroleum Ltd, which has assets in offshore Namibia and Juan de Nova. Jupiter was sold to Global in 2011. He is Chairman of the Remuneration Committee.

Application of QCA code principles

Throughout the year-ended 31 December 2018 the Board has sought to comply with the provisions of the QCA Code ("the Code"). The Company's Corporate Governance Statement is available on the Company's website and explains how the 10 Principles of the QCA Code are applied by the Company and where it departs from the QCA Code, an explanation of the reasons for doing so is provided. Further details are also provided below. .

Board composition, operation and independence

The Board currently comprises the Chairman / Chief Executive Officer, and three non-executive Directors (although this will temporarily fall to two non-executives following Graeme Thomson's

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CORPORATE GOVERNANCE

departure). 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 at the end of the Directors' Report.

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	10	2	1
Jeremy Asher	10	¹ -	¹ -
Graeme Thomson	9	2	1
David M Thomas	9	¹ -	¹ -
Peter Taylor	10	2	1

¹ not a committee member

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AUDIT COMMITTEE REPORT

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 Committee devotes significant time to their review and further information on the risk management and internal control systems is provided within the Strategic Report.

A key governance requirement 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. It runs alongside the formal audit process undertaken by external Auditors and is designed to arrive 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:

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

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.

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. In this respect, the Committee refers to the Going concern section in the Directors' Report.

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.

The Committee has recommended to the Board that shareholders support the re-appointment of the Auditors at the 2019 AGM.



Graeme Thomson

Chairman of the Audit Committee

3 June 2019

TOWER RESOURCES PLC YEAR-ENDED 31 DECEMBER 2018 CORPORATE GOVERNANCE

Audit Committee Members

This Committee comprises:

- Graeme Thomson (Chairman)
- Peter Taylor

Summary of responsibilities of Audit Committee

- 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.

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REMUNERATION COMMITTEE REPORT

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

- CEO compensation including base compensation, bonus and equity incentives;
- Director remuneration;

In order to conserve the Company's working capital it was decided that Directors would take a substantial portion of their remuneration in warrants in 2018.

Directors and certain consultants are only eligible to participate in the Group bonus or equity incentive schemes at the absolute discretion of the Board, with recommendations from the Remuneration Committee. Annual bonuses are capped as follows:

- Executive Directors: 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 and the wider sector; they also consider appropriate industry benchmarks. The annual remuneration for the Directors is noted in the Directors' report.



Peter Taylor

Chairman, Remuneration Committee

3 June 2019

Remuneration Committee Members

This Committee comprises:

- Peter Taylor (Chairman)
- Graeme Thomson

Summary of responsibilities of Remuneration Committee

- Agreeing a policy for the remuneration of the Chairman, executive Directors, non-executive Directors and other senior executives;
- Within the agreed policy, determining individual remuneration packages for the Chairman, executive Directors, non-executive Directors and other senior executives;
- Agreeing the policy on terms and conditions to be included in service agreements for the Chairman, executive Directors, 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.

TOWER RESOURCES PLC

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CORPORATE GOVERNANCE

QCA CODE

The Board recognises that good standards of corporate governance help the Company to achieve its strategic goals and is vital for the success of the Company. The Company adopts proper standards of corporate governance and follows the principles of best practice set out in the Quoted Companies Alliance Governance Code (2018) (the 'QCA Code'), as far as is appropriate for the size and nature of the Company and the Group.

Business Model and Strategy

Tower Resources is focussed on building a production-led, African-based, conventional oil & gas group, which intends to have a balanced portfolio ranging from exploration through appraisal to production, primarily through its own origination of opportunities and their organic development, but also via the inorganic route where appropriate acquisition opportunities arise.

The company aims to achieve this through:

1. Originating high-potential, entry stage, exploration and appraisal licences with large equity interests (50-100%) that provide the flexibility to farm-out whilst retaining a material exposure in the event of success;
2. Holding smaller equity stakes or royalty interests in production or potential production, whether developed internally or acquired; and
- 3.. Maintaining the capacity to operate throughout the exploration and appraisal phase of a licence.

Exploration success is transformational in terms of shareholder value creation in the E&P sector, but in the early stages requires funding via partnering with major industry players or shareholder equity; both of which are subject to market conditions. To balance risk across the portfolio, Tower aims to develop oil & gas production thereby providing operational cashflow to fund its early stage exploration costs.

Understanding Shareholder Needs and Expectations

The Board is committed to maintaining good communications with its institutional and private shareholders. The Company provides regular updates on operational matters together with price sensitive information which is released to the market via the Regulatory News Service (RNS) under the guidance of the Company's nomad, SP Angel Corporate Finance LLP and its joint brokers Turner Pope Investments (TPI) Limited and Whitman Howard Limited. The Company website also allows shareholders and prospective shareholders to register for automatic news alerts for both regulatory announcements and non-regulatory news and is updated regularly.

The Company also regularly presents at a number of well attended oil & gas investor forums, such as the London Oil Capital Conference, as well as other international conferences of note. The corporate presentations from such conferences are made available to investors via the Company website. Tower also subscribes to the VOX Markets IR platform and periodically record podcasts which are uploaded to the Company website of industry commentator's interviews with the CEO. The Company does not currently utilise social media as part of its IR strategy, but this may be reviewed in the future should it complement existing IR efforts.

The Company encourages all shareholders to attend its Annual General Meeting where they can meet and question the Directors and express ideas or concerns. Shareholders are also welcome to write or speak to (by phone appointment) any of the Directors, subject to commercial confidentiality and regulatory restrictions. In addition, shareholder communications are also dealt with via the Company's nominated advisor and brokers.

Stakeholder and Social Responsibility

The Board recognises that the long-term success of Tower and value creation for shareholders depends on good relations with both internal (shareholders and employees) and external stakeholders (advisors, license partners, technical consultants, governments).

The Company maintains a regular dialogue with its external stakeholders, especially the oil & gas ministries of foreign governments where the Company has its operations or licence applications, such as Cameroon, Zambia, South Africa and Namibia. The Company also works closely with its advisors to ensure it complies with its AIM listing requirements, MAR and FCA disclosures, as well as the social, legal and financial requirements of the countries in which it operates.

TOWER RESOURCES PLC

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CORPORATE GOVERNANCE

Health, Safety and Environment (HSE)

Health, Safety and the Environment (HSE) are of paramount importance to the oil & gas industry with the potential for high profile and severe consequences on the rare occasions where strict compliance to HSE has not been maintained or things go wrong.

Tower is committed to excellence and continual improvement in operations and HSE standards throughout its activities. The Company complies with all applicable laws, governmental rules and regulations and other requirements of its host countries and strive to meet the following broad goals:

- Protect the health and safety of its employees, contractors and others who may be affected by its activities;
- Prevent environmental pollution;
- Promote the needs of the local communities; and
- Optimise raw material and energy consumption to minimise waste.

We will achieve this by:

- Strong leadership and clearly defined responsibilities for HSE at all levels of the organisation;
- Setting and reviewing HSE goals and objectives;
- Hiring of competent staff to manage the business;
- Identifying, assessing and managing HSE risks to people and the environment as an integral part of the business;
- Emergency planning to ensure that an emergency can be quickly and efficiently contained;
- Selection of competent contractors and suppliers to support the company;
- Reporting and investigating incidents to ensure appropriate lessons learned;
- Monitoring HSE performance through regular reporting; and
- Periodic audits and management reviews to identify and implement improvements to our HSE systems.

We all have a responsibility for maintaining high standards of HSE and this policy shall be used to guide our activities and our HSE standards should not be compromised by other business priorities.

Social Responsibility Statement

Tower places great importance on establishing good relationships within the communities in which it operates, and the group is committed to best practice, consistent with IFC guidelines and the "Equator Principles" in its management of social issues in its areas of operation. Planning to manage the environmental impact is very comprehensive and adherence to the spirit, as well as the letter, of Environmental Impact Assessment is a fundamental aim.

Local relationships are led by Tower's local country manager facilitated by focused social investment projects established after consultation with national and local government and the communities themselves to establish the greatest need and the potential for sustainability.

Community Programmes

Throughout its operations in Zambia, Cameroon and Namibia, Tower has supported a programme of communicating with, and supporting, local communities to ensure that they are aware of the operations being undertaken by the Company and potential benefits that Tower are bringing to communities through its investment in local operating companies. Importantly, "Town Hall" meetings are held to present the environmental impact assessments of, geological sampling and fieldwork, seismic and drilling operations so that local communities can ask questions and obtain reassurances prior to the commencement of operations. Other examples of community engagement include:

- Promoting wider awareness of the Company and the oil industry;
- Establishing a strong local identity through employment and training of locals to manage key areas of the business;
- Communication with local communities in all areas to keep them informed of operations;

TOWER RESOURCES PLC

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CORPORATE GOVERNANCE

- Consultation to gain feedback and understand community priorities for Tower's social investments;

Building local capacity for the long term through encouragement of local educational initiatives and use of local labour and contractors.

Risk Management

The exploration for and development of natural resources is an inherently highly speculative activity which involves a high degree of risk and in addition there are specific country risks in which Tower operates or hold licence interests. These risks are regularly assessed by the Board at either a corporate level or on a specific project basis to mitigate those risks which include, amongst others, geological/sub-surface, operational, commercial, commodity pricing, currency, geopolitical, security and funding risks.

Tower's technical and sub-surface risks are mitigated further via a strategic alliance with EPI Group Limited (EPI) which provides an outsourced exploration department. EPI can provide Tower with New Ventures, Exploration and Development work across the world and has specific expertise in the fields of seismic mapping, structural geology, sequence stratigraphy, sedimentology, field geology and thermal maturity/charge modelling. The exploration team has the capability and reach to provide a full range of exploration geoscience expertise and is fully integrated into the management team at Tower Resources providing asset management and new ventures high-grading capabilities.

Board Structure

The Board comprises four directors – a joint chairman and CEO, Jeremy Asher, who has executive responsibilities, including the day-to-day management and financial control of the Company, and three non-executive directors: Graeme Thomson, Peter Taylor and David M Thomas, the sole independent non-executive director.

The Board is aware that the QCA Code advises that save in exceptional circumstances, the chairman should not also fulfil the role of chief executive. Given the current size and stage of the Company, Tower notes that this combined role is merited in the short-term, given current resource constraints although this will be monitored as the Company grows.

The QCA Code also recommends that the Board include at least two non-executive directors who are identified as independent, and the Board will review further appointments as the Group's scale and complexity grows.

David M Thomas as the sole independent director does not own shares in Tower Resources and his remuneration is paid in cash ensuring his independence. The remaining non-executive Directors, Graeme Thomson and Peter Taylor, and Jeremy Asher, in his capacity as Chairman, are all shareholders in the Company and have elected to accept warrants in partial settlement of remuneration. The award of warrants in lieu of remuneration is reviewed each calendar quarter.

The Board meets formally at least four times a year but in practice holds many more additional meetings when necessary to transact other business. All the necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively. The UK-based directors also meet to review operational and administrative progress with technical and administrative consultants at least once a month.

There are formally constituted Audit and Remuneration Committees. There is currently no formal Nominations Committee as the Board participates in all relevant decisions. The Company will report annually on the number of Board and Committee meetings that have been held and the attendance record of individual directors in its annual accounts.

Board Composition and Experience

Tower operates its business in the complex area of oil & gas and in developing African countries which present specific challenges. It is critical that the Board is composed of members who have experience in all facets of the international oil & gas sector, including sub-Saharan Africa, as well as commercial and finance knowledge. The Chairman and CEO and all the non-executive directors have a successful track record in establishing and developing fledgling oil and gas companies and are fully committed to using their experience to benefit all shareholders.

The Board and its committees also seek external expertise and advice when required.

The current composition of the Board and bios are noted in the Board of Directors section of this report.

TOWER RESOURCES PLC

YEAR-ENDED 31 DECEMBER 2018

CORPORATE GOVERNANCE

Board Evaluation

The ultimate measure of the effectiveness of the Board is the Company's progress against the long-term strategy and aims of the business. This progress is reviewed in Board meetings held at least quarterly.

Given the size of the Company, a formal annual appraisal process for the members of the Board does not currently exist although informally, each of the members are reviewed by their fellow board members to ensure that their individual contributions are relevant and effective, that they are committed, and where relevant, have maintained their independence.

The Board will continue to evaluate the requirement for a formal appraisal process as the Company grows and may consider independent external evaluation reviews at such a point in time.

Succession planning is also a vital task for boards and the management of succession planning represents a key responsibility of the Board.

Corporate Culture

All directors are committed to transparency and the highest standard of ethical dealings with all stakeholders as Tower realises that this is critical in maintaining the quality of relationships which are vital for success.

Tower Resources operates in the international oil & gas sector and therefore recognises that its corporate culture not only needs to comply with UK law and the laws of the countries in which the Company operates, but also to incorporate ethical values and professional behaviour which reflect positively on the Company and treats employees, partners, stakeholders and service providers with respect at all time.

The Company's Code of Conduct sets out compliance with rules, laws and regulations, such as the UK Bribery Act and the Company's whistleblowing policy and given that Tower Resources is a listed company, has adopted a Market Abuse Regulations (MAR) 2016 compliant share dealing code.

The Board's responsibility is to set out the strategic objectives and ensures that the correct resources are in place for the delivery of those objectives. All members of the Board take collective responsibility for the performance of the Company and all decisions are taken in the interests of the Company.

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.

The Board has a joint Chairman and CEO role currently fulfilled by Jeremy Asher. The Chairman is responsible for overall leadership of the Board and ensuring that the Board operates effectively and that the Board has the right level of experience and expertise to deliver the company's strategic objectives.

The CEO is responsible for the day to day running of the business and ensuring that the objectives set by the Board are implemented. The CEO is also responsible for ensuring the company is sufficiently capitalised to meet its objectives and for all communications with shareholders and the investor community; including advisors and regulatory bodies.

The Board is aware that the QCA Code advises that save in exceptional circumstances, the chairman should not also fulfil the role of chief executive. Given the current size and stage of the Company, Tower notes that this combined role is merited in the short-term given current resource constraints, although this will be monitored as the Company grows.

The dual role is also managed through the strong board communication and spirit of constructive discussion and challenge at board level, where the Chairman/CEO actively seeks the views and participation of the majority of non-executive directors.

The Board has established Audit, Remuneration and Nominations Committees to assist in the oversight of specific functions, details of which are noted in the Corporate Governance Section of this report above.

TOWER RESOURCES PLC

YEAR-ENDED 31 DECEMBER 2018

CORPORATE GOVERNANCE

Stakeholder Communication

Tower Resources is committed to maintaining good and transparent relations with shareholders. The Company's website is regularly updated with all the required regulatory information and news events as well as other corporate, shareholder and operational information. Results of shareholder meetings are announced through the Regulatory News Service and displayed on the Company's website, with explanations of any actions undertaken as a result of any significant votes against resolutions.

Tower also actively engages with investors through the VOX Markets IR platform and investor forums, such as the London Oil Capital Conference and Proactive Investors, as well as other international oil & gas conferences. The corporate presentations from such conferences are then made available on the Company website and viewable as webcasts.

The Company's investor relations programme is supported by the Company's Corporate Affairs department and Nominated Adviser SP Angel Corporate Finance LLP and its joint brokers Turner Pope Investments (TPI) Limited and Whitman Howard Limited.

Areas of non-compliance:

- Jeremy Asher, is both Chairman and CEO of the Company, and these roles should be separated under the Code;
- Non-executive Directors Graeme Thomson and Peter Taylor have been granted share warrants in lieu of certain services to the Company in order to preserve cash resources;
- The Executive Directors are assessed against clear and objective criteria, however there are no objective criteria set against which the Board, Committees and individual effectiveness of the non-executive Directors are considered. Board evaluation is considered on an ad hoc basis and there is no formal evaluation process carried out by the Company as it is not deemed necessary or appropriate at this time.
- The Code provides that the Company should appoint at least two independent non-executive Directors to the Board, while presently David Thomas is considered the sole independent non-executive Director.

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. 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/Chief Executive Officer provides 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 will be made available to shareholders and posted 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.

TOWER RESOURCES PLC

YEAR-ENDED 31 DECEMBER 2018

CORPORATE GOVERNANCE

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 2018.

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 2018, 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 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 \$3.8 million (2017: \$1.6 million) after charging \$2.8 million for the impairment of the Zambian interests (2017: \$nil). This leaves an accumulated Group retained loss of \$139.2 million (2017: \$135.5 million) to be carried forward. Full analysis of the movements in the Group's reserves is provided in the Consolidated Statement of Changes in Equity. The Directors do not recommend the payment of a dividend (2017: \$nil).

Going concern

The Group will need to raise further funds within the next 12 months or agree a farm out or other transaction involving one or more of the Group's licences, in order to meet its liabilities as they fall due, particularly with respect to the forthcoming drilling programme in Cameroon. The Directors believe that there are a number of options available to them through either, or a combination of, capital markets, farm-outs or asset disposals with respect to raising these funds. There can, however, be no guarantee that the required funds may be raised or transactions completed within the necessary timeframes, which raises uncertainty as to the application of going concern in these accounts. Having assessed the risks attached to these uncertainties on a probabilistic basis, the Directors are confident that they can raise sufficient finance in a timely manner and therefore believe that the application of going concern is both appropriate and correct.

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 16 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 20. No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

TOWER RESOURCES PLC

YEAR-ENDED 31 DECEMBER 2018

CORPORATE GOVERNANCE

Directors

The Directors who served during the year were as follows:

Mr Jeremy Asher (Chairman)

Mr Graeme Thomson (non-executive Director)

Mr David M Thomas (independent 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.

Directors and election rotation

With regard to the appointment and replacement of the Directors, the Company is governed by its Articles of Association, the QCA 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 Jeremy Asher retires by rotation and has offered 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 3 June 19	Share options and warrants 3 June 19	Ordinary shares of 0.1p each 31 December 18	Share options and warrants 31 December 18
Jeremy Asher ¹	70,891,495	142,908,865	30,041,495	16,412,436
Graeme Thomson	5,150,767	15,690,413	5,150,767	9,976,128
Peter Taylor	18,451,726	17,190,413	15,451,726	9,976,128

¹ Some of 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.

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

Directors' Remuneration and service contracts

- Jeremy Asher (Chairman) was paid at a rate of £45,000 pa (£30,000 pounds of which were in share warrants). Pegasus Petroleum Limited, a company owned and controlled by Jeremy Asher, also received \$201,300 in fees for management services provided to group companies.
- Graeme Thomson (Non-executive director and Chairman of the Audit Committee) was paid £30,000 pa (£15,000 pounds of which were in share warrants).
- Peter Taylor (Non-executive director and Chairman of the Audit Committee) was paid £30,000 pa (£15,000 pounds of which were in share warrants).
- David M Thomas (Non-executive director appointed in November 2017) was paid at a rate of £24,000 pa (paid entirely in cash).

TOWER RESOURCES PLC

YEAR-ENDED 31 DECEMBER 2018

CORPORATE GOVERNANCE

The remuneration paid to the Directors during the 12 months ended 31 December 2019 was as follows:

	Salary	Other remuneration	Share warrants	Share incentive plan	2018 Total	2017 Total
	\$	\$	\$	\$	\$	\$
Jeremy Asher	19,746	201,300 ¹	40,689	53,078	314,813	419,639
Graeme Thomson	20,569	-	20,344	-	40,913	(4,391)
David M Thomas	36,096	-	-	-	36,096	4,756
Peter Taylor	20,569	-	20,344	-	40,913	82,503
Total	96,980	201,300	81,377	53,078	432,735	502,507

¹ Charged by Pegasus Petroleum Limited, a company registered in the Channel Islands, to Rift Petroleum Holdings Limited, a wholly owned subsidiary of Tower Resources plc and registered in the Isle of Man. Pegasus Petroleum Limited ("Pegasus") is owned and controlled by a family trust of which Jeremy Asher is the settlor and lifetime beneficiary. Included in the Group's operating loss is an amount of \$201,300 (2017: \$295,885) paid to Pegasus in respect of charges for management services.

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 377,335,427 issued ordinary shares of 1 pence each of the Company at 31 December 2018:

	Number	%
Lansdowne Partners	51,595,370	13.7%
Robert Finch	38,726,291	10.3%
Jeremy Asher ¹	30,041,495	7.9%
David & Monique Newlands	26,750,000	7.1%
Peter Taylor	15,451,726	4.1%
At 3 June 2019	Number	%
Jeremy Asher ¹	70,891,495	12.5%
Robert Finch	55,726,291	9.9%
Lansdowne Partners	51,595,370	9.1%
David & Monique Newlands	45,000,000	8.0%
Peter Taylor	18,451,726	3.3%

¹ Some of 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.

The list of substantial shareholdings above excludes the shareholdings of market makers in the Company's shares, among them Peel Hunt LLP who last notified the Company on 8 May of a total holding of 74,245,332 shares representing a 13.1% interest.

**TOWER RESOURCES PLC
YEAR-ENDED 31 DECEMBER 2018
CORPORATE GOVERNANCE**

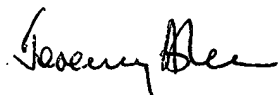
Auditors

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 Directors 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.



Jeremy Asher

Chairman and Chief Executive

3 June 2019

**TOWER RESOURCES PLC
YEAR-ENDED 31 DECEMBER 2018
CORPORATE GOVERNANCE**

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and the 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 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 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 AIM.

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

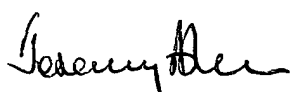
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group 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 and the financial statements are 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.

For and on behalf of the Board



Jeremy Asher

Chairman and Chief Executive

3 June 2019

TOWER RESOURCES PLC YEAR-ENDED 31 DECEMBER 2018 GROUP ACCOUNTS

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the financial statements of Tower Resources Plc for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statement of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statement of Cash Flows, and the related notes, including a summary of significant accounting policies. 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.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group and Parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We have considered the adequacy of the disclosure in note 1c in the financial statements concerning the Group's ability to continue as a going concern. Along with similar sized exploration Groups, the Company raises finance for its exploration activities in discrete tranches. As discussed in note 1c, the Company will require further funds in order to meet its budgeted operating and planned exploration costs for the coming year. These conditions, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and Company were unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter

We draw attention to note 12 of the financial statements, which describes the valuation of the intangible exploration licenses. The Directors have undertaken a review for indicators of impairment under IFRS 6 Exploration for and Evaluation of Mineral Resources and where identified have completed an impairment review in accordance with IAS 36 Impairment of Assets. The Group will require additional funds in order to meet the Group's licence commitments in the coming 12 months, the outcome of which is currently unknown. Should sufficient funds not be raised it would impact upon the ability of the Group to continue to maintain the licenses and continue exploration. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the value of the intangible assets. Our opinion is not modified in this respect.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

TOWER RESOURCES PLC

YEAR-ENDED 31 DECEMBER 2018

GROUP ACCOUNTS

Our assessment of risks of material misstatements

We identified the following risks of material misstatement that we believe had the greatest impact on our overall audit strategy and scope, the allocation of resources in the audit and directing the efforts of the engagement team. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment review – Exploration and evaluation assets</i></p> <p>The Group has significant exploration and evaluation assets. A review for indicators of impairment of exploration and evaluation assets that have been capitalised in the past should be undertaken by management in accordance with IFRS 6 'Exploration for and Evaluation of Mineral Resources'.</p> <p>Exploration and evaluation assets should then be assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount.</p>	<p>In accordance with IFRS 6 we reviewed the exploration and evaluation assets for indications of impairment including a review of the Directors' impairment assessment.</p> <p>We obtained evidence of the current position of the licences to ensure they remain valid and are in good standing.</p> <p>In respect of the licence in Zambia, the ongoing uncertainty in respect of the petroleum legislation has led to delays in agreeing work programmes and the expiry of the exploration licences. Following a full impairment review the exploration assets have been impaired in full.</p> <p>There were no indicators of impairment identified in respect of the other exploration licences held. The Thali licence in Cameroon was extended during the year for an additional 12 months to September 2019 and current exploration period of the Algoa Gamtoos license in South Africa is due to expire in August 2019. The outstanding licence obligations are higher than the cash reserves of the Group currently and the Directors are confident that further funding, or transactions on one or more of the licenses may be achieved in order to obtain sufficient funding to meet their current commitments. This is inherently uncertain as disclosed in note 12 to the financial statements. We have included an emphasis of matter paragraph in this regard.</p>
<p><i>Going Concern</i></p> <p>The Group is still in the exploration phase of its licences and is therefore dependent on its cash reserves and ability to raise additional funding, either through share issues, farm out arrangements or other similar transactions to cover its ongoing activities for the foreseeable future.</p>	<p>We reviewed the Group's cash flow forecast for the period to 30 June 2020. The Group's cash position at the year end and the forecast indicate that further funding will be required to cover both the operational costs and exploration licence commitments.</p>

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	<p>The Group has various options in place for raising funds as detailed in note 1c, and are confident that sufficient funds may be raised as required in order to continue as a going concern.</p> <p>There is however no guarantee that sufficient funds may be raised as and when required. Accordingly there is a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern – as set out in the 'Material uncertainty related to going concern' paragraph of the audit report.</p>
<p><i>VAT Liability</i></p> <p>The Group has been in dispute over a material amount of VAT with HMRC for several years.</p> <p>Until the matter is formally closed with HMRC there remains a risk that the VAT liability may be materially incomplete.</p>	<p>The Group continues to dispute the claims made by HMRC.</p> <p>We reviewed all correspondence during the year between the Group, their legal representatives and HMRC. We found no evidence that the dispute has progressed further than the first tribunal hearing the outcome of which is not yet known.</p> <p>We reviewed the remaining liability recognised in the financial statements and found it to be materially complete.</p>
<p><i>Impairment review of assets (company only)</i></p> <p>IAS 36 'Impairment of Assets' must be considered, with a robust review of all assets. These include investments in subsidiaries and amounts due from subsidiaries.</p> <p>Reviews should be undertaken by the directors to confirm that there are no indications, or requirement for, impairments of their carrying values.</p> <p>The Company has significant loan balances due from its subsidiaries to which the carrying value is intrinsically linked to the potential of the underlying exploration and evaluation assets.</p>	<p>The company loan balances due from its subsidiary undertakings and investments in the subsidiary undertakings were reviewed in line with the E&E assets held. The treatment of these is discussed in the key matter on 'Impairment review – Exploration and evaluation assets' above.</p> <p>The balance with Rift Petroleum Limited (Zambia) has been impaired in full following the impairment of the exploration assets for which these funds were provided.</p> <p>We found no other indicators of impairment of the assets held in the Company's financial statements and accordingly were satisfied that no further impairment charge was necessary.</p>

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<p>Management override of controls</p> <p>Intrinsically there is always a risk of material misstatement due to fraud as a result of possible management override of internal controls.</p>	<p>We reviewed the nominal ledger accounts, journals and cash transactions to identify any unusual or exceptional transactions. We investigated and tested a sample of items to ensure amounts paid during the year related to business expenses and that transactions were appropriate.</p> <p>We evaluated whether there was evidence of bias by the directors that represented a risk of material misstatement of fraud.</p> <p>During the audit we found no evidence of management override of internal control by the directors.</p>
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Our application of materiality

The scope and focus of our audit was influenced by our assessment and application of materiality. We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements.

We define financial statement materiality as the magnitude by which misstatements, including omissions, could reasonably be expected to influence the economic decisions taken on the basis of the financial statements by reasonable users.

We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Overall materiality	We determined materiality for the financial statements as a whole to be \$335,000.
How we determine it	The materiality model is based on averaging the amount considered material in respect of results before tax, net assets and gross assets.
Rationale for benchmarks applied	We believe averaging to be the most appropriate benchmark due to the size and the nature of the Company and Group.
Performance materiality	On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement is that performance materiality for the financial statements should be 75% of Materiality at \$250,000.

We agreed with the Audit Committee that we would report to them all misstatements over \$16,500 identified during the audit, as well as differences below that threshold that, in our view, warrant reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account an understanding of the structure of the Company and the Group, their activities, the accounting processes and controls, and the industry in which they operate. Our planned audit testing was directed accordingly and was focused on areas where we assessed there to be the highest risk of material misstatement.

Our Group audit scope includes all of the group companies. At the parent company level, we also tested the consolidation procedures. The audit team communicated regularly throughout the audit with the financial controller in order to ensure we had a good knowledge of the business of the Group. During the audit we reassessed and re-evaluated audit risks and tailored our approach accordingly.

The audit testing included substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls and the management of specific risk.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies in internal control that we identify during the audit.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the Company, 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

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- 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.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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.



Daniel Hutson (Senior Statutory Auditor)

For and on behalf of UHY Hacker Young

Chartered Accountants

Statutory Auditor

Quadrant House

4 Thomas More Square

London E1W 1YW

3 June 2019

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		31 December 2018 (audited)	31 December 2017 (audited)
	Note	\$	\$
Revenue		-	-
Cost of sales		-	-
Gross profit		-	-
Other administrative expenses		(1,007,474)	(1,594,725)
Pre-licence expenditures		(4,829)	(18,092)
Impairment of exploration and evaluation assets	12	(2,813,413)	-
Total administrative expenses		(3,825,716)	(1,612,817)
Group operating loss	4	(3,825,716)	(1,612,817)
Finance income		1,636	113
Finance expense	6	2,397	(2,773)
Loss for the year before taxation		(3,821,683)	(1,615,477)
Taxation	7	-	-
Loss for the year after taxation		(3,821,683)	(1,615,477)
Other comprehensive income		-	-
Total comprehensive expense for the year		(3,821,683)	(1,615,477)
Basic loss per share (USc)	10	(1.02c)	(1.07c)
Diluted loss per share (USc)	10	(1.02c)	(1.07c)

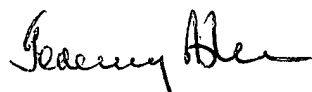
TOWER RESOURCES PLC
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 December 2018 (audited)	31 December 2017 (audited)
	Note	\$	\$
Non-current assets			
Property, plant and equipment	11	-	940
Exploration and evaluation assets	12	19,646,399	21,113,980
		19,646,399	21,114,920
Current assets			
Trade and other receivables	14	23,979	123,968
Cash and cash equivalents		331,395	2,151,476
		355,374	2,275,444
Total assets		20,001,773	23,390,364
Current liabilities			
Trade and other payables	15	1,292,492	1,052,903
Total liabilities		1,292,492	1,052,903
Net assets		18,709,281	22,337,461
Equity			
Share capital	16	15,599,626	15,558,095
Share premium	16	142,376,317	142,361,529
Retained losses	17	(139,266,662)	(135,582,163)
Total shareholders' equity		18,709,281	22,337,461

The financial statements of Tower Resources plc, registered number 05305345 were approved by the Board of Directors and authorised for issue on 3 June 2019.

Signed on behalf of the Board of Directors



Jeremy Asher - Chairman and Chief Executive

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GROUP ACCOUNTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	¹ Share- based payments reserve	Retained losses	Total
	\$	\$	\$	\$	\$
At 1 January 2017	12,016,201	142,577,203	6,227,301	(140,354,094)	20,466,611
Shares issued for cash net of costs	3,235,379	-	-	-	3,235,379
Shares issued on settlement of third party fees	306,515	(215,674)	-	-	90,841
Share option charge for the year	-	-	160,107	-	160,107
Total comprehensive expense for the year	-	-	-	(1,615,477)	(1,615,477)
At 31 December 2017	15,558,095	142,361,529	6,387,408	(141,969,571)	22,337,461
Shares issued on settlement of third party fees	41,531	14,788	-	-	56,319
Share option charge for the year	-	-	137,184	-	137,184
Total comprehensive expense for the year	-	-	-	(3,821,683)	(3,821,683)
At 31 December 2018	15,599,626	142,376,317	6,524,592	(145,791,254)	18,709,281

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

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CONSOLIDATED STATEMENT OF CASH FLOWS

		31 December 2018 (audited)	31 December 2017 (audited)
	Note	\$	\$
Cash outflow from operating activities			
Group operating loss for the year		(3,825,716)	(1,612,817)
Depreciation of property, plant and equipment	11	549	840
Share-based payments	20	137,184	160,107
Impairment of intangible exploration and evaluation assets	12	2,813,414	-
Loss on disposal of property, plant and equipment	11	391	53,551
Operating cash flow before changes in working capital		(874,178)	(1,398,319)
(Increase) / decrease in receivables and prepayments		99,989	420,223
Increase / (decrease) in trade and other payables		239,589	(333,260)
Cash used in operations		(534,600)	(1,311,356)
Interest received		1,636	113
Cash used in operating activities		(532,964)	(1,311,243)
Investing activities			
Exploration and evaluation costs	12	(1,345,833)	(649,009)
Net cash used in investing activities		(1,345,833)	(649,009)
Financing activities			
Cash proceeds from issue of ordinary share capital net of issue costs	16	56,319	3,326,221
Finance costs	6	2,397	(2,773)
Net cash from financing activities		58,716	3,323,448
(Decrease) / increase in cash and cash equivalents		(1,820,081)	1,363,196
Cash and cash equivalents at beginning of year		2,151,476	788,280
Cash and cash equivalents at end of year		331,395	2,151,476

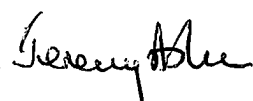
TOWER RESOURCES PLC
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COMPANY STATEMENT OF FINANCIAL POSITION

		31 December 2018 (audited)	31 December 2017 (audited)
	Note	\$	\$
Non-current assets			
Property, plant and equipment	11	-	940
Loans to subsidiary undertakings	13	9,636,778	10,918,887
Investments in subsidiary undertakings	13	17,610,749	17,610,749
		27,247,527	28,530,576
Current assets			
Trade and other receivables	14	23,977	13,541
Cash and cash equivalents		324,052	2,112,794
		348,029	2,126,335
Total assets		27,595,556	30,656,911
Current liabilities			
Trade and other payables	15	1,292,135	1,052,543
Loans from subsidiary undertaking	15	6,617,600	6,617,600
		7,909,735	7,670,143
Total liabilities		7,909,735	7,670,143
Net assets		19,685,821	22,986,768
Equity			
Share capital	16	15,599,626	15,558,095
Share premium	16	142,376,317	142,361,529
Retained losses	17	(138,290,122)	(134,932,856)
Total shareholders' equity		19,685,821	22,986,768

The financial statements of Tower Resources plc, registered number 05305345 were approved by the Board of Directors and authorised for issue on 3 June 2019.

Signed on behalf of the Board of Directors



Jeremy Asher - Chairman and Chief Executive

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COMPANY STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	¹ Share- based payments reserve	Retained losses	Total
	\$	\$	\$	\$	\$
At 1 January 2017	12,016,201	142,577,202	6,227,301	(140,354,095)	20,466,609
Shares issued for cash net of costs	3,235,379	-	-	-	3,235,379
Shares issued on settlement of third party fees	306,515	(215,673)	-	-	90,842
Share option charge for the year	-	-	160,107	-	160,107
Total comprehensive expense for the year	-	-	-	(966,169)	(966,169)
At 31 December 2017	15,558,095	142,361,529	6,387,408	(141,320,264)	22,986,768
Shares issued on settlement of third party fees	41,531	14,788	-	-	56,319
Share option charge for the year	-	-	137,184	-	137,184
Total comprehensive expense for the year	-	-	-	(3,494,450)	(3,494,450)
At 31 December 2018	15,599,626	142,376,317	6,524,592	(144,814,714)	19,685,821

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

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COMPANY STATEMENT OF CASH FLOWS

		31 December 2018 (audited)	31 December 2017 (audited)
	Note	\$	\$
Cash outflow from operating activities			
Operating loss for the year		(4,132,736)	(1,795,632)
Depreciation of property, plant and equipment	11	549	840
Share-based payments	20	137,184	160,107
Impairment of loans due from subsidiaries	13	3,189,534	598,043
Loss on disposal of property, plant and equipment	11	391	53,551
Operating cash flow before changes in working capital		(805,078)	(983,091)
(Increase) / decrease in receivables and prepayments		(10,436)	130,648
Increase in trade and other payables		239,592	715,816
Cash used in operations		(575,922)	(136,627)
Interest received		638,286	831,437
Cash used from / (used in) operating activities		62,364	694,810
Investing activities			
Loans granted to subsidiary undertakings	13	(1,907,425)	(2,676,189)
Net cash used in investing activities		(1,907,425)	(2,676,189)
Financing activities			
Cash proceeds from issue of ordinary share capital net of issue costs	16	56,319	3,326,221
Finance costs	6	-	(1,975)
Net cash from financing activities		56,319	3,324,246
(Decrease) / increase in cash and cash equivalents		(1,788,742)	1,342,867
Cash and cash equivalents at beginning of year		2,112,794	769,927
Cash and cash equivalents at end of year		324,052	2,112,794

TOWER RESOURCES PLC

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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 140 Buckingham Palace Road, London, SW1W 9SA. 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:

No standards adopted this year had a material effect on the Group or Company 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	Effective date	EU Endorsement Status
IFRS 16	Leases	1 January 2019	Endorsed
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019	Endorsed

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 will need to raise further funds within the next 12 months or agree a farm out or other transaction involving one or more of the Group's licences, in order to meet its liabilities as they fall due, particularly with respect to the forthcoming drilling programme in Cameroon. The Directors believe that there are a number of options available to them through either, or a combination of, capital markets, farm-outs or asset disposals with respect to raising these funds. There can, however, be no guarantee that the required funds may be raised or transactions completed within the necessary timeframes which raises uncertainty as to the application of going concern in these accounts. Having assessed the risks attached to these uncertainties on a probabilistic basis, the Directors are confident that they can raise sufficient finance in a timely manner and therefore believe that the application of going concern is both appropriate and correct.

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 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.

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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

Costs incurred before the acquisition of a license or permit to explore an area are expensed to the income statement.

All exploration and evaluation costs incurred following a license or permit to explore being obtained or acquired on the acquisition of a subsidiary are capitalised 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).

Costs incurred by Directors' and employees of the parent Company on the exploration activities are recharged to the subsidiaries and capitalised as exploration assets accordingly.

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.

h) Impairment of Oil and Gas Exploration and Evaluation assets

The carrying value of unevaluated areas is assessed 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

Leasehold and office refurbishment costs: over duration of lease

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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, employees and consultants 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 2018 was £1 / \$ 1.2746 (2017: £1 / \$1.3494).

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 substantively 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.

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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 measured at amortised cost unless the time value of money is immaterial. 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.

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 details of which are included in note 13.

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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. Details of impairments of capitalised exploration and evaluation expenditure are included in note 12.

VAT receivable

The future ability of the Group to recover UK VAT is currently the subject of a dispute with HMRC and has been appealed to the Tribunal for determination. Whilst the Group believes that it has complied in all material respects with UK VAT legislation, there can be no certainty that it will be successful in its legal appeal against HMRC's decision to withhold future amounts claimed from them. If the Group fails in its appeal against HMRC's decision, it will be deregistered for VAT and unable to recover the VAT charged to it by UK suppliers. This would increase the UK element of its cost base accordingly. The Directors have made the judgement that the certainty over the Group's continued UK VAT registration status cannot be guaranteed and have therefore provided against the VAT payables in note 15.

Capital markets / going concern

The group relies on the UK equities market and the market for equity participations in oil and gas exploration assets in order to raise the funds required to operate as a listed entity and complete the respective work programmes for its oil and gas exploration assets. From time to time general economic and market conditions may deteriorate to a point where it is not possible to raise equity finance to fund exploration projects, nor debt to develop projects.

Additional financing may therefore not be available to the Group restricting the scope of operations, risking both its long-term expansion programme, its obligations under contracts which may be withdrawn or terminated for non-compliance and ultimately the financial stability of the Group to continue as a going concern.

Please see note 1 (c) for a more detailed discussion of going concern matters.

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. Details of share-based payment transactions are included in note 20.

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 2018.

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	Africa		Head Office		Total	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Administrative expenses ¹	(2,845,729)	(380,526)	(837,425)	(1,053,252)	(3,683,154)	(1,433,778)
Pre-licence expenditures	-	(127)	(4,829)	(17,965)	(4,829)	(18,092)
Share-based payment charges	-	-	(137,184)	(160,107)	(137,184)	(160,107)
Depreciation of property, plant and equipment	-	-	(549)	(840)	(549)	(840)
Interest income	-	-	1,636	113	1,636	113
Financing costs	(991)	(798)	3,388	(1,975)	2,397	(2,773)
Loss by reportable segment	(2,846,720)	(381,451)	(974,963)	(1,234,026)	(3,821,683)	(1,615,477)
Total assets by reportable segment ^{2/3}	19,653,744	21,263,089	348,029	2,127,275	20,001,773	23,390,364
Total liabilities by reportable segment ⁴	(359)	(360)	(1,292,133)	(1,052,543)	(1,292,492)	(1,052,903)

¹ Administrative expenses include \$2.8 million (2017: \$nil million) of intangible exploration and evaluation asset impairments in relation to the Africa segment.

² Included within total assets of \$20.1 million (2017: \$23.4 million) are \$6.9 million (2017: \$5.7 million) Cameroon, \$nil (2017: \$2.8 million) Zambia, \$5k (2017: \$nil) Namibia and \$12.7 million (2017: \$12.7 million) South Africa.

³ Carrying amounts of segment assets exclude investments in subsidiaries.

⁴ Carrying amounts of segment liabilities exclude intra-group financing.

4. Loss from operations

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

	Total	
	2018	2017
	\$	\$
Share-based payment charges	137,184	160,107
Staff costs	106,983	327,286
Rental of properties	-	78,815
Loss on foreign currencies	(48,694)	(114,581)
Depreciation of property, plant and equipment	549	840
Impairment of exploration and evaluation assets	2,813,413	-

An analysis of auditor's remuneration is as follows:

Fees payable to the Group's auditors for the audit of the Group and subsidiary annual accounts	40,786	51,447
Fees payable to the Group's auditors for non-audit assurance services	4,843	23,981
Total audit fees	45,629	75,428

During the year the Company impaired assets totalling \$2.8 million (2017: \$Nil) in accordance with IAS 36 "Impairment of Assets" in Zambia. Full details of the impairment are provided in note 12.

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5. Employee information

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

	2018	2017
Head office	4	4
Africa	3	3
	7	7

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

	2018	2017
	\$	\$
Wages and salaries	92,300	287,544
Social security costs	14,683	39,742
Share-based payment charges	134,575	160,107
	241,558	487,393

No bonuses were paid to Directors or employees during the year.

Key management personnel include the executive and non-executive Directors whose remuneration, including non-cash share-based payment charges of \$134k (2017: \$279k), was \$231k (2017: \$340k); see Directors' Report for additional detail. During the year \$134k (2017: \$160k) of the full-year share-based payment charge of \$137k (2017: \$160k) related to employees.

A portion of the Group's staff costs and associated overheads are expensed as pre-licence expenditure or capitalised where they are directly attributable to on-going capital projects. In 2018 this portion amounted to \$nil (2017: \$59k).

6. Finance costs

During the period covered by these financial statements the Group incurred costs of \$3k (2017: \$3k). The Company incurred costs of \$2k (2017: \$2k).

7. Taxation

	2018	2017
	\$	\$
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:

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Group loss before tax	3,821,682	1,615,476
Tax at the UK Corporation tax rate of 19% (2017: 19.3%)	(726,120)	(311,786)
<i>Tax effects of:</i>		
Expenses not deductible for tax purposes	560,613	30,901
Tax losses carried forward not recognised as a deferred tax asset	165,507	280,885
Current tax charge	-	-

8. Deferred tax

At the reporting date the Group had an unrecognised deferred tax asset of \$3.3 million (2017: \$3.3 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 2018 the Parent Company incurred a loss of \$3.5 million (2017: \$1.0 million) including the financing costs of \$2k (2017: \$2k) referred to in note 6, the share-based payments charge of \$137k (2017: \$160k) and impairment provisions against the investments in its operating subsidiaries and intercompany loans to them of \$3.2 million (2017: \$598k). The Company charged finance interest on intercompany loan accounts of \$636k (2017: \$828k) and fees with respect to the provision of strategic advice and support of \$34k (2017: \$35k). 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

The diluted weighted average number of shares in issue and to be issued is 376,252,213 (2017: 150,419,536). 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.

	2018	2017
	\$	\$
Loss for the year	3,821,683	1,615,477
Weighted average number of ordinary shares in issue during the year	376,252,213	150,419,536
Dilutive effect of share options outstanding	-	-
Fully diluted average number of ordinary shares during the year	376,252,213	150,419,536
Loss per share (USc)	1.02c	1.07c

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11. Property, plant and equipment

	Group	Company
Year-ended 31 December 2018	\$	\$
Cost		
At 1 January 2018	3,368	3,368
Eliminated on disposal	(2,322)	(2,322)
At 31 December 2018	1,046	1,046
Depreciation		
At 1 January 2018	2,428	2,428
Eliminated on disposal	(1,931)	(1,931)
Charge for the year	549	549
At 31 December 2018	1,046	1,046
Net book value		
At 31 December 2018	-	-
At 31 December 2017	940	940

	Group	Company
Year-ended 31 December 2017	\$	\$
Cost		
At 1 January 2017	326,185	91,676
Eliminated on disposal	(322,817)	(88,308)
At 31 December 2017	3,368	3,368
Depreciation		
At 1 January 2017	270,854	36,345
Eliminated on disposal	(269,266)	(34,757)
Charge for the year	840	840
At 31 December 2017	2,428	2,428
Net book value		
At 31 December 2017	940	940
At 31 December 2016	55,331	55,331

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

	Exploration and evaluation assets	Goodwill	Total
Year-ended 31 December 2018	\$	\$	\$
Cost			
At 1 January 2018	90,309,028	8,023,292	98,332,320
Additions during the year	1,345,833	-	1,345,833
At 31 December 2018	91,654,861	8,023,292	99,678,153
Amortisation and impairment			
At 1 January 2018	(69,195,048)	(8,023,292)	(77,218,340)
Impairment during the year	(2,813,414)	-	(2,813,414)
At 31 December 2018	(72,008,462)	(8,023,292)	(80,031,754)
Net book value			
At 31 December 2018	19,646,399	-	19,646,399
At 31 December 2017	21,113,980	-	21,113,980

	Exploration and evaluation assets	Goodwill	Total
Year-ended 31 December 2017	\$	\$	\$
Cost			
At 1 January 2017	124,684,401	8,023,292	132,707,693
Additions during the year	649,009	-	649,009
Disposals during the year	(35,024,382)	-	(35,024,382)
At 31 December 2017	90,309,028	8,023,292	98,332,320
Amortisation and impairment			
At 1 January 2017	(104,219,430)	(8,023,292)	(112,242,722)
Disposals during the year	35,024,382	-	35,024,382
At 31 December 2017	(69,195,048)	(8,023,292)	(77,218,340)
Net book value			
At 31 December 2017	21,113,980	-	21,113,980
At 31 December 2016	20,464,971	-	20,464,971

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During the year the Group capitalised amounts totalling \$1.3 million (2017: \$649k) with respect to the following assets:

	2018 \$	2017 \$
Cameroon	1,214,414	430,055
Namibia	4,697	-
Zambia	16,297	22,949
South Africa	110,425	196,005
Total	1,345,833	649,009

In Cameroon the \$1.2 million comprised the costs of reprocessing existing legacy seismic data, NJOM3 well planning and running the Cameroon office.

Activities in Zambia have been limited to licence maintenance while a hiatus remains in-place pending confirmation by Government of the new fiscal regime. In South Africa Rift Petroleum Limited, Tower's wholly owned subsidiary, an agreement has been made with Operator with respect to offsetting the balance of costs held on account totalling \$110k following the withdrawal from the Orange Basin licence against any and all licence costs for Algoa-Gamtoos in 2018. This represents a material saving for the Group during the period, however, it will need to pay its proportionate share of expenditures on the licence from 1 January 2019.

On 7 November 2018, the Group announced the completion of its applications for licences 1910A, 1911 and 1912B offshore Namibia, the subsequent modest costs for which have been capitalised in line with Group policy.

In accordance with the Group's accounting policies and IFRS 6 the Directors' have reviewed each of the exploration license areas for indications of impairment. Having done so, it was concluded that a full impairment review was only deemed necessary with respect to Blocks 40 and 41 in Zambia. It was however, noted that given the nature of these assets this process is inherently judgmental as it requires the Directors to place a value on exploration projects that by definition are not in the development stage and are not therefore cash generating units.

The Directors have not provided for any impairment of the Company's investment in the Thali license, because potential transactions and funding discussions with third parties support the Directors' view that the current carrying value is recoverable.

In South Africa in August 2018, Tower's wholly-owned subsidiary, Rift Petroleum Limited ("Rift") and its partner, New African Global Energy SA (Pty) Ltd, agreed to enter the next phase of the Algoa-Gamtoos licence, the net commitment for which was approximately \$2.5 million to Tower for 2019 and beyond and is disclosed in note 19. The next phase will commence once PASA, the South African Government hydrocarbons agency, ratifies the renewal which it has not yet done, however, all licence commitments for the preceding phase were met and the renewal is merely a matter of due process.

In the case of the Group's Zambian license, the Directors continue to await the review of the country's petroleum law and have not yet agreed with the Government of Zambia the next phase of work, if any, in respect of Blocks 40 and 41. This uncertainty has led the Directors to fully impair amounts totalling \$2.8 million (2017: \$nil million) in accordance with IAS 36 "Impairment of Assets" due to the lack of clarity regarding both future work programme and the fiscal terms.

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13. Investment in subsidiaries

Company	Loans to subsidiary undertakings \$	Shares in subsidiary undertakings \$	Total \$
Cost			
At 1 January 2018	72,455,598	37,519,722	109,975,320
Net advances during the year	1,907,425	-	1,907,425
At 31 December 2018	74,363,023	37,519,722	111,882,745
Provision for impairment			-
At 1 January 2018	(61,536,711)	(19,908,973)	(81,445,684)
Provision for impairment	(3,189,534)	-	(3,189,534)
At 31 December 2018	(64,726,245)	(19,908,973)	(84,635,218)
Net book value			-
At 31 December 2018	9,636,778	17,610,749	27,247,527
At 31 December 2017	10,918,887	17,610,749	28,529,636

Included within loans made to subsidiary undertakings during the year of \$1.9 million are amounts of \$1.4 million Cameroon (2017: \$1.6 million) and \$393k (2017: \$379k) Namibia.

Loans made by the parent company to subsidiary undertakings are interest-bearing in accordance with loan agreements made in 2015, and are repayable to the parent company on demand.

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The subsidiary undertakings at the year-end are as follows (these undertakings are included in the Group accounts):

	Country of incorporation	Class of shares held	Proportion of voting rights held		Nature of business
	2018	2018	2018	2017	2018
Tower Resources Cameroon Limited ¹	England & Wales	Ordinary	100%	100%	Holding company
Tower Resources Cameroon SA ²	Cameroon	Ordinary	100%	100%	Oil and gas exploration
Rift Petroleum Holdings Limited ¹	Isle of Man	Ordinary	100%	100%	Holding company
Rift Petroleum Limited ³	Zambia	Ordinary	100%	100%	Oil and gas exploration
Rift Petroleum Limited ³	Isle of Man	Ordinary	100%	100%	Oil and gas exploration
Tower Resources (Kenya) Limited ¹	England & Wales	Ordinary	100%	100%	Oil and gas exploration
Tower Resources (Namibia) Holdings Limited ¹	England & Wales	Ordinary	100%	100%	Holding company
Tower Resources (Namibia) Limited ⁴	England & Wales	Ordinary	100%	100%	Oil and gas exploration
Tower Resources Namibia Limited ⁴	British Virgin Islands	Ordinary	100%	100%	Oil and gas exploration
Wilton Petroleum Limited ^{1/5}	England & Wales	Ordinary	100%	100%	Oil and gas exploration
Tower Resources (UK) Limited ¹	England & Wales	Ordinary	100%	100%	Holding company

¹ Held directly by the Company, Tower Resources plc

² Held directly or indirectly through Tower Resources Cameroon Limited

³ Held directly or indirectly through Rift Petroleum Holdings Limited

⁴ Held directly or indirectly through Tower Resources (Namibia) Holdings Limited

⁵ In liquidation

14. Trade and other receivables

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade and other receivables	23,979	123,968	23,977	13,541

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15. Trade and other payables

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Trade and other payables	1,246,863	999,331	1,246,506	998,971
Accruals	45,629	53,572	45,629	53,572
Loans from subsidiary undertakings	-	-	6,617,600	6,617,600
	1,292,492	1,052,903	7,909,735	7,670,143

Included within trade and other payables are amounts totalling \$1.1 million / £843k (2017: \$965k / £715k) with respect to UK VAT payable.

HMRC have issued assessments totalling £843k excluding interest and penalties. This was appealed and referred to the first-tier tribunal, in which regard a hearing took place at the end of May 2019, and a first-instance decision is awaited in due course.

The Company continues to firmly believe that it has complied in all material respects with UK VAT legislation. Based on discussions with its advisors, the Company understands that the strength of HMRC's claim over the £843k is subject to legal interpretation.

Taking into consideration the uncertainty regarding the appeal on the withholding of the original receivable and the assessment of £843k, the Company has made full provision for the HMRC assessment.

Group creditor payment days are approximately 28 days (2017: 35 days).

16. Share capital

	2018	2017
	\$	\$
Authorised, called up, allotted and fully paid		
377,335,427 (2017: 374,270,520) ordinary shares of 1.0p	15,599,626	15,558,095

The share capital issues during 2018 are summarised as follows:

	Number of shares	Share capital at nominal value	Share premium
		\$	\$
At 1 January 2018	374,270,520	15,558,095	142,361,529
Shares issued in lieu of fees payable	3,064,907	41,531	18,690
Share issue costs	-	-	(3,902)
At 31 December 2018	377,335,427	15,599,626	142,376,317

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The shares issued in lieu of fees payable were issued in May 2018 in lieu of a cash bonus to its Cameroon country manager in recognition of his efforts with respect to the Thali licence.

17. 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.

18. 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 2018 and 31 December 2017.

	Carrying amount / fair value	
	2018	2017
Group	\$	\$
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	331,395	2,151,476
Trade and other receivables	23,979	123,968
Total financial assets	355,374	2,275,444
Financial liabilities at amortised cost		
Trade and other payables	1,292,492	1,052,903
Total financial liabilities	1,292,492	1,052,903

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Company	Carrying amount / fair value	
	2018	2017
	\$	\$
Financial assets (classified as loans and receivables)		
Cash and cash equivalents	324,052	2,112,794
Trade and other receivables	23,977	13,541
Loans to subsidiary undertakings	9,636,778	10,918,887
Total financial assets	9,984,807	13,045,222
Financial liabilities at amortised cost		
Trade and other payables	7,909,735	1,052,543
Total financial liabilities	7,909,735	1,052,543

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 at the reporting date and assuming the amount of the balances at the reporting date were outstanding for the whole year.

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		Company	
	Increase		Increase	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash and cash equivalents	11,912	10,184	11,648	9,976

The Group'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:

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	2018		2017	
	Floating interest rate	Non- interest bearing	Floating interest rate	Non- interest bearing
	\$	\$	\$	\$
Cash and cash equivalents	330,870	525	2,149,448	2,028

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	
	2018	2017	2018	2017
	\$	\$	\$	\$
Cash and cash equivalents				
Cash and cash equivalents held in US\$	313,288	360,804	313,000	360,438
Cash and cash equivalents held in GBP	10,103	1,751,407	10,103	1,751,407
Cash and cash equivalents held in other currencies	8,004	39,265	949	-
	331,395	2,151,476	324,052	2,111,845

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.

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19. Operating leases and capital commitments

At the reporting date there were no outstanding commitments for operating lease payments.

The Group is committed to funding the following exploration expenditure commitments as at 31 December 2018:

	Country	Interest	Net commitment 2019	Net commitment 2020 onwards
Block 40 ¹	Zambia	100%	-	-
Block 41 ¹	Zambia	100%	-	-
Algoa-Gamtoos ²	South Africa	50%	\$150k	\$2.35 million
Thali ³	Cameroon	100%	\$9.12 million	-
			\$10.48 million	\$2.35 million

¹ Renewal pending confirmation of petroleum legislation

² 2 years to 24 August 2019.

³ 1 year extension period to 14 September 2019.

20. Share-based payments

	2018	2017
	\$	\$
In the statement of comprehensive income the Group recognised the following charge with respect to its share-based payments	137,184	160,107

On 9 November 2017, the Board of the Company determined to implement a Share Incentive Plan and to make an award to the Chief Executive covering rights over 15 million shares vesting after three years and subject to performance conditions. The performance conditions provide that 5 million of the shares will only be payable if, during the vesting period, the Company's stock achieves a closing price at least 25% above the November 2017 Placing Price; and 5 million of the shares will only be payable if, during the vesting period, the Company's stock achieves a closing price at least 50% above the November 2017 Placing Price. In each case the target share price must be achieved for a minimum of five (not necessarily consecutive) trading days during the vesting period. Included within the above share-based payment charges for the period is \$53,078 (2017: \$nil) with respect to these shares.

Options

Details of share options outstanding at 31 December 2018 are as follows:

	Number in issue
At 1 January 2018	1,626,800
Lapsed during the year	(9,400)
At 31 December 2018	1,617,400

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

No Directors held interests in share options at the year-end (2017: nil).

Date of grant	Number in issue	Option price (GBP)	Latest exercise date
27 Dec 14	16,000	1.750	27 Dec 19
09 Dec 15	48,000	0.475	09 Dec 20
16 Mar 16	53,400 ¹	0.475	16 Mar 21
26 Oct 16	1,500,000 ¹	0.023	25 Oct 21
	1,617,400		

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Warrants

Details of warrants outstanding at 31 December 2018 are as follows:

	Number in issue
At 1 January 2018	31,950,609
Lapsed during the year	(96,848)
Awarded during the year	11,585,931
At 31 December 2018	43,439,692

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

	2018	2017
	No.	No.
Jeremy Asher	16,412,436	10,637,628
Graeme Thomson	9,976,128	7,097,805
Peter Taylor	9,976,128	7,097,805
Total	36,364,692	24,833,238

The weighted average exercise price of the share warrants was 1.13p (2017: 1.93p) with a weighted average contractual life of 4.0 years (2017: 4.9 years). At 31 December 2018 and 2017 all warrants had fully vested.

In its Statement of Comprehensive Income, the Company recognised share-based payment charges of \$137k (2017: \$160k)

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 20% and 143% (2017: 82% and 143%), depending upon the date of grant, and the risk-free interest rate was 0.50% and the Dividend Yield was 0% for 2018 and 2017.

The Company's share price ranged between 0.8p and 1.8p (2017: 0.8p and 2.9p) during the year. The closing price on 31 December 2018 was 1.3p per share. The weighted average exercise price of the share options was 7.0p (2017: 7.0p) with a weighted average contractual life of 2.75 years (2017: 3.75 years). The total number of options vested at the end of the year was 1.6 million (2017: 1.6 million).

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21. Related party transactions

The key management of the Group comprises the Directors of the Company. Except as disclosed, there are no transactions with the Directors other than their remuneration and interests in shares, share options and warrants. As noted in the Directors' Report, Pegasus Petroleum Ltd ("Pegasus"), a company owned and controlled by Jeremy Asher, received \$201,300 (2017: \$295,885) in fees for management services. Further information on Directors' remuneration is detailed in the Directors' Report and their total remuneration in each of the categories specified in IAS 24 'Related Party Disclosures' is shown below:

	Group		Company	
	2018	2017	2018	2017
	\$	\$	\$	\$
Short-term employee benefits	96,980	60,741	96,980	60,741
Fees charged by companies associated with Jeremy Asher ¹	201,300	295,885	-	-
Share-based payments	134,455	145,881	134,455	145,881
Finance interest on intercompany loan accounts	-	-	636,650	831,324
Fees charged with respect to the provision of strategic advice and support by the parent	-	-	33,396	34,575
	432,735	502,507	901,481	1,072,521

¹ Charged by Pegasus Petroleum Limited ("Pegasus"), a company registered in the Channel Islands, to Rift Petroleum Holdings Ltd, a wholly owned subsidiary of Tower Resources plc registered in the Isle of Man. Pegasus is owned and controlled by a family trust of which Jeremy Asher is the settlor and lifetime beneficiary.

22. Control

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

23. Subsequent events

On 24 January 2019, the Company announced the completion of a placing of 170 million new ordinary shares at 1.00p to raise £1.7 million. The Company also issued 88 million placing warrants, together with 7.7 million broker warrants, 20 million warrants to Directors in lieu of fees and 70 million options at 1.25p to certain employees, consultants and professional advisors at the same time. The 15 million shares which were the subject of the Share Incentive Plan (note 20) and whose performance conditions were fully vested, were also issued.

On 8 February 2019, the Company made comment on the announcement of the Brulpadda well discovery by Total S.A. of a significant hydrocarbon find on Blocks 11B / 12B which is immediately adjacent to its Algoa-Gamtoos licence in South Africa.

On 16 April 2019, the Company announced an operational update on the progress of the planning for its NJOM3 well on the Thali Block, offshore Cameroon, which could commence drilling operations as soon as the end of May 2019 depending on final rig availability.

On 16 April 2019, the Company announced the completion of a short-term senior secured funding facility of US\$750,000 (the "Bridging Loan") with Pegasus Petroleum Ltd, a company beneficially owned by the Company's Chairman Jeremy Asher. The material terms of the facility comprise fees of 2%, interest of 1% per month accrued and paid on repayment, a fixed and floating charge over the Company's assets, and the issue of 90 million 5-year warrants priced at 1.00 pence per share. The Bridging Loan will be due for repayment on or before 30 June 2019 and has a preferential right of repayment from any future financing secured by the Company.

On 3 May 2019, the Company announced the assignment of US\$375,000 of the Bridging Loan and associated warrants to certain clients of Turner Pope Investments (TPI) Limited.

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