

13 January 2010

Tower Resources

Year End	Revenue (\$m)	PBT* (\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/08	0.0	(1.24)	(0.2)	0.0	N/A	N/A
12/09e	0.0	(1.54)	(0.2)	0.0	N/A	N/A
12/10e	0.0	(2.71)	(0.3)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Frontier exploration play

We see Tower Resources as an interesting Africa-focused frontier oil and gas exploration play. The company has a near-term project in Uganda's Albertine Basin and a longer-term play offshore Namibia. Both are potential company makers. Tower is planning a new Albertine exploration well in February 2010 with the potential for a 100mm barrel discovery. A 30mm barrel discovery would, however, be commercial.

Albertine Basin: A major new oil province

Following major discoveries since 2006 by Heritage and Tullow, Uganda's Albertine Basin is emerging as an important new petroleum province. P50 reserves in the region are now over 700mm barrels, which is claimed by the licensees to be sufficient for development. According to Heritage and Tullow, recoverable reserves in the Ugandan sector of the Basin are potentially over 2bn barrels.

Uganda Block 5: Avivi-1 well planned for February

Tower has substantial Albertine acreage through its 100% working interest in the 6,000km² Block 5 in the north of the basin. Drilling results from the first exploration well, Iti-1, were initially disappointing, but following an independent assessment, a more positive interpretation has been made. The Avivi-1 well planned for February is in an area of deeper and thicker sedimentation than Iti-1 and is on a migration fairway about 80km north of the large discoveries in Blocks 1 and 2. Results should be known by late February.

Offshore Namibia: A new frontier zone

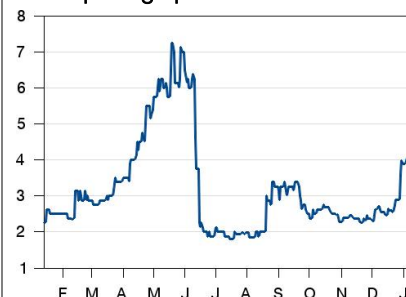
Tower has a 15% stake in three offshore blocks about 200km from the Namibian coast. Seismic studies have revealed four very large sedimentary structures that could collectively contain approaching 10bn barrels recoverable. Sintezneftegaz's Kunene gas discovery in 2009 has stimulated interest in the new Namibian frontier.

Valuation: ENI has established the benchmark

The recent ENI bid for Heritage's Albertine assets implies a valuation of \$5/barrel for undeveloped P50 reserves. Even a modest discovery of 30mm barrels would point to the potential for major valuation upside from the current capitalisation of c £40m.

Price 4.2p
Market Cap £42m

Share price graph



Share details

Code TRP
Listing AIM
Sector Oil & Gas
Shares in issue 1,007.2m

Price

52 week High 7.20p Low 1.65p

Balance Sheet as at 31 December 2009*

Debt/Equity (%) N/A
NAV per share (c) 2.6
Net cash (\$m) 9.4

* Estimated.

Business

Tower Resources is a frontier oil and gas exploration company focused on Africa. There are two projects in Uganda's Albertine Basin and offshore Namibia. An exploration well is scheduled in the former in February 2010.

Valuation

	2008	2009e	2010e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Revenues by geography

UK	Europe	US	Other
0%	0%	0%	0%

Analysts

Peter J Dupont 020 3077 5700
pdupont@edisoninvestmentresearch.co.uk
Farid Abasov 020 3077 5726
fabasov@edisoninvestmentresearch.co.uk

Investment summary: Frontier exploration play

Company description: Exploration well in Uganda imminent

Tower Resources is a pure exploration junior focused on frontier plays in Africa. It has two projects currently, in the Albertine Basin of Uganda and offshore Namibia. The company is now entering an exciting phase in its development. Particularly significant in this regard is the planned spudding in February of the Avivi-1 exploration well in Block 5 of the Albertine Basin. This follows the initially disappointing Iti-1 well drilled in May/June 2009 but which subsequent appraisal has revealed in a more positive light. There may, indeed, have been oil present in a low-quality reservoir. Tower still believes that exploration wells in the southern zone of Block 5 have the potential to discover fields of 100mm barrels recoverable. Substantially smaller reserves of 25-30mm barrels would, however, be commercial.

Offshore Namibia is an emerging frontier region and is therefore a longer-term exploration play than the Albertine Basin. However, we believe that Tower's Namibian interests will gain increasing visibility in 2010 reflecting the anticipated release later in 2010 of an independent study commissioned by the company on the exploration potential in its licence. Perceptions could also be enhanced if more information surfaces concerning Sintezneftegaz's gas find.

Financials

Reflecting its status as an exploration junior, Tower has no revenues and has incurred losses since the IPO in 2005. For the first half of 2009 Tower incurred a pre-tax loss of \$264,789 and for the full year we would expect one of about \$1.54m. More significant for Tower than earnings is cash flow. For 2009 we expect a cash outflow relating to exploration activity and overheads of about \$10.6m. A slightly smaller outflow of about \$9m is forecast for 2010, assuming one exploration well and unchanged corporate overhead. The balance sheet is in excellent shape to finance the scheduled work programme in 2010 thanks to share issues and contributions from joint-venture partners that generated about \$13.7m and \$6.5m, respectively, in 2009. At end 2009 we believe the cash position could be around \$9.5m.

Sensitivities

- **Subsurface risk:** As with all exploration juniors, subsurface risk is the greatest risk.
- **Country/regional risk:** Central Africa has experienced civil strife and inter-country conflicts over the past 20 or more years.
- **Oil price risk:** Tower's Namibian project in particular depends on oil prices remaining historically high in real terms.
- **Financial risk:** Tower could have difficulty in raising finance in the event either of another financial crisis similar to late 2008 and early 2009 or negative drilling results.

Valuation

The recent ENI bid for Heritage's Albertine assets implies a valuation of \$5/barrel for undeveloped P50 reserves. Even a modest discovery of 30mm barrels would point to the potential for major valuation upside. The offshore Namibia project is, as yet, at too early a stage of exploration to assign any value, but the market is likely to significantly increase the perceived value of this venture closer to the time of drilling, as demonstrated by current valuations of the Falklands focused junior explorers.

Company description: Exploration well in Uganda imminent

Tower Resources (TRP) is an oil and gas exploration junior focused on frontier areas of Africa. The company was listed on AIM in August 2005 and in January 2006 acquired Neptune Petroleum Ltd for £4m. Neptune provided Tower with its two key exploration projects, Block 5 in the Albertine Basin of Uganda and Blocks 1910A, 1911 and 2011, offshore Namibia. Tower also has licence interests in the Saharawi Arab Democratic Republic (Western Sahara) following the purchase of Comet Petroleum in 2008. However, the focus of operations at this stage is very much on drilling activity in Block 5 in Uganda. Following the inconclusive results from Tower's first exploration well, Iti-1, drilled in May/June 2009, a further exploration well is scheduled to be spudded by the company in February 2010.

Since February 2006, Tower has been directed by Executive Chairman Peter Kingston. A petroleum engineer by background, he has over 40 years' experience in technical, executive and advisory positions in the petroleum industry. His positions have included joint managing director of Enterprise Oil from 1984 to 1992 and he is currently the deputy chairman and senior independent director of Soco International. Two non-executive directors, Peter Taylor and Peter Blakey, were founding shareholders of Dana Petroleum and significant ground floor shareholders in Hardman Resources and Global Petroleum.

Tower's exploration projects constitute potentially high-impact exploration opportunities that could prove company makers. While Uganda represents a near-term opportunity, Namibia is a longer-term play with exploration drilling not expected before end 2011.

Albertine Basin

Location and discoveries: An emerging new oil province

The Albertine Basin is rapidly emerging as a sizeable new crude oil province. It is located in western Uganda and the eastern DRC (Democratic Republic of Congo) on the western branch of the East African Rift Valley. This is one of the world's most pronounced examples of a rift valley, a major area of subsidence in the earth's crust bounded by parallel faulting systems and caused by tectonic activity. The basin straddles the DRC-Uganda border for much of the 600km from the Rwanda-DRC-Uganda border in the south to the Uganda-Sudan frontier in the north.

Prior to the current decade, the Albertine Basin had long been identified as a potentially interesting area for oil exploration. This reflected the existence of numerous oil seeps along with large sedimentary basins and the complex structural features of the East African Rift system. Limited exploration in the basin was undertaken before the second world war, with one well drilled. For much of the post war period exploration was considered unattractive owing to the landlocked location, the high cost of installing suitable logistical infrastructure and political instability in the region. Rising oil prices combined with a growing desire on the part of the Ugandan government to obtain domestic production provided the catalysts for exploration activity in recent years. Heritage Oil pioneered exploration in the Albertine Basin following the award of Block 3 at the southern end of Lake Albert in 1997. In 2001 Heritage farmed out a 50% stake in the licence to a junior, Energy

Africa. This company was subsequently acquired by Tullow Oil. Tullow added to its interests in the Albertine Basin in late 2006 with the purchase of Hardman Resources.

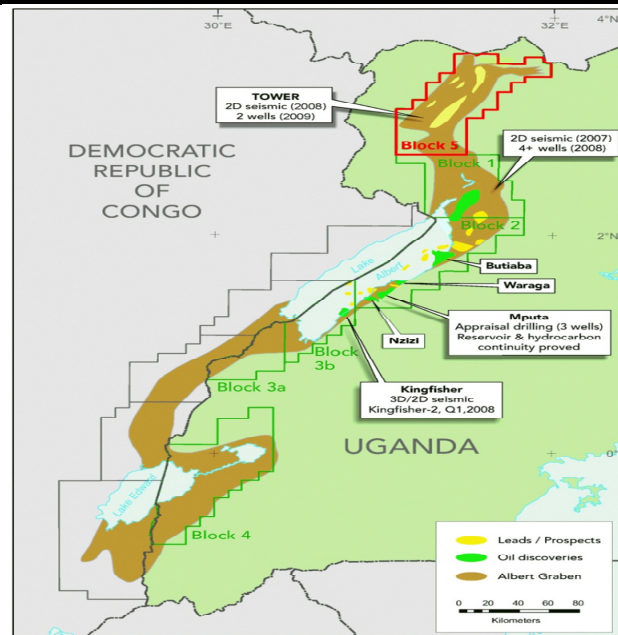
A further change of ownership was announced on 24 November 2009. This stemmed from ENI's decision to purchase Heritage's exploration interests in the Ugandan sector of the Albertine Basin for up to \$1.5bn. Tullow has also expressed a desire to reduce its Albertine exposure now that exploration activity is at a mature phase. Neither Heritage nor Tullow have the inclination or the resources to undertake a major downstream development project. While Heritage and Tullow are clearly the largest explorers in the Albertine Basin and so far the only companies to have found oil, two juniors have also acquired exploration acreage since 2006. These are Tower Resources and Dominion Petroleum, which acquired Blocks 5 and 4B in the north and south of the basin, respectively.

Heritage Oil drilled the first exploration well in the Albertine Basin in September 2002 and Hardman announced the first discovery in June 2006 close to the eastern Lake Albert shoreline in Block 2. Since 2006 there have been a spate of discoveries and furthermore the drilling success rate has been exceptionally high. According to Heritage, 27 exploration wells were drilled in the Albertine Basin between early 2006 and mid 2009 and 26 encountered hydrocarbons. Heritage itself claims a 100% success rate. So far, all the discoveries have been in Block 1 in the Victoria-Nile delta region immediately to the north of Lake Albert and in Blocks 2 and 3 either close to the eastern shoreline of the same lake or in the escarpment hinterland of the former.

Overall, both Heritage and Tullow are pointing to cumulative discoveries in the Albertine Basin of over 700mm barrels of oil on a P50 basis. We believe that the split between Tullow and Heritage is about 60:40 in favour of the former. The two companies are also suggesting that the basin in the Ugandan sector could contain over 2bn barrels of recoverable reserves. Assuming between 2bn and 3bn barrels, this would be broadly equivalent to the reserves of the larger second tier African producers such as Gabon and Chad. The largest discovery to date in the Albertine Basin is Heritage's 50% owned Buffalo-Giraffe field in Block 1 which is estimated to contain over 350mm barrels gross of oil. This is believed to be the largest sub-Saharan onshore find in over 20 years.

Significantly from both development and lifting cost perspectives, crude oil has been found in the Albertine Basin at relatively shallow depths in Tertiary sediments. In Block 1, for example, drilling depths have been less than 1,000m. Reservoir quality so far appears good in terms of thickness, permeability and porosity. Flow rates under test have also generally been impressive. At Kingfisher 2 in Block 3A, for example, the cumulative test rate was 14,364b/d. The initial indications are that Albertine Basin oil is relatively light and sweet based on Heritage's indications for Block 3A of an API of 30 to 32 degrees. The oil, however, is moderately waxy which suggests that heat treatment may be necessary during transportation. Based on the specification indicated, Ugandan crude is likely in our view to sell ex the Albertine Basin at a modest discount of perhaps \$5/barrel or so to Brent.

Exhibit 1: Albertine Basin licence interests



Source: Tower Resources

Development: The reserve threshold has been reached

Importantly, Heritage and Tullow have indicated that with the resources already identified the threshold has been reached for the commercial development of the Albertine Basin. The two companies together with the government of Uganda have, in fact, discussed some tentative plans for a joint development programme. Interestingly, ENI is reported to have already presented a full development plan for the Albertine Basin. Tullow has indicated that in the initial phase production capacity is expected to be 10,000-20,000b/d with the fields capable of modular expansion. Significant production may indeed commence in 2010 due to extended Kasamene field well tests.

Development of the Albertine fields should present few, if any, technical difficulties and furthermore is likely to be a relatively low-cost task. The key positives are benign operating terrain, relatively shallow drilling depths, relatively large fields and excellent reservoir quality. For similar reasons, production economics including field logistics look like being competitive from an international perspective with variable costs of possibly less than \$5/barrel ex the gathering point.

The challenge concerning the development of the Albertine Basin relates to the lack of transportation infrastructure and the substantial distance from the nearest refinery at Mombasa. To put the problems into perspective, the Albertine fields are roughly 1,450km from Mombasa, the nearest operating rail head is at Kampala 250km south-east of Lake Albert and the highway from Kampala to Lake Albert via Hoima is largely unpaved. However, the main highway from Kampala to Pakwach, around 40km north of the discoveries in the Victoria-Nile Delta, is paved for all but around 100km. There are also disused railway lines from Pakwach to the Uganda-Kenya border and from Kampala to Kasese, roughly 120km south of the southern tip of Lake Albert. On the plus side, the main highway from Kampala to Mombasa is paved and there is also a rail link between these two points. Clearly, all the problems surrounding infrastructure can be overcome from a technical perspective, but installing infrastructure is likely to be costly and time consuming. Furthermore, a refinery within Uganda for all or part of long-term production is still being evaluated. The time required to resolve and fund the long-term development challenges will detract somewhat

from what we believe will be favourable Albertine Basin production economics and low field development costs.

According to Tullow, the initial phase of development in the Albertine Basin will involve construction of a field pipeline network and a gathering facility in the vicinity of the eastern shoreline of Lake Albert. Crude oil would then be trucked to Mombasa for refining. We believe that long distance trucking will only be practical for production of up to around 5,000b/d due to potential safety and environmental constraints. If production in the Albertine Basin is to reach the target of over 100,000b/d mentioned by Tullow, it will probably be necessary to construct a pipeline to Mombasa.

Uganda Albertine Block 5 project

Licence and geophysical characteristics: Largest block

Tower currently has a 100% working interest in Block 5, but has farmed out 25% of the cost of the planned Avivi-1 exploration well to Global Petroleum. Post the drilling, Global will have the option to take a 25% interest in the licence. The licence is subject to a production sharing agreement with the Ugandan government and effectively runs until March 2012. Block 5 is the most northerly and also the largest of the Albertine Basin licences. It extends from just north of the Victoria-Nile delta region for about 120km to the Uganda-Sudan border and covers 6,040km². The terrain in the licence is mainly savannah grassland interspersed with swamp along the main river courses.

Before Tower acquired Block 5 in 2005 it was unexplored. The exploration programme subsequently implemented by Tower is analogous to that applied by Heritage and Tullow to the south. Initially a gravity magnetic survey was commissioned, which identified several leads. This was followed by a 300km 2D survey in late 2007 in the south of the licence area. Interestingly, this was financed by the then farm-in partner, Orca Petroleum. The 2D survey confirmed the existence of large sedimentary structures similar to those in Blocks 1 and 2 while geochemical analysis pointed to hydrocarbon generation and migration. Evidence of micro-oil seeps was found in the area surveyed, with the sampled oil being similar to oil sampled from seeps in other parts of the Albertine Basin. Significantly, Tower identified a potential hydrocarbon kitchen zone about 40km north of the southern boundary of the licence in the deepest part of the Rhino Camp basin. The basin's main drainage flow when the sediments were being deposited in the Miocene period appears to have broadly followed the current course of the Nile. There may also have been substantial inflows of fluvial material into the basin from the highlands to the west.

Drilling activity: Well scheduled for February 2010

Iti-1 well: Two drilling prospects were identified in late 2008 at Iti-1 and Sambia-1, about 30km north and north-west respectively of the settlement of Rhino Camp on the River Nile. The prospects were thought to be on analogous structures to the major discoveries on Blocks 1 and 2, such as Buffalo-Giraffe, 80-90km to the south. Iti-1 was drilled in late May and early June 2009. The initial results were disappointing which led to the well being abandoned on June 15. Tower's theory for the lack of a defined reservoir was that the two prospective structures were early basement highs which precluded the deposition of reservoir quality sandstones resulting from fluvial processes during early basin development. The structures to the south are believed to have been uplifted after the fluvial action commenced, thereby leaving the sandstones intact.

Subsequent independent analysis of the Iti-1 results has led to more positive conclusions. Specifically it has now been concluded that Iti-1 has the potential to contain oil in a 15-20m interval within a 35m gross basal sandstone reservoir located on basement. The reservoir sands, believed to be part of an alluvial fan analogous to the other discoveries in the Albertine Basin, apparently have a degree of permeability and porosity but are probably not of high enough quality to justify appraisal drilling in the immediate future. Tower has therefore elected to drill a second exploration well in a more prospective area.

Avivi-1: The new well site is at Avivi-1 immediately to the north-west of Rhino Camp and about 20km south of Iti-1. It is located close to the deepest section of sedimentation in the Rhino Camp basin and is on a migration fairway. The site therefore appears well placed for a good quality reservoir. The planned well is shallow with a primary target below 665m and a secondary target at a depth of 795m. The target in the upper interval is fluvial sandstones while in the latter it is alluvial sandstones similar to those encountered in the basal reservoir at Iti-1. Tower is planning to commence drilling in early February 2010. Drilling is expected to take 15 days with another six days for testing. The well is scheduled to cost \$7.5m of which Global Petroleum will fund 25% or \$1.9m. Testing will cost a further \$1m. The probability of finding a commercial well at Avivi-1 is put by Tower at about 35%, which is relatively high by oil exploration standards.

Tower believes that exploration wells drilled in the Rhino Camp basin have the potential to discover fields with up to 100m barrels recoverable. This would be highly economic assuming characteristics similar to those in Blocks 1 and 2. The minimum field size to be economic in the Rhino Camp basin at current oil prices is believed to be around 25m barrels.

Assuming that the results from Avivi-1 point to a commercial find, the next stage in Tower's exploration programme is expected to be seismic and airborne surveys to gain a better understanding of the geophysical characteristics of Block 5. This would be followed by a new round of drilling, possibly commencing in late 2010 with up to eight wells. The cost of such a programme could be \$80m to \$100m gross spread over two years. In the event of a dry well at Avivi-1, Tower may well have difficulty in raising substantial amounts of new equity and in all likelihood would have to farm-out more of Block 5 to continue the exploration programme.

It is probably safe to assume that field development activity in Block 5 will not be undertaken by Tower. Assuming that commercial fields are discovered we would expect them ultimately to be sold to a larger concern with the necessary technical and financial resources, such as ENI. From a logistical perspective it should be noted that fields in the Rhino Camp basin could easily be connected by pipeline to the proposed Lake Albert gathering system. Production and local logistical economics should therefore be broadly similar to those anticipated in Blocks 1, 2 and 3. An alternative approach, at least in the initial stages of development, would be to truck oil to the gathering site or indeed directly to the Mombasa refinery.

Administration and technical support

Tower has an operational headquarters at Kampala and a regional office at Arua, the capital of the north-western Ugandan province of the same name. Arua is located about 480km by road north-west of Kampala and 70km west of Rhino Camp. The operation is headed by a former RBC banker with considerable experience of East Africa and the headcount is around 35. Drilling operations have been sub-contracted but are overseen by an experienced in-house drilling manager. The cash

burn per month in Uganda, excluding major exploration activity, is around \$150,000. In addition, there is corporate overhead of about \$50,000 per month.

Namibia offshore project

Namibian exploration background: New frontier

Namibia, both onshore and offshore, has been subject to little oil and gas exploration activity. However, interest is growing in the offshore licence concessions, reflecting, in part at least, the growing realisation that offshore western Africa is generally prospective for hydrocarbons. Large discoveries in recent years in such places as Angola, Ghana and Equatorial Guinea have encouraged this view while the geophysical backdrop points to the widespread existence of large sedimentary basins. Significantly in this context, the Russian explorer, Sintezneftegaz, has reported a major natural gas find of 14tcf, while seeking crude oil, in Namibian Block 1711. This is located in the Namibe basin at the northern end of the Namibian continental shelf. If verified, Sintezneftegaz's Kunene find would be far larger than the offshore Kudu gas field, which straddles the border between South Africa and Namibia and contains 1.3tcf.

So far Petrobras is the only major with a licence interest offshore Namibia. This was obtained in May 2009 following a farm out agreement with Chariot Oil & Gas for 50% of Block 2714A in Namibian waters. Two influential independents, BHP and Hunt Oil Co, have acreage positions, while Tullow owns 70% of the Kudu gas field. The first two both have substantial acreages at the southern end of the Namibian continental shelf. All exploration activity with the exception of that of Sintezneftegaz is at a very early stage.

Tower's licence interests: Walvis Basin

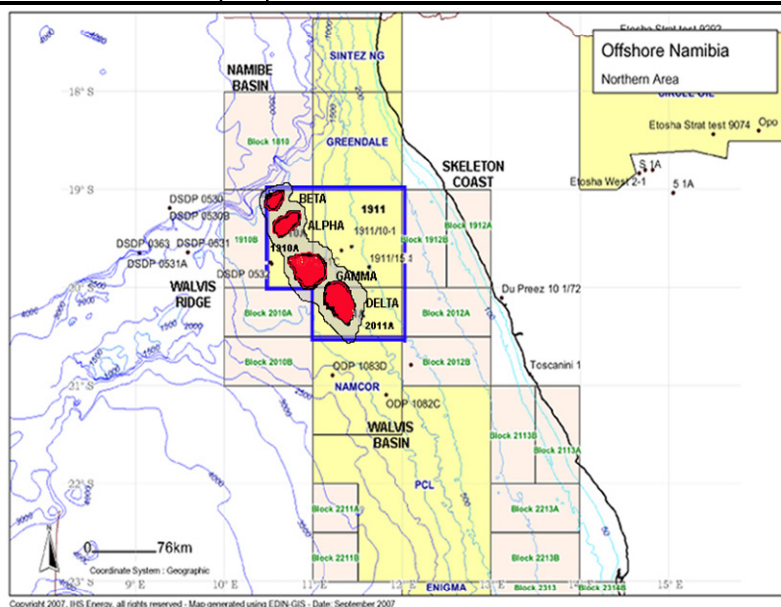
Tower's licence interests on the Namibian continental shelf comprise 15% stakes in Blocks 1910A, 1911 and 2011. These licences are between 50km and 100km west of the north Namibian Skeleton Coast at their closest and are located in the Walvis Basin on the southern flank of the Walvis Ridge, the structural high point between Angola and South Africa. The three blocks cover a very large area of 22,000km² in water ranging in depth from 200m to 3,000m. The operator is Arcadia Petroleum, a private apparently well funded oil trading company. Interestingly, Arcadia also has exploration interests in Falkland's waters in conjunction with Desire Petroleum. Tower is free carried by Arcadia for exploration purposes.

Two wells were drilled by Norsk Hydro on Block 1911 in 1994 and 1995. Although they were abandoned as dry holes, the drilling did reveal three potential source rock horizons along with a number of potentially good quality reservoirs and residual oil saturations. 2-D seismic surveys were shot in 2006 and 2007 and further seismic was acquired. The results were very encouraging. Four large structural prospects around 60km wide were identified running south-east to north-west over a distance of about 200km. The most northerly prospect is about 200km south of Sintezneftegaz's Kunene well. Geological modelling indicated potentially continuous reservoir sands which can be correlated with the high-quality sands encountered earlier by Norsk Hydro. Moreover, the mature source kitchens implied by geochemical work correlate with the distribution of sea floor gas hydrates. The existence of the basins is believed to reflect thermal subsidence following a period of rifting preceding the formation of the South Atlantic around 200 million years ago.

Preliminary estimates point to the possibility of substantial light oil reserves in the Arcadia/Tower licence areas. The Delta prospect is showing the most positive indications of hydrocarbons of the four structures based on AVO analyses. It could contain on a risk adjusted basis around 3bnboe recoverable (Tower share 450mmboe), according to Tower. Tower is also suggesting that the Alpha, Beta and Gamma prospects add potential risk adjusted recoverable reserves of 5.5bnboe of which its share would be 825mmboe. These prospects would clearly constitute world class discoveries and approach the scale of the giant Tupi discovery in the Santos Basin offshore Brazil made in 2008. Furthermore, it should be noted that Tower believes there is potentially significant upside on the preliminary estimates.

Arcadia has contracted with CGG Veritas to undertake a 1,600km² 3-D survey over the Delta structure with the aim of selecting a first drilling location. Shooting is scheduled to commence by end February 2010. In total the survey is expected to be complete before end 2010, including detailed processing and interpretation. This is expected to be followed by a first exploration well, possibly in late 2011. Assuming that the results are positive, it is expected that further exploration or appraisal wells would be drilled possibly in late 2012/13. Given that drilling will be in relatively deep water of 1,000m to 1,500m and around 200km from the coast, each exploration well will be costly, at \$50m or more. We believe that it is unlikely that development in the Namibian offshore leases will be undertaken before 2015. Note that, bearing in mind potentially heavy development costs, oil reserves would need to be substantial to justify development, possibly over 1bnboe recoverable.

Exhibit 2: Namibian licence and prospects



Source: Tower Resources

Sensitivities

- **Subsurface risk:** As with all early stage exploration juniors, subsurface risk is the greatest risk. The Albertine Basin, however, is proving to be a prolific new oil province while ENI's involvement in the zone substantially reduces development risk.
- **Country/regional risk:** Central Africa has experienced civil strife and inter-country conflicts over the past 20 or more years. In 2007 there was tension along the border between the DRC and Uganda and there remains a border dispute between the two countries. Tension

appears, however, to have eased of late. Since 2006 Uganda has emerged as a multi-party democracy and has been stable politically over most of the past 20 years.

- **Oil price risk:** Tower's Namibian project in particular depends for its long-term viability on oil prices remaining at historically high levels in real terms. A return to \$30-40/barrel would in all likelihood render the Namibian project uneconomic.
- **Financial risk:** Tower could have difficulty raising finance in the event either of another financial crisis similar to late 2008 and early 2009 or negative drilling results.

Valuation: ENI has established the benchmark

Tower Resources has no defined resources or reserves, which makes valuation a tentative exercise at present. ENI's recent \$1.5bn agreed bid for Heritage's Ugandan Albertine assets has, however, clearly established the valuation benchmark for undeveloped P50 reserves in the region. The implied valuation basis of \$5/barrel for the reserves, which we estimate at 300mm barrels, conceptually leaves plenty of upside to Tower's current market capitalisation of about £42m even in the event of a discovery no larger than the minimum for commercial development of perhaps 25-30mm barrels. On this basis and bearing in mind Tower's prospective 75% interest in Block 5, a valuation of approaching £70m or 6.8p/share might be plausible. A discovery of 100mm barrels, in line with Tower's target at Avivi-1, would, of course, boost the valuation dramatically.

As far as offshore Namibia is concerned, the project is at too early a stage for any more than a nominal value to be assigned at this juncture. As we have noted, drilling is not scheduled until late 2011 at the earliest and, owing to the location, exploration drilling and development will be costly. Nevertheless, interest in offshore Namibian exploration is likely to increase following the apparent Sintezneftegaz discovery and the presence in the zone of BHP and Hunt. Tower's anticipated survey of exploration prospects in Namibian waters should further stimulate investor interest. Market valuation of the Falklands focused junior explorers is a reasonable guide to future perceptions of Tower's Namibia programme prior to drilling.

Financials: Avivi-1 well financing underpinned

Tower Resources is a pure exploration business so cash flow is inevitably negative and furthermore will remain so for the foreseeable future in the absence of asset disposals. As for most other juniors, outflows in the course of exploration are financed by injections of new equity and contributions from farm-in partners. Since the IPO, Tower has raised £12.9m in equity. The most recent injection was in September 2009 when £7m was raised through a placing at 2p/share.

The first half of 2009 was a period of heavy capital expenditure reflecting the drilling of the Iti-1 exploration well in Uganda. Cash consumed by operating activities, including exploration, amounted to \$7.8m during the period. This was financed largely by a \$6.5m contribution from farm-in partners. The balancing \$1.3m was more than covered by share issues amounting to \$2.5m and a \$0.1m repayment of a deposit. Despite heavy capital spending, the cash balance therefore increased in the first half of 2009 by \$1.3m to \$2.1m.

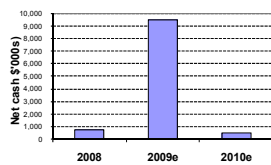
Tower's balance sheet is in excellent shape at this juncture to finance the planned exploration activity in 2010 plus corporate overhead. This reflects the significant carryover cash position from the first half of 2009 plus the £7m (\$11.6m) equity injection in September. At end 2009 we believe

the cash position could be around \$9.5m. This exceeds Tower's anticipated share of Avivi-1 well costs of \$6.5m and forecast corporate overhead in 2010 of \$2.4m. Assuming that the results from Avivi-1 are positive, we believe Tower will return to the capital market post the first quarter of 2010 to finance the major exploration programme mentioned earlier.

Exhibit 3: Financials

Year end 31 December	2008 IFRS	2009e IFRS	2010e IFRS
PROFIT & LOSS			
Revenue	0	0	0
Cost of Sales	0	0	0
Gross Profit	0	0	0
EBITDA	(1,260)	(1,527)	(2,674)
Operating Profit (before GW and except.)	(1,295)	(1,562)	(2,709)
Intangible Amortisation	0	0	0
Exceptionals	0	0	0
Other	0	0	0
Operating Profit	(1,295)	(1,562)	(2,709)
Net Interest	51	20	3
Profit Before Tax (norm)	(1,244)	(1,542)	(2,706)
Profit Before Tax (FRS 3)	(1,244)	(1,542)	(2,706)
Tax	0	0	0
Profit After Tax (norm)	(1,244)	(1,542)	(2,706)
Profit After Tax (FRS 3)	(1,244)	(1,542)	(2,706)
Average Number of Shares Outstanding (m)	542.7	729.3	1,007.2
EPS - normalised (c)	(0.2)	(0.2)	(0.3)
EPS - FRS 3 (c)	(0.2)	(0.2)	(0.3)
Dividend per share (c)	0.0	0.0	0.0
Gross Margin (%)	N/A	N/A	N/A
EBITDA Margin (%)	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)	N/A	N/A	N/A
BALANCE SHEET			
Fixed Assets	15,294	18,414	24,779
Intangible Assets	15,140	18,271	24,671
Tangible Assets	154	143	108
Investments	0	0	0
Current Assets	1,146	10,019	855
Stocks	0	0	0
Debtors	419	536	320
Cash	727	9,483	535
Current Liabilities	(1,715)	(1,750)	(1,657)
Creditors	(1,715)	(1,750)	(1,657)
Short term borrowings	0	0	0
Long Term Liabilities	0	0	0
Long term borrowings	0	0	0
Other long term liabilities	0	0	0
Net Assets	14,725	26,683	23,977
CASH FLOW			
Operating Cash Flow	(771)	(1,609)	(2,551)
Net Interest	51	20	3
Tax	0	(600)	0
Capex	(5,563)	(9,055)	(6,400)
Acquisitions/disposals	(94)	0	0
Financing	1,568	20,000	0
Dividends	0	0	0
Net Cash Flow	(4,809)	8,756	(8,948)
Opening net debt/(cash)	(5,536)	(727)	(9,483)
HP finance leases initiated	0	0	0
Other	0	0	0
Closing net debt/(cash)	(727)	(9,483)	(535)

Source: Tower Resources accounts/Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
N/A	N/A		Litigation/regulatory	●
			Pensions	○
			Currency	◐
			Stock overhang	○
			Interest rates	○
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 06-10e	N/A	ROCE 09e	N/A	Gearing 09e	N/A	Address	
EPS CAGR 08-10e	N/A	Avg ROCE 06-10e	N/A	Interest cover 09e	N/A	5 Charterhouse Square, London, EC1M 6PX	
EBITDA CAGR 06-10e	N/A	ROE 09e	N/A	CA/CL 09e	N/A		
EBITDA CAGR 08-10e	N/A	Gross margin 09e	N/A	Stock turn 09e	N/A	Phone	0207 253 6639
Sales CAGR 06-10e	N/A	Operating margin 09e	N/A	Debtor days 09e	N/A	Fax	0207 867 8787
Sales CAGR 08-10e	N/A	Gr mgn / Op mgn 09e	N/A	Creditor days 09e	N/A	www.towerresources.co.uk	

Principal shareholders		%	Management team
Mark Savage		9.9	Executive Chairman: Peter Kingston Peter Kingston is a petroleum engineer with more than 40 years' experience in technical, executive and advisory roles. He has been engaged in the oil and gas industry for over 20 years and has served as an executive and non-executive director of several UK companies in the sector. Between 1984 and 1992 he was joint MD Enterprise Oil and is currently deputy chairman and senior independent director of Soco International plc.
Jeremy Asher		8.5	
Peter Taylor		8.2	
Peter Blakey		7.9	
Peter Kingston		0.2	
			CFO: N/A
Forthcoming announcements/catalysts		Date *	
AGM		May	
Interim results		September	Chairman: N/A
<i>Note: * = estimated</i>			

EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading independent investment research company. It has won industry recognition, with awards in both the UK and internationally. The team of more than 50 includes over 30 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 250 companies across every sector and works directly with corporates, investment banks, brokers and fund managers. Edison's research is read by every major institutional investor in the UK, as well as by the private client broker and international investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority.

DISCLAIMER

Copyright 2010 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Tower Resources and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance.

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.