



**CONDENSED INTERIM FINANCIAL STATEMENTS**

**For the three months ended January 31, 2017**

**(Expressed in Canadian Dollars - Unaudited)**

**TOWER RESOURCES LTD.**  
**INDEX TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars – Unaudited)

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**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants for a review of condensed interim financial statements by an entity's auditor.

**TOWER RESOURCES LTD.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Expressed in Canadian Dollars – Unaudited)

	<b>January 31, 2017</b>	<b>October 31, 2016</b>
	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	404,044	1,113,121
Receivables (Note 3)	40,889	54,060
Prepaid expenses and deposits	6,807	8,773
	<u>451,740</u>	<u>1,175,954</u>
<b>Property and equipment</b> (Note 4)	10,902	8,275
<b>Exploration and evaluation assets</b> (Note 5)	1,864,498	1,528,189
<b>Exploration and evaluation assets - oil and gas</b> (Note 6)	1	1
<b>Reclamation bonds</b> (Note 7)	<u>55,000</u>	<u>55,000</u>
	<b>2,382,141</b>	<b>2,767,419</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 8)	133,035	424,163
<b>Rehabilitation obligation</b> (Note 6)	<u>13,000</u>	<u>13,000</u>
	<u>146,035</u>	<u>437,163</u>
<b>Shareholders' equity</b>		
Share capital (Note 9)	14,166,022	14,154,022
Share subscriptions (Note 9)	-	12,000
Reserves (Note 9)	435,400	427,985
Deficit	<u>(12,365,316)</u>	<u>(12,263,751)</u>
	<u>2,236,106</u>	<u>2,330,256</u>
	<b>2,382,141</b>	<b>2,767,419</b>

**NATURE OF OPERATIONS AND GOING CONCERN** (Note 1)  
**SUBSEQUENT EVENTS** (Note 14)

*Approved and authorized on behalf of the Board:*

"Mark Vanry"  
Mark Vanry, Director

"Steve Vanry"  
Steve Vanry, Director

The accompanying notes are an integral part of these condensed interim financial statements.

**TOWER RESOURCES LTD.**  
**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Expressed in Canadian Dollars – Unaudited)

	<b>For the three months ended</b>	
	<b>January 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Expenses</b>		
Accounting and audit	7,350	1,500
Benefits	3,999	3,240
Consulting fees (Note 10)	-	15,000
Depreciation	710	994
Investor relations	22,260	-
Legal fees	338	1,070
Management fees (Note 10)	22,500	22,500
Office and miscellaneous (Note 10)	15,651	21,263
Share-based compensation (Note 10)	38,771	1,015
Transfer agent and filing fees	11,348	4,809
Travel and promotion	9,994	-
	(132,921)	(71,391)
Write off of exploration and evaluation assets (Note 5)	-	(2,501,062)
<b>Loss and comprehensive loss for the period</b>	<b>(132,921)</b>	<b>(2,572,453)</b>
<b>Basic and diluted loss per share</b>	<b>(0.00)</b>	<b>(0.05)</b>
<b>Weighted average number of common shares outstanding</b>	<b>65,611,569</b>	<b>49,633,308</b>

The accompanying notes are an integral part of these condensed interim financial statements.

**TOWER RESOURCES LTD.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars – Unaudited)

	<b>For the three months ended</b>	
	<b>January 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows used in operating activities</b>		
Loss for the period	(132,921)	(2,572,453)
Items not affecting cash		
Depreciation	710	994
Share-based compensation	38,771	1,015
Write off of exploration and evaluation assets	-	2,501,062
Changes in non-cash working capital items		
Receivables	13,171	2,159
Prepaid expenses	1,966	(1,253)
Accounts payable and accrued liabilities	(19,748)	1,130
	<u>(98,051)</u>	<u>(67,346)</u>
<b>Cash flows used in investing activities</b>		
Acquisition of equipment	(3,337)	-
Exploration and evaluation assets expenditures	(607,689)	(15,916)
Reclamation bonds refund	-	5,000
	<u>(611,026)</u>	<u>(10,916)</u>
<b>Net change in cash</b>	(709,077)	(78,262)
<b>Cash, beginning of period</b>	<u>1,113,121</u>	<u>378,669</u>
<b>Cash, end of period</b>	<b>404,044</b>	<b>300,407</b>
<b>Non-cash transactions</b>		
Exploration and evaluation assets expenditures in accounts payable at period end	30,972	-
Expiration of stock options	31,356	-

The accompanying notes are an integral part of these condensed interim financial statements.

**TOWER RESOURCES LTD.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Expressed in Canadian Dollars – Unaudited)

	<u>Number of Shares Issued</u>	<u>Share Capital \$</u>	<u>Reserves \$</u>	<u>Share Subscriptions \$</u>	<u>Deficit \$</u>	<u>Total Shareholders' Equity \$</u>
<b>Balance at October 31, 2015</b>	<b>49,633,308</b>	<b>12,989,917</b>	<b>657,650</b>	-	<b>(9,643,502)</b>	<b>4,004,065</b>
Share-based compensation	-	-	1,015	-	-	1,015
Loss for the period	-	-	-	-	<b>(2,572,453)</b>	<b>(2,572,453)</b>
<b>Balance at January 31, 2016</b>	<b>49,633,308</b>	<b>12,989,917</b>	<b>658,665</b>	-	<b>(12,215,955)</b>	<b>1,432,627</b>
Shares issued for cash	15,000,000	1,200,000	-	-	-	1,200,000
Shares issuance costs	350,000	(75,645)	20,639	-	-	(55,006)
Share subscriptions	-	-	-	12,000	-	12,000
Shares issued for exploration and evaluation assets acquisition	550,000	39,750	-	-	-	39,750
Share-based compensation	-	-	28,675	-	-	28,675
Stock options expired	-	-	(279,994)	-	279,994	-
Loss for the period	-	-	-	-	<b>(327,790)</b>	<b>(327,790)</b>
<b>Balance at October 31, 2016</b>	<b>65,533,308</b>	<b>14,154,022</b>	<b>427,985</b>	<b>12,000</b>	<b>(12,263,751)</b>	<b>2,330,256</b>
Warrants exercised	80,000	12,000	-	(12,000)	-	-
Stock options expired	-	-	(31,356)	-	31,356	-
Share-based compensation	-	-	38,771	-	-	38,771
Loss for the period	-	-	-	-	<b>(132,921)</b>	<b>(132,921)</b>
<b>Balance at January 31, 2017</b>	<b>65,613,308</b>	<b>14,166,022</b>	<b>435,400</b>	-	<b>(12,365,316)</b>	<b>2,236,106</b>

The accompanying notes are an integral part of these condensed interim financial statements.

## **TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

#### **Nature of operations**

Tower Resources Ltd. (“the Company”) is incorporated under the laws of British Columbia, Canada. The Company’s common shares are listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol TWR. The Company’s head office, principal address and registered and records office is located at 912 – 1112 West Pender Street, Vancouver, BC V6E 2S1.

#### **Going concern**

The Company’s principal business activity is the acquisition and exploration of mineral exploration and evaluation assets domiciled in Canada. The Company has not yet determined whether any of these exploration and evaluation assets contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and future profitable production. To date, the Company has not earned any operating revenues and is considered to be in the exploration stage.

These condensed interim financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception, and the ability of the Company to continue as a going concern depends upon its ability to raise adequate financing and/or to achieve profitable operations. These condensed interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The continuance of the Company’s operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company’s investments in exploration and evaluation assets, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals. Management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur. Management estimates it will need additional financing within the next twelve months. Accordingly, these material uncertainties may cast significant doubt upon the Company’s ability to continue as a going concern.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies used in the preparation of these condensed interim financial statements.

#### **Statement of compliance**

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) 34 “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”).

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual audited financial statements of the Company for the year ended October 31, 2016. The accounting policies applied in preparation of these condensed interim financial statements are consistent with those applied and disclosed in the Company’s financial statements for the year ended October 31, 2016.

These condensed interim financial statements were authorized by the Board of Directors on March 29, 2017.





## **TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

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### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Basis of presentation**

The condensed interim financial statements have been prepared on an accrual basis and are based on historical costs, except for certain financial assets which are measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### **Use of estimates**

The preparation of condensed interim financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed interim financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Critical judgment exercised relates primarily to the going concern issue identified in Note 1.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of exploration and evaluation assets, the valuation of share-based compensation and income taxes.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

#### Economic recoverability and probability of future economic benefits of exploration and evaluation assets

Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessment of economic recoverability and probability of future economic benefits, including geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

#### Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

#### Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

#### **New or revised accounting standards not yet adopted**

The following new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the three months ended January 31, 2017 and have not been applied in preparing these condensed interim financial statements.

**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company does not expect there to be any changes as a result of the new or revised standards, which will be effective in relation to the Company's financial statements for the year ending October 31, 2018 or later:

- a. IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.
- b. IAS 12 – Income Taxes: amendments to IAS 12 to clarify the recognition of a deferred tax asset for unrealized losses.

**3. RECEIVABLES**

	January 31, 2017	October 31, 2016
	\$	\$
Sales tax recoverable	39,933	23,593
Interest receivable	167	99
Other receivable	789	30,368
	<b>40,889</b>	<b>54,060</b>

**4. PROPERTY AND EQUIPMENT**

	Computer hardware	Computer software	Equipment and furniture	Total
	\$	\$	\$	\$
<b>Cost:</b>				
At October 31, 2015	19,069	39,911	15,358	74,338
Additions	-	-	694	694
At October 31, 2016	19,069	39,911	16,052	75,032
Additions	3,337	-	-	3,337
At January 31, 2017	22,406	39,911	16,052	78,369
<b>Depreciation:</b>				
At October 31, 2015	16,721	38,729	7,262	62,712
Charge for the year	1,174	1,182	1,689	4,045
At October 31, 2016	17,895	39,911	8,951	66,757
Charge for the period	355	-	355	710
At January 31, 2017	18,250	39,911	9,306	67,467
<b>Net book value:</b>				
At October 31, 2016	1,174	-	7,101	8,275
<b>At January 31, 2017</b>	<b>4,156</b>	<b>-</b>	<b>6,746</b>	<b>10,902</b>

**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

**5. EXPLORATION AND EVALUATION ASSETS**

	<b>JD</b>	<b>Baez</b>	<b>Waterloo</b>	<b>Rabbit North</b>	<b>Nechako Gold</b>	<b>More Creek</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance, October 31, 2015	<b>2,487,646</b>	<b>1</b>	<b>1</b>	<b>1,088,765</b>	<b>-</b>	<b>-</b>	<b>3,576,413</b>
<b>Acquisition costs</b>	3,050	-	-	74,000	39,193	11,256	127,499
<b>Deferred costs</b>							
Assays	-	-	-	482	496	304	1,282
Consulting services	22,500	-	-	32,500	-	11,923	66,923
Drilling	-	-	-	189,978	-	-	189,978
Equipment rental	-	-	-	1,756	289	-	2,045
Field supplies	172	-	-	3,195	958	338	4,663
Food	-	-	-	3,846	513	342	4,701
Geologist	80	-	-	20,205	1,787	1,787	23,859
Helicopter	29,089	-	-	-	-	5,279	34,368
Site development	7,150	-	-	-	-	-	7,150
Surveys	-	-	-	-	28,319	8,854	37,173
Travel	1,498	-	-	8,189	2,404	1,313	13,404
Vehicle	-	-	-	5,502	1,839	904	8,245
Total costs incurred during the year	63,539	-	-	339,653	47,479	70,619	521,290
B.C. mineral exploration tax credit recoverable	(8,311)	-	-	(18,328)	-	-	(26,639)
Write-off of exploration and evaluation asset	(2,542,873)	(1)	(1)	-	-	-	(2,542,875)
Balance, October 31, 2016	<b>1</b>	<b>-</b>	<b>-</b>	<b>1,410,090</b>	<b>75,798</b>	<b>42,300</b>	<b>1,528,189</b>
<b>Acquisition costs</b>	-	-	-	1,303	-	-	1,303
<b>Deferred costs</b>							
Assays	-	-	-	48,490	2,398	-	50,888
Drilling	-	-	-	181,645	23,989	-	205,634
Equipment rental	-	-	-	70	-	-	70
Field supplies	-	-	-	3,861	-	-	3,861
Food	-	-	-	2,742	-	-	2,742
Geologist	-	-	-	59,595	223	223	60,041
Travel	-	-	-	4,949	-	-	4,949
Vehicle	-	-	-	6,821	-	-	6,821
Total costs incurred during the period	-	-	-	309,476	26,610	223	336,309
Balance, January 31, 2017	<b>1</b>	<b>-</b>	<b>-</b>	<b>1,719,566</b>	<b>102,408</b>	<b>42,523</b>	<b>1,864,498</b>

**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

**5. EXPLORATION AND EVALUATION ASSETS (continued)*****JD PROPERTY***

On April 11, 2012, the Company entered into an option agreement to acquire a 100% interest in the Belle property located in the Omineca mining division of British Columbia adjoining the Company's JD property. During fiscal 2016, the Company made the final share issuance (Note 9) of 50,000 shares valued at \$1,750 and exercised the option to acquire the 100% interest in the claims.

The agreement is subject to a 2% net smelter return royalty ("NSR"), of which 1% can be purchased by the Company for \$2,000,000.

In March 2016, the Company terminated the JD property option agreement, and wrote down the property by \$2,542,873 to a value of \$1, as the Company retains ownership of the adjoining Belle property.

The legal ownership of the Belle claims is currently being contested.

***BAEZ PROPERTY***

This property is located in British Columbia and was acquired for nominal staking costs. During the year ended October 31, 2016, the Company wrote off the property.

***WATERLOO PROPERTY***

On October 18, 2011, the Company entered into an option agreement to acquire the Waterloo property, comprised of certain mineral claims, located in the Osoyoos mining division of British Columbia. Under the terms of the option agreement, the Company paid \$70,000 in cash and issued 400,000 common share of the Company valued at \$140,000.

The Company elected to not meet the work commitment of \$700,000 due on or before May 13, 2016, and wrote off the property.

***RABBIT NORTH PROPERTY***

On July 11, 2013, the Company entered into an option agreement (further amended in July 2016) to acquire the Rabbit North property, comprised of certain mineral claims, located in the Kamloops mining division of British Columbia. Under the terms of the amended option agreement, the Company may acquire a 100% interest in the property by making cash payments of \$170,000 and issuing 1,100,000 common shares, in addition to funding aggregate exploration expenditures of \$2,150,000 as follows:

<i>Date</i>	<i>Cash Payments</i>	<i>Number of Shares</i>	<i>Work Commitment</i>
	<i>\$</i>		<i>\$</i>
June 6, 2013 ( <i>paid</i> )	5,000	-	-
August 7, 2013 ( <i>paid and issued</i> )	5,000	200,000	-
July 24, 2014 ( <i>paid, issued and incurred</i> )	20,000	200,000	150,000
July 24, 2015 ( <i>paid and issued – Note 9</i> )	30,000	200,000	-
July 24, 2016 ( <i>paid and issued – Note 9</i> )	50,000	300,000	-
July 24, 2017	60,000	200,000	750,000
July 24, 2018	-	-	1,250,000

The option agreement is subject to a 3% NSR, of which 2% can be purchased by the Company for \$3,500,000.

**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

**5. EXPLORATION AND EVALUATION ASSETS (continued)*****NECHAKO GOLD PROPERTY***

In July 2016, the Company entered into two property option agreements (Porphyry and Chutanli) for mineral tenures in the Nechako Plateau region of central British Columbia.

Porphyry Property Option Agreement

Pursuant to the terms of the Porphyry Property option agreement, the Company can earn a 100% interest in the property by making cash payments totaling \$40,000 and issuing 400,000 common shares, in addition to funding aggregate exploration expenditures of \$250,000 as follows:

<i>Date</i>	<i>Cash Payments</i>	<i>Number of Shares</i>	<i>Work Commitment</i>
	\$		\$
July 21, 2016 ( <i>paid and issued – Note 9</i> )	10,000	100,000	-
July 21, 2017	10,000	100,000	50,000
July 21, 2018	20,000	200,000	200,000

The agreement is subject to a 1.5% NSR which can be purchased by the Company for \$1,000,000.

Chutanli Property Option Agreement

Pursuant to the terms of the Chutanli Property option agreement, the Company can earn a 100% interest in the property by making cash payments totaling \$60,000 and issuing 600,000 common shares, in addition to funding aggregate exploration expenditures of \$225,000 as follows:

<i>Date</i>	<i>Cash Payments</i>	<i>Number of Shares</i>	<i>Work Commitment</i>
	\$		\$
July 10, 2016 ( <i>paid</i> )	10,000	-	-
July 21, 2016 ( <i>issued – Note 9</i> )	-	100,000	-
July 10, 2017	10,000	-	50,000
July 21, 2017	-	150,000	-
July 10, 2018	15,000	-	175,000
July 21, 2018	-	150,000	-
July 10, 2019	25,000	-	-
July 21, 2019	-	200,000	-

The agreement is subject to a 1.5% NSR which can be purchased by the Company for \$1,000,000.

During fiscal 2016, the Company acquired additional contiguous claims for nominal staking costs.

***MORE CREEK PROPERTY***

This property is located in the Golden Triangle district of northwest British Columbia and was acquired for nominal staking costs.

**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

**6. EXPLORATION AND EVALUATION ASSETS - OIL AND GAS**

	January 31, 2017 and October 31, 2016	
	Acquisition Costs	
Poplar Winstar Strachan	\$	1

**POPLAR WINSTAR STRACHAN**

On December 4, 2006, the Company entered into an agreement to participate in the Winstar Strachan 8-10-38-10 W5M well in the West Central area of Alberta. The Company paid \$300,000 to earn an equalization interest of approximately 1.2367 %. During the year ended October 31, 2009, the Company wrote down the value of the property to the estimated recoverable amount of \$1.

Rehabilitation obligations of \$13,000 (October 31, 2016 - \$13,000) have been recorded based on the Company's proportionate share of obligations estimated by the operators of the properties. The estimated values of the obligations have not been discounted as they are immaterial and an estimate of the timing of the future cash flows is not determinable.

**7. RECLAMATION BONDS**

In relation to the JD and Rabbit North properties, the Company has posted reclamation bonds totaling \$55,000 (October 31, 2016 - \$55,000).

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	January 31, 2017	October 31, 2016
	\$	\$
Accounts payable	61,818	350,738
Accrued liabilities	39,033	31,820
Due to related parties (Note 10)	32,184	41,605
	<b>133,035</b>	<b>424,163</b>

**9. SHARE CAPITAL AND RESERVES****Authorized share capital**

Unlimited number of common shares without par value.

**Issued share capital**

*During the year ended October 31, 2016:*

In April 2016, the Company issued 50,000 common shares valued at \$1,750 pursuant to the Belle property option agreement (Note 5).

In July 2016, the Company issued 300,000 common shares valued at \$24,000 pursuant to the Rabbit North property option agreement (Note 5).

**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

**9. SHARE CAPITAL AND RESERVES (continued)****Issued share capital (continued)**

In August 2016, the Company issued a total of 200,000 common shares valued at a total of \$14,000 pursuant to the Porphyry and Chutanli property option agreements (Note 5).

In September 2016, the Company completed a private placement for 15,000,000 units at a price of \$0.08 per unit for gross proceeds of \$1,200,000. Each unit consisted of one common share and one share purchase warrant which will entitle the holder of each warrant to acquire an additional common share of the Company at a price of \$0.15 per share for a period of 18 months. Finder's fees of \$84,159 were paid in connection with this financing of which \$35,520 was paid in cash and \$48,639 was paid through the issuance of 350,000 units. The agents' units have the same terms as the units issued in the private placement.

As at October 31, 2016, the Company received \$12,000 in proceeds pursuant to the exercise of 80,000 warrants. The shares were issued in November 2016.

**Stock options**

On November 19, 2010, the Company adopted an incentive stock option plan (the "Plan"). The Plan provides that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed ten percent of the issued and outstanding common shares of the Company at the time an option is granted. Options granted under the Plan will have a maximum term of five years. The exercise price of options granted under the Plan shall be set by the Board of Directors on the effective date of the options and will not be less than the Discounted Market Price as defined under the policies of the TSX-V. Vesting of the options shall be at the discretion of the Board of Directors.

During the year ended October 31, 2016, the Company granted 1,900,000 incentive stock options with a fair value of \$146,777 using the Black-Scholes option pricing model. The Company expensed \$29,690 as share-based compensation.

During the year ended October 31, 2016, 900,000 incentive stock options expired unexercised, and accordingly \$279,994 was reversed from reserves to deficit.

During the three months ended January 31, 2017, the Company expensed \$38,771 as share-based compensation for stock options vested. In addition, 100,000 incentive stock options expired unexercised, and accordingly \$31,356 was reversed from reserves to deficit.

The following is a summary of stock options activities:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
		\$
Outstanding at October 31, 2015	4,000,000	0.18
Granted	1,900,000	0.12
Expired	<u>(900,000)</u>	0.35
Outstanding at October 31, 2016	5,000,000	0.13
Expired	<u>(100,000)</u>	0.35
Outstanding at January 31, 2017	<u>4,900,000</u>	0.12



**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

**9. SHARE CAPITAL AND RESERVES (continued)****Stock options (continued)**

The Company has outstanding options entitling the holder to purchase an aggregate of common shares at January 31, 2017 as follows:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Number Exercisable</u>	<u>Expiry Date</u>
\$			
0.45	50,000	50,000	April 5, 2017
0.30	250,000	250,000	May 24, 2017
0.30	400,000	400,000	October 25, 2017
0.13	450,000	450,000	April 9, 2018
0.05	425,000	425,000	December 17, 2018
0.05	50,000	50,000	January 28, 2019
0.06	525,000	525,000	July 7, 2019
0.05	900,000	900,000	November 4, 2019
0.09	200,000	25,000	August 23, 2021
0.09	150,000	18,750	September 1, 2021
0.13	1,500,000	187,500	September 16, 2021
	<u>4,900,000</u>	<u>3,281,250</u>	

**Warrants**

In conjunction with the September 2016 financing, the Company issued 15,000,000 warrants, each exercisable into one common share of the Company at a price of \$0.15 for a period of 18 months. The Company also issued 350,000 warrants related the agents' units, each such warrant exercisable into one common shares at \$0.15 for a period of 18 months. The agent's warrants were valued at \$20,639 calculated using the Black-Scholes option pricing model assuming a life expectancy of eighteen months, a risk free rate of 0.51%, a forfeiture rate of nil, and volatility of 211%.

During the year ended October 31, 2016, 15,000,000 warrants expired unexercised.

During the three months ended January 31, 2017, 80,000 warrants were exercised for proceeds of \$12,000.

A summary of share purchase warrant activities is as follows:

	<u>Number of warrants</u>	<u>Weighted average exercise price</u>
		\$
Outstanding and exercisable at October 31, 2015	15,000,000	0.25
Issued	15,350,000	0.15
Expired	<u>(15,000,000)</u>	0.25
Outstanding and exercisable at October 31, 2016	15,350,000	0.15
Exercised	<u>(80,000)</u>	0.15
Outstanding and exercisable at January 31, 2017	<u>15,270,000</u>	0.15

## TOWER RESOURCES LTD.

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### 9. SHARE CAPITAL AND RESERVES (continued)

The Company has outstanding warrants entitling the holders to purchase an aggregate of common shares at January 31, 2017 as follows:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Expiry Date</u>
\$ 0.15	15,270,000	March 16, 2018

### 10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three months ended January 31, 2017:

- a) “Office and miscellaneous” includes rent recovery of \$4,500 (January 31, 2016 - \$3,000) from companies related by a common director and a common officer. As at January 31, 2017, \$788 (October 31, 2016 - \$2,120) was included in receivables for rent recovery owed from this company.

Summary of key management personnel compensation (includes officers and directors of the Company):

	<u>For the three months ended January 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
Management fees	22,500	22,500
Office and miscellaneous	7,500	7,500
Consulting fees	-	15,000
Exploration and evaluation assets expenditures	-	15,000
Share-based compensation	20,928	967
	<u>50,928</u>	<u>60,967</u>

Amounts owing to related parties (including key management personnel) included in accounts payable and accrued liabilities total \$32,184 (October 31, 2016 - \$41,605).

### 11. SEGMENTED INFORMATION

The Company has one geographic segment, being Canada, and one operating segment, being the acquisition and exploration of mineral exploration and evaluation assets.

### 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

## **TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**

(Expressed in Canadian Dollars – Unaudited)

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### **12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

The Company's financial instruments consist of cash, receivables, reclamation bonds, and accounts payable and accrued liabilities. The fair value of these financial instruments, other than cash, approximates their carrying values. Cash is measured at fair value using level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including credit, liquidity, interest rate, foreign currency and price risk.

#### *Credit risk*

The Company is exposed to industry credit risks arising from its cash holdings and receivables. The Company manages credit risk by placing cash with major Canadian financial institutions. The Company's receivables primarily consist of sales tax recoverable due from the Federal Government of Canada and share subscription receivable that was subsequently received. Management believes that credit risk related to these amounts is nominal.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital and financing to continue its operations and discharge its commitments. The Company expects it will require additional financing within the next 12 months.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As of January 31, 2017, the Company held demand deposits with a face value of \$30,000 (October 31, 2016 - \$30,000). A change in interest rates of 1% would change income by \$300 (October 31, 2016 - \$300) per annum.

#### *Foreign currency risk*

The Company is not significantly exposed to foreign currency risk on fluctuations related to items that are denominated in a foreign currency.

#### *Price risk*

The Company has limited exposure to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities.

### **13. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital that it manages as share capital, options and warrants.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties

**TOWER RESOURCES LTD.**

Notes to Condensed Interim Financial Statements

**For the three months ended January 31, 2017**(Expressed in Canadian Dollars – Unaudited)

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**13. CAPITAL MANAGEMENT (continued)**

and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions.

**14. SUBSEQUENT EVENTS**

Subsequent to January 31, 2017, the Company:

- a) Granted 850,000 stock options with an exercise price of \$0.16 exercisable for 5 years to directors, consultants, and officers of the Company.
- b) Entered into an amended agreement pursuant to which the terms of the Rabbit North option agreement were revised such that the timing of the completion of the \$2,000,000 cumulative exploration expenditures was extended to July 23, 2019, in consideration for the Company agreeing to issue to the optionors an aggregate of 200,000 common shares.
- c) Entered into certain agreements with Sandstorm Gold Ltd. (“Sandstorm”). Under the terms of the agreements, the Company will receive a total of \$500,000 in return for granting Sandstorm a two percent (2%) NSR on the Company’s Rabbit North Extension, Nechako Gold and More Creek properties. The Company will have the option to buyback one percent (1%) of the NSR on each of the properties from Sandstorm for cash consideration of \$500,000 per property. In addition, the Company will assign Sandstorm the right to purchase one percent (1%) of Tower’s two percent buyback right underlying the Rabbit North property.