TOWER ENERGY LTD.

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JANUARY 31, 2011

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TOWER ENERGY LTD.
BALANCE SHEETS
JANUARY 31, 2011 AND OCTOBER 31, 2010

	January 31, 2011		October 31, 2010	
ASSETS				
CURRENT				
Cash	$	2,283,615	$	1,161,864
Accounts receivable		-		-
Promissory note receivable (Note 2)		28,403		27,706
Harmonized sales tax recoverable		8,879		5,200
Due from related parties (Note 5)		612		-
		2,321,509		1,194,770
Equipment (Note 3)		2,964		2,964
Oil and gas properties (Note 4)		1		1
	$	2,324,474	$	1,197,735
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT				
Accounts payable and accrued liabilities	$	40,858	$	47,781
Due to related parties (Note 5)		3,063		6,454
Asset retirement obligations		13,000		13,000
		56,921		67,235
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 6)		9,242,642		7,332,642
SHARES SUBSCRIBED		-		710,000
CONTRIBUTED SURPLUS (Note 6)		397,687		373,249
DEFICIT		(7,372,776)		(7,285,391)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		-		-
		2,267,553		1,130,500
	$	2,324,474	$	1,197,735

NATURE OF BUSINESS AND CONTINUED OPERATION (Note 1)

SUBSEQUENT EVENT (Note 9)

Approved on behalf of the Board:

Mark Vanry" — *Mark Vanry, Director*

"Steve Vanry" — *Steve Vanry, Director*

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

TOWER ENERGY LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE THREE MONTHS ENDED JANUARY 31, 2011 AND 2010

	Three months ended	
	January 31, 2011	January 31, 2010
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	$ 7,179	$ 6,521
Consulting (Note 5)	6,000	5,000
Filing fees	3,363	759
Legal fees	13,383	-
Management fees (Note 5)	-	9,000
Management fees – stock-based	24,438	-
Office and miscellaneous (Note 5)	11,206	4,257
Parking	1,743	408
Property examination costs	6,250	4,528
Telephone	1,399	1,042
Transfer agent	4,393	1,362
Travel and promotion	10,087	-
LOSS BEFORE OTHER ITEMS	89,441	32,877
OTHER ITEMS		
Loss on disposal of equipment	-	238
Interest income (Note 3)	(2,102)	(630)
Oil and gas net costs	46	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	87,385	32,485
DEFICIT – BEGINNING OF PERIOD	7,285,391	5,966,416
DEFICIT – ENDING OF PERIOD	$ 7,372,776	$ 5,998,901
BASIC AND FULLY DILUTED LOSS PER SHARE	$ (0.00)	$ (0.00)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	86,646,638	51,772,725

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

TOWER ENERGY LTD.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED JANUARY 31, 2011 AND 2010

	Three months ended January 31, 2011	Three months ended January 31, 2010
Net income (loss)	$ (87,385)	$ (32,485)
Unrealized gain (loss) on CPH Shares	-	35,420
Other comprehensive income (loss)	-	35,420
Comprehensive income (loss)	$ (87,385)	$ 2,935

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

TOWER ENERGY LTD.
STATEMENTS OF CASH FLOWS FOR THE THREE MONTHS ENDED JANUARY 31, 2011 AND 2010

	Three months ended January 31, 2011		Three months ended January 31, 2010	
CASH PROVIDED BY (USED FOR):				
OPERATING ACTIVITIES				
Income (loss) for the period	$	(87,385)	$	(32,485)
Adjustments for items not affecting cash:				
Stock-based compensation		24,438		-
Loss on disposal of equipment		-		238
Accrued interest on promissory note		(698)		(630)
		(47,915)		(32,877)
Net changes in non-cash working capital items:				
Harmonized sales tax recoverable		(3,678)		(1,158)
Prepaid expenses		-		(1,153)
Accounts receivable		-		232
Accounts payable and accrued liabilities		(6,923)		(3,953)
Net cash used in operating activities		(74,246)		(38,908)
FINANCING ACTIVITIES				
Issuance of share capital for cash		1,200,000		488,053
Related party advances (net of repayments)		(4,003)		2,146
Net cash used in financing activities		1,195,997		490,199
INVESTING ACTIVITIES				
Net cash used in investing activities		-		-
NET INCREASE (DECREASE) IN CASH		1,121,751		451,291
CASH – BEGINNING OF PERIOD		1,161,864		14,572
CASH – END OF PERIOD	$	2,283,615	$	465,863

SUPPLEMENTAL CASH FLOW INFORMATION				
Cash paid for interest	$	-	$	-
Cash paid for income taxes	$	-	$	-

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

TOWER ENERGY LTD.

SCHEDULES OF DEFERRED EXPLORATION AND DEVELOPMENT COSTS
OIL AND GAS PROPERTIES
FOR THE THREE MONTHS ENDED JANUARY 31, 2011
AND THE YEAR ENDED OCTOBER 31, 2010

Sarcee Well	Three months ended January 31, 2011	Year ended October 31, 2010
Miscellaneous	$.	$ 3,571
Total costs incurred during the period	-	3,571
Balance, beginning of period	-	883,552
	-	887,123
Write-off of capitalized costs	-	(887,123)
Balance, end of period	$ -	$ -

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

1. NATURE OF BUSINESS AND CONTINUED OPERATIONS

Tower Energy Ltd. ("the Company") is incorporated under the laws of British Columbia, Canada and is primarily engaged in the acquisition, exploration and development of oil and gas properties located in Canada.

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company are primarily funded by the issue of share capital and by loans from related parties. The continued operations of the Company are dependent on its ability to receive continued support from related parties, complete sufficient public equity financing or generate profitable operations in the future. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

The Company had the following deficits and working capital as at the following dates:

	January 31, 2011		October 31, 2010	
Deficit	$	(7,372,776)	$	(7,285,391)
Working capital	$	2,277,588	$	1,140,535

2. PROMISSORY NOTE RECEIVABLE

On October 1, 2009 the Company lent $25,000 to a holding company in exchange for a $25,000 unsecured promissory note payable on demand. The promissory note pays interest at ten percent per annum. The President of the holding company was related by common directorships in another public company to a former director of the Company. The Company recorded interest receivable of $2,500 in the year ended October 31, 2010 and $698 in the three months ended January 31, 2011.

3. EQUIPMENT

	Cost		Accumulated Amortization		January 31, 2011 Net Book Value	
Computer hardware	$	3,952	$	988	$	2,964

	Cost		Accumulated Amortization		October 31, 2010 Net Book Value	
Computer hardware	$	3,952	$	988	$	2,964

On January 31, 2010 the Company wrote off computer equipment that originally cost $7,437. On October 31, 2010 the Company purchased computer equipment for $3,952.

4. OIL & GAS PROPERTIES

January 31, 2011	Acquisition Costs	Deferred Costs	Write-off of Capitalized Costs	Total
Poplar Winstar Strachan	$ 1	$ -	$ -	$ 1
Sarcee 12-13-23-4W5M well	-	-	-	-
	$ 1	$ -	$ -	$ 1

October 31, 2010	Acquisition Costs	Deferred Costs	Write-off of Capitalized Costs	Total
Poplar Winstar Strachan	$ 1	$ -	$ -	$ 1
Sarcee 12-13-23-4W5M well	10,000	887,123	(897,123)	-
	$ 10,001	$ 887,123	$ (897,123)	$ 1

SARCEE 12-13-23-4W5M WELL- DEEP FOOTHILLS TEST WELL AND SURROUNDING LANDS

On June 13, 2005 the Company entered into an agreement with CPH for a 10% participating interest in the drilling of a well located at 12-13-23-4 W5M (the "Mississippian Test Well") on the Tsui T'ina First Nations land immediately west of Calgary. The Company paid $534,283 - 10% of the total well anticipated costs, to earn a 5% working interest in this well and 2,560 surrounding acres ("The Mississippian Block"). The Company paid an additional $340,112, $5,270, $926, $2961 and $3,571 in well costs in the years ended October 31, 2006 through 2010 respectively; In addition the Company has accrued $3,750; $6,250; and $nil in asset retirement obligations in the years ended October 31, 2006; 2007; and 2008 respectively.

No depletion was calculated in the years as the property was in the preproduction stage.

During the year ended October 31, 2010 management of the Company resolved to relinquish its interest in the property and write off the entire capitalized cost of $897,123.

POPLAR WINSTAR STRACHAN

On December 4, 2006 the Company entered into an agreement with Poplar Point Energy Ltd. ("Poplar"), to participate in a Participation Agreement between Poplar and Winstar Resources Ltd. ("Winstar"), dated October 20, 2006 wherein Poplar agreed to participate in the Winstar Strachan 8-10-38-10 W5M well in the West Central area of Alberta. Tower paid $300,000 of the drilling, completion and tie in costs of the well to earn an equalization interest of 1.2366423 %. In addition, the Company has accrued $3,000 in asset retirement obligations in the year ended October 31, 2008.

During the year ended October 31, 2009 management of the Company resolved to write down the value of the property to the estimated recoverable amount of $1

4. OIL & GAS PROPERTIES (cont'd)

Asset retirement obligations 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. The carrying cost has been written off.

5. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the three months ended January 31, 2011:

a) Management fees totaling $nil were paid or accrued to a company controlled by a former director of the Company (2010 - $9,000).

b) Consulting fees totaling $4,000 were paid or accrued to a director of the Company and $2,000 to a company controlled by the director (2010 - $5,000 to the director).

c) Office and miscellaneous includes rent totaling $2,250 paid to a company related by common directors and officers (2010 - $3,000).

The Company entered into the following transactions with related parties during the year ended October 31, 2010:

d) Management fees totaling $33,000 were paid or accrued to a company controlled by a former director of the Company

e) Consulting fees totaling $23,000 were paid or accrued to a director of the Company

f) Office and miscellaneous includes rent totaling $13,600 paid to a company related by common directors and officers

The above transactions have been in the normal course of operations and, have been valued in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As of January 31, 2011 the Company was owed $612 (October 31, 2010 - $nil) from the following related parties:

	January 31, 2011	October 31, 2010
i. Director for prepaid expenses	$ 612	$ -
	$ 612	$ -

5. RELATED PARTY TRANSACTIONS (Cont'd)

As of January 31, 2011 the Company owed $3,063 (October 31, 2010 - $6,454) to the following related parties:

	January 31, 2011	October 31, 2010
i. Company with a director in common for expenses	$ 30	$ 414
ii. Directors for expenses	2,817	5,824
iii. Former director for loans	216	216
	$ 3,063	$ 6,454

Amounts due to related parties are unsecured, non-interest-bearing and have no specific terms of repayment; accordingly, fair market value cannot be determined.

6. SHARE CAPITAL

The authorized share capital of the Company is unlimited common shares without par value and 100,000,000 Preference Shares with a par value of $1.00 each.

	Three months ended January 31, 2011		Year ended October 31, 2010	
	Number of Shares	Value	Number of Shares	Value
Balance, beginning of period	51,772,725	$ 7,332,642	26,772,725	$ 6,844,589
Issued for cash by private placement	30,000,000	1,500,000	25,000,000	500,000
Warrants exercised	8,200,000	410,000	-	-
Share issue costs	-	-	-	(11,947)
Balance, end of period	89,972,725	$ 9,242,642	51,772,725	$ 7,332,642

On November 30, 2009 the Company closed a private placement of 25,000,000 units at a price of $0.02 per unit for gross proceeds of $500,000. Each unit is comprised of one common share and one share purchase warrant which entitles the holder to purchase one additional common share of the Company for $0.05 up to December 1, 2010 and for $0.10 for four years thereafter. The Company paid share issue costs totaling $11,917 related to this transaction.

On November 2, 2010 the Company closed a private placement of 30,000,000 units at a price of $0.05 per unit and has received the sum of $1,500,000 as gross proceeds of the private placement. Each unit is comprised of one common share and one share purchase warrant which entitles the holder to purchase one additional common share of the company for $0.10 up to November 2, 2015. The shares forming part of the units or which may be purchased upon exercise of the warrants forming part of the units are subject to a hold period expiring on March 3, 2011.

6. SHARE CAPITAL (cont'd)

On November 30, 2010 8,200,000 warrants from the earlier private placement were exercised at $0.05 for proceeds of $410,000.

Stock Options

On November 19, 2010 the Company adopted a new incentive stock option plan (the "Plan"). The essential elements of the Plan provide 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 ten years. The exercise price of options granted under the Plan shall be set by the Board of Directors on the effective date of the option and will not be less than the Discounted Market Price as defined by the TSX Venture Exchange. Vesting of the Options shall be at the discretion of the Board of Directors. All outstanding options granted prior to November 19, 2010 have been rolled into and deemed granted under the Plan.

On April 28, 2010 the Company granted 100,000 options to a Director, exercisable at $0.10. The options expire on April 28, 2011. They vest in equal quarterly instalments over four quarters. The total fair value of $6,866 was estimated using the Black-Scholes option pricing model assuming an expected life of 5 years, a risk-free interest rate of 3.00% and an expected volatility of 133%. The Company recorded a stock-based management fee of $2,575 during the year ended October 31, 2010 being the fair value of the options vested in the period. The Company recorded a stock-based management fee of $4,291 during the three months ended January 31, 2011 being the fair value of the options vested in the period.

On November 10, 2010 the Company granted 1,900,000 incentive stock options to two directors and one consultant of the Company. The options are exercisable at $0.10 until November 10, 2013 with 12.5% vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The total fair value of $161,169 was estimated using the Black-Scholes option pricing model assuming an expected life of 3 years, a risk-free interest rate of 1.73% and an expected volatility of 164%. The Company recorded a stock-based management fee of $20,147 during the three months ended January 31, 2011 being the fair value of the options vested in the period.

6. SHARE CAPITAL (cont'd)

A summary of the status of the Company's stock option plan as of January 31, 2011 and October 31, 2010 and changes during the periods then ended is as follows:

	Three months ended January 31, 2011			Year ended October 31, 2010		
	Number of Common Shares Subject to Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Life in Years	Number of Common Shares Subject to Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Life (Years)
Outstanding, beginning of year	100,000	$ 0.10	0.49	-	$ -	-
Granted	1,900,000	0.10	3.00	100,000	0.10	1.00
Exercised	-	-	-	-	-	-
Expired/cancelled	-	-	-	-	-	-
Outstanding, end of year	2,000,000	$ 0.10	2.65	100,000	$ 0.10	0.49

The Company had outstanding options entitling the holder to purchase an aggregate of common shares as follows:

			January 31, 2011			October 31, 2010		
	Exercise Price Per Share ($)	Expiry Date	Number of Options	Vested and Exercisable	Weighted Average Contractual Life Remaining (in Years)	Number of Options	Vested and Exercisable	Weighted Average Contractual Life Remaining (in Years)
November 10, 2011	0.10	November 10, 2013	1,900,000	237,500	2.78	-	-	-
April 28, 2010	0.10	April 28, 2011	100,000	100,000	0.24	100,000	75,000	0.49
	0.10		2,000,000	337,500	2.65	100,000	75,000	0.49

6. SHARE CAPITAL (cont'd)

Warrants:

A summary of the status of the Company's warrants as of January 31, 2011 and October 31, 2010 and changes during the years then ended is as follows:

	Three months ended January 31, 2011			Year ended October 31, 2010		
	Number of Common Shares Subject to Warrant	Weighted Average Exercise Price per Share	Weighted Average Remaining Life in Years	Number of Common Shares Subject to Warrant	Weighted Average Exercise Price per Share	Weighted Average Remaining Life in Years
Outstanding, beginning of period	25,000,000	$ 0.10	4.09	-	$ -	-
Granted	30,000,000	0.10	5.00	25,000,000	0.10	5.00
Exercised	(8,200,000)	0.10	-	-	-	-
Outstanding, end of period	46,800,000	$ 0.10	4.42	25,000,000	$ 0.10	4.09

The Company had outstanding warrants entitling the holders to purchase an aggregate of 46 800,000 common shares as follows:

			January 31, 2011		October 31, 2010	
Date Issued	Exercise Price Per Share	Expiry Date	Number of Shares	Weighted Average Life in Years	Number of Shares	Weighted Average Life in Years
December 2, 2009[1]	$ 0.10	December 1, 2014	16,800,000	3.84	25,000,000	4.09
November 2, 2010	0.10	November 2, 2015	30,000,000	4.76	-	-
			46,800,000	4.42	25,000,000	4.09

[1]Warrants issued December 2, 2009 are exercisable at $.10 to December 1, 2014.

Contributed Surplus:

	Three months ended January 31, 2011	Year ended October 31, 2010
Balance, beginning of period	$ 373,249	$ 370,674
Stock-based compensation expense	24,438	2,575
Balance, end of period	$ 397,687	$ 373,249

7. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain financial risks, which include credit risk, concentration risk, market risk and liquidity risk.

Credit Risk
The Company is exposed to industry credit risks arising from its cash holdings and accounts receivable. The Company manages credit risk by placing cash with major Canadian financial institutions. The Company's receivables consist of oil and gas revenues receivable and HST due from the Federal Government of Canada. 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 replacement debt structures to continue its operations and discharge its commitments as they become due.

Market risk
The Company is no longer exposed to market risk with respect to its investment in the CPH shares.

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash earns interest at floating rates, the Company is exposed to interest rate risk. A 1% increase or decrease in interest rates will result in appropriately $22,000 annualized increase or decrease in net loss.

8. CAPITAL MANAGEMENT

The Company manages its cash, amounts due to and from related parties and common shares as capital. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, or acquire or dispose of assets. In order to maximize ongoing development efforts, the Company does not pay out dividends.

8. CAPITAL MANAGEMENT (Cont'd)

There were no changes in the Company's approach to capital management during the year ended October 31, 2010 or the three months ended January 31, 2011. The Company is not subject to externally imposed capital requirements.

9. SUBSEQUENT EVENT

During February 2011 50,000 warrants were exercised at $0.10 for proceeds of $5,000.