TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)

INDEX TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2011

CHARTERED ACCOUNTANTS
MacKay LLP

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Independent Auditor's Report

To the Shareholders of
Tower Resources Ltd.

We have audited the accompanying financial statements of Tower Resources Ltd., which comprise the balance sheets as at October 31, 2011 and October 31, 2010, and the statements of operations and deficit, comprehensive income (loss), accumulated other comprehensive income (loss), and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Tower Resources Ltd. as at October 31, 2011 and October 31, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Tower Resources Ltd. to continue as a going concern.

"MacKay LLP"

Chartered Accountants

Vancouver, British Columbia
February 27, 2012

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
BALANCE SHEETS
OCTOBER 31, 2011 AND 2010

	October 31, 2011	October 31, 2010
ASSETS		
CURRENT		
Cash	$ 2,058,418	$ 1,161,864
Note receivable (Note 3)	-	27,706
Harmonized sales tax recoverable	18,484	5,200
B.C. mineral exploration tax credit	12,656	-
Prepaid expenses	1,997	-
	2,091,555	1,194,770
Equipment (Note 4)	3,941	2,964
Mineral properties (Note 5)	192,223	-
Oil and gas properties (Note 6)	1	1
	$ 2,287,720	$ 1,197,735
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	$ 58,950	$ 47,781
Due to related parties (Note 7)	34,881	6,454
Asset retirement obligations	13,000	13,000
	106,831	67,235
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 8)	9,392,136	7,332,642
SHARES SUBSCRIBED	-	710,000
CONTRIBUTED SURPLUS (Note 8)	493,706	373,249
DEFICIT	(7,704,953)	(7,285,391)
	2,180,889	1,130,500
	$ 2,287,720	$ 1,197,735

NATURE OF BUSINESS AND CONTINUED OPERATIONS (Note 1)

COMMITMENTS (Notes 5 and 13)

SUBSEQUENT EVENTS (Note 14)

Approved on behalf of the Board:

"Mark Vanry" ”Steve Vanry”
Mark Vanry, Director *Steve Vanry, Director*

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED OCTOBER 31, 2011 AND 2010

	Year ended October 31, 2011	Year ended October 31, 2010
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	$ 49,930	$ 49,539
Consulting	55,050	25,725
Filing fees	17,780	17,147
Legal fees	48,494	13,315
Management fees	-	33,000
Management fees – stock-based (note 8)	130,451	2,575
Parking	7,819	2,245
Amortization	2,960	988
Office and miscellaneous	49,181	25,371
Property examination costs	52,353	2,645
Loss on write-down of oil and gas property (Note 6)	-	897,123
Telephone	8,922	3,937
Transfer agent	13,457	5,071
Travel and promotion	15,240	618
LOSS BEFORE OTHER ITEMS	451,637	1,079,299
OTHER ITEMS		
Net oil and gas loss (revenue)	152	(36)
Loss on disposal of investment	-	241,907
Loss on disposal of equipment	-	238
Gain on debt settlement	(10,472)	-
Bad debt expense	-	232
Foreign exchange loss	1,130	-
Interest income (Note 3)	(22,885)	(2,665)
	(32,075)	239,676
NET LOSS FOR THE YEAR	419,562	1,318,975
DEFICIT – BEGINNING OF YEAR	7,285,391	5,966,416
DEFICIT – END OF YEAR	$ 7,704,953	$ 7,285,391
BASIC AND FULLY DILUTED LOSS PER SHARE	$ 0.02	$ 0.11
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	22,403,489	12,422,350

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED OCTOBER 31, 2011 AND 2010

	Year ended October 31, 2011	Year ended October 31, 2010
Net income (loss)	$ (419,562)	$ (1,318,975)
Unrealized gain (loss) on CPH Shares	-	80,093
Realized gain (loss) on sale of CPH shares transferred to net loss	-	241,907
Other comprehensive income (loss)	-	322,000
Comprehensive income (loss)	$ (419,562)	$ (996,975)

STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED OCTOBER 31, 2011 AND 2011

	Year ended	
	October 31, 2011	October 31, 2010
Beginning balance	$ -	$ (322,000)
Change during the year:		
Unrealized gain (loss) on CPH Shares	-	80,093
Realized loss on sale of CPH shares transferred to net loss	-	241,907
Ending balance	$ -	$ -

The accumulated other comprehensive loss was comprised solely of unrealized gains and losses on investments classified as available for sale.

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED
OCTOBER 31, 2011 AND 2010

	Year ended October 31, 2011	Year ended October 31, 2010
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Income (loss) for the year	$ (419,562)	$ (1,318,975)
Adjustments for items not affecting cash:		
Amortization	2,960	988
Stock-based compensation	130,451	2,575
Loss on disposal of investment	-	241,907
Loss on disposal of equipment	-	238
Loss (gain) on disposition of oil and gas property	-	897,123
Accrued interest	206	(2,499)
	(285,945)	(178,644)
Net changes in non-cash working capital items:		
Harmonized sales tax recoverable	(13,283)	(3,762)
Prepaid expenses	(1,997)	1,276
Accounts payable and accrued liabilities	11,168	11,798
Accounts receivable	-	232
Net cash provided by (used in) operating activities	(290,057)	(169,100)
FINANCING ACTIVITIES		
Issuance of share capital for cash	1,217,500	500,000
Share issue costs	-	(11,947)
Shares subscribed	-	710,000
Related party advances (net of repayments)	28,427	11,269
Net cash provided by (used in) financing activities	1,245,927	1,209,322
INVESTING ACTIVITIES		
Repayment of note receivable	27,500	-
CPH shares sold	-	114,593
Mineral property acquisition	(25,828)	-
Deferred exploration costs	(57,051)	(3,571)
Purchase of equipment	(3,937)	(3,952)
Net cash provided by (used in) investing activities	(59,316)	107,070
NET INCREASE IN CASH	896,554	1,147,292
CASH – BEGINNING OF YEAR	1,161,864	14,572
CASH – END OF YEAR	$ 2,058,418	$ 1,161,864
Cash paid for interest	$ -	$ -
Cash paid for income taxes	-	-

SUPPLEMENTAL CASH FLOW INFORMATION– Note 9

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
SCHEDULES OF ACQUISITION AND DEFERRED EXPLORATION COSTS
MINERAL PROPERTIES
FOR THE YEAR ENDED OCTOBER 31, 2011

	Acquisition Costs	Deferred Costs	Total
Dragon	$ 72,154	$ 6,073	$ 78,227
Dorado	23,000	15,135	38,135
JD	50,851	10,723	61,574
Baez	1,303	-	1,303
Waterloo	520	12,464	12,984
	$ 147,828	$ 44,395	$ 192,223

	Year ended October 31, 2011						
	Dragon	Dorado	JD	Baez	Recce	Waterloo	Total
Assays	747	747	-	-	-	1,498	2,992
Annual mineral rights	-	10,333	-	-	-	-	10,333
Field supplies	33	570	909	-	-	788	2,300
Food	-	-	473	-	-	825	1,298
Geologist	2,250	2,250	4,500	-	-	10,500	19,500
Helicopter	2,414	1,704	5,646	-	-	-	9,764
Travel	1,697	281	2,934	-	-	1,732	6,644
Vehicle	450	450	857	-	-	2,463	4,220
Total costs incurred during the year	7,591	16,335	15,319	-	-	17,806	57,051
B.C. mineral exploration tax credit recoverable	(1,518)	(1,200)	(4,596)	-	-	(5,342)	(12,656)
Balance, beginning of the year	-	-	-	-	-	-	-
	6,073	15,135	10,723	-	-	12,464	44,395

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
SCHEDULES OF DEFERRED EXPLORATION AND DEVELOPMENT COSTS
OIL AND GAS PROPERTIES
FOR THE YEARS ENDED OCTOBER 31, 2011 AND 2010

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

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

1. NATURE OF BUSINESS AND CONTINUED OPERATIONS

Tower Resources Ltd. (formerly 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 mineral properties located in Canada. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol TWR. The Company's business address is 530 – 510 Burrard Street, Vancouver, BC V6C 3A8. On September 8, 2011 the Company changed its name from Tower Energy Ltd. to Tower Resources Ltd. in order to reflect the change in its focus from oil & gas properties to mineral properties.

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. The Company has no sources of revenue and an accumulated deficit of $7,704,953. These matters raise significant doubt about the ability of the Company to continue as a going concern. The continued operations of the Company are dependent on its ability to 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:

	October 31, 2011	October 31, 2010
Deficit	$ (7,704,953)	$ (7,285,391)
Working capital	$ 1,984,724	$ 1,127,535

On September 20, 2011 the Company consolidated its share capital on a 4:1 basis and cancelled its preference shares. All share and per share amounts have been restated to reflect the share consolidation unless otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Mineral Properties and Deferred Exploration Costs

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and exploration costs are capitalized and deferred until such time as the property is put into production, or the property is disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be written off over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in operations for the period. If a property

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

a. Mineral Properties and Deferred Exploration Costs (cont'd)

is abandoned, the acquisition and deferred exploration costs will be written off to operations.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Properties may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Management reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recovery of recorded costs is subject to measurement uncertainty and it is reasonably possible that changes in future conditions in the near term could require a material change in the recorded amount.

b. Oil and Gas Properties

i) Full cost accounting
The Company uses the full cost method of oil and gas accounting whereby all costs relating to the exploration for and development of oil and gas reserves are capitalized. Such costs include land acquisition, drilling of productive and non-productive wells, geological and geophysical, production facilities, carrying costs directly related to unproved properties and corporate expenses directly related to acquisition, exploration and development activities. Gains or losses on sales of properties are recognized only when crediting the proceeds to costs would result in a change of 20% or more in the depletion rate.

ii) Depletion and depreciation
Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated gross proved petroleum and natural gas reserves. For purposes of this calculation, petroleum and natural gas reserves are converted to a common unit of measurement on the basis of six thousand cubic feet of gas equating to one barrel of oil equivalent (BOE). The costs of significant undeveloped properties are excluded from costs subject to depletion. Unproved properties are evaluated for impairment on an annual basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b. Oil and Gas Properties (cont'd)

All costs, net of revenues of properties in the preproduction stage have been capitalized.

iii) Ceiling test
The net amount at which oil and gas properties are carried is limited to the fair value of those properties based on the net present value of the estimated future net revenues (the "ceiling test"). This is a two-stage process which is to be performed at least annually. The first stage is a recognition test which compares the undiscounted future cash flow from proved reserves plus the cost less impairment of unproved properties to the net book value of the oil and gas assets to determine if the assets are impaired. An impairment loss exists when the carrying amount of the oil and gas assets exceeds such undiscounted cash flow and cost of unproved properties. The amount of impairment, if any, to be recorded is measured as the amount by which the carrying amount of assets capitalized exceeds the sum of: (i) the expected net present value of future net revenues from proved and probable reserves discounted at a risk free interest rate and (ii) the costs (less any impairment) of unproved properties that have been subject to a separate test for impairment. Commodity prices used to determine future net revenues are based on the best information available to the Company and are consistent with quoted benchmark prices in the futures market (adjusted for quality differences). If the net carrying costs exceed the fair value, the impairment is recorded as additional depletion and depreciation.

iv) Measurement uncertainty
Recorded costs of oil and gas properties are not intended to reflect present or future values of the properties. Impairment tests are subject to material measurement uncertainty. Major uncertainties affecting recovery of costs include unfavourable decreases in the market price for oil and gas products, unfavourable exploration results, delays in exploration and development activities such that the remaining lease terms are insufficient to conduct necessary work and costs significantly in excess of amounts originally expected. It is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amounts.

c. Cash and Cash Equivalents

Cash and cash equivalents include cash, bank deposits, and all highly liquid investments with a maturity of three months or less at the date of purchase. The Company minimizes its credit risk by investing in cash equivalents with major international banks and financial institutions. Management believes that no concentration of credit risk exists with respect to investment of its cash and cash equivalents. Due to the short time to maturity of cash equivalents, their carrying amounts approximate their fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

d. Foreign Currency

The Company's functional currency is the Canadian dollar. Transactions and account balances recorded in foreign currencies have been translated into Canadian dollars using the temporal method. Under this method foreign currency amounts and transactions are translated as follows:

(i) Monetary assets and liabilities at approximate exchange rates prevailing at the consolidated balance sheet dates;
(ii) Non-monetary assets and liabilities at approximate historical exchange rates;
(iii) Deferred costs at approximate average exchange rates in effect during the period in which the costs were incurred; and
(iv) Gains or losses resulting from changes in exchange rates are included in the determination of income or loss.

e. Property and Equipment

Property and equipment is carried at cost less accumulated amortization.

Amortization for equipment acquired prior to October 31, 2009 was calculated using the declining balance method at the following annual rate:

Computer hardware	30%

Amortization for equipment acquired after October 31, 2009 is calculated using the straight line method at the following annual rate:

Computer hardware	50%

In the year of acquisition, amortization is recorded at one-half the normal rate.

f. Loss per Share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the year. Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share are the same.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

g. Stock-based Compensation

The Company has a formal incentive stock option plan which is described in Note 8. All stock-based awards are measured and recognized using the fair-value method as determined by the Black-Scholes option-pricing model. Awards that the Company has the ability to settle with stock are recorded as equity, whereas awards that the Company is required to, or has the practice of settling in cash are recorded as liabilities. Compensation expense is recorded in the statement of operations over the vesting period. Forfeitures are accounted for as they occur.

h. Joint Interests

The Company's exploration and development activities may be conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

i. Income Taxes

The Company uses the future income tax method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactments. The Company provides a valuation allowance to the extent that it does not consider it to be more likely than not that a future tax asset will be recovered.

j. Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation must be recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made. Furthermore, a corresponding asset retirement cost is recognized by increasing the carrying value of the related long-lived asset. The asset retirement cost is subsequently charged to operations in a rational and systematic manner over the underlying asset's useful life. The initial fair value of the asset retirement liability is accreted, by charges to operations, to its estimated future value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

k. Share Issue Costs

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

l. Flow-through Shares

The Company provides certain share subscribers with a flow – through component for tax benefits available on qualifying Canadian exploration expenditures. Upon renunciation to the shareholders, the Company will reduce share capital and record a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient available deductible temporary differences available to offset the renounced tax deductions, the realization of the deductible temporary differences will be credited to operations in the period of renunciation.

m. Financial Instruments

The Company's financial instruments consist of cash, accounts receivable, investments in marketable securities, promissory note receivable, accounts payable and accrued liabilities, and amounts due to and from related parties.

Section 3855 requires all financial assets and liabilities to be classified into one of the following five categories:

- held-for trading,
- available-for-sale financial assets,
- held-to-maturity,
- loans and receivables,
- other financial liabilities.

Held-for–Trading financial assets and liabilities are measured at fair value with subsequent changes in fair value recognized in current period net income.

Held-to-Maturity assets, *loans and receivables* and *other financial liabilities* are initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income.

Available-for-sale financial assets are measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheet, and

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

m. Financial Instruments (cont'd)

Derivative financial instruments are classified as held-for-trading financial instruments and measured at fair value, with respect to gains and losses in the current period income. The Company does not engage in any form of derivative or hedging instruments.

Transaction costs incurred to acquire other than held-for-trading financial instruments are included in the underlying balance.

Handbook Section 3855 defines available-for-sale financial assets as those non-derivative financial assets that are designated as available for sale, or that are not classified as loans and receivables, held-to-maturity investments, or held-for-trading.

Cash is classified as held-for-trading; accounts receivable, promissory note receivable and amounts due from related parties are classified as loans and receivables; accounts payable and accrued liabilities and amounts due to related parties are classified as other financial liabilities.

Handbook Sections 3862 and 3863 place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the Handbook sections in note 11 to these financial statements.

The value of the Company's arm's length short-term financial instruments is estimated by management to approximate their carrying values due to their immediate or short-term maturity. The fair value of advances due to and from related parties has not been determined as comparable arms-length interest, security and risk information is not determinable**.**

The Company's financial instruments consist of cash, harmonized sales tax recoverable, accounts payable, and amounts due to related parties. The value of the Company's arm's length short-term financial instruments is estimated by management to approximate their carrying values due to their immediate or short-term maturity. The fair value of amounts due to related parties has not been determined as comparable arms-length interest, security and risk information is not determinable. The fair value of the promissory note receivable may be impacted by changes in market yields, but management estimates that the fair value approximates carrying value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

m. Financial Instruments (cont'd)

Cash is classified as trading, promissory note receivable and harmonized sales tax recoverable are classified as loans and receivables, accounts payable and amounts due to related parties are classified as other financial liabilities. The Company does not engage in any form of derivative or hedging instruments.

Handbook Section 3862 requires disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. 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.

Fair Values

The following table outlines the Company's financial assets and liabilities measured at fair value by level with the fair value hierarchy described above. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair measurement.

As at October 31, 2011 the Company's financial instruments measured at fair value were as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash	$ 2,058,418	-	-	$ 2,058,418

As at October 31, 2010 the Company's financial instruments measured at fair value were as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash	$ 1,161,864	-	-	$ 1,161,864

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)
n. New Accounting Standards Not Yet Adopted

International Financial Reporting Standards
In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. The Company has begun to assess its requirements and first time adoption methodologies, including its internal training and resource needs and first time adoption implications.

Consolidated Financial Statements
In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

Non Controlling interests
In January 2009, the CICA issued Handbook Section 1602, Non-controlling interests, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

Business Combinations
In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Estimated obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted.

The above three standards were not adopted prior to the transition to IFRS.

3. 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 paid 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 On July 6, 2011 the note was settled for a cash payment of $27,500. The Company reduced interest income by $1,373 upon settlement.

4. EQUIPMENT

	Cost	Accumulated Amortization	October 31, 2011 Net Book Value
Computer hardware	$ 7,890	$ 3,949	$ 3,941

	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. In the year ended October 31, 2011 the Company purchased computer equipment for $3,938.

5. MINERAL PROPERTIES

DRAGON AND DORADO

The Company entered into an option agreement with Sidewinder Exploration Ltd., (“Sidewinder”) dated June 26th, 2011 to acquire up to a 100% interest in two mineral properties, comprising twenty-two (22) mineral claims, known as “Dragon” and “Dorado”, located on Vancouver Island, British Columbia. Under the option agreement, the Company may earn an initial 75% interest in the properties by making cash payments of $45,000 and issuing 300,000 common shares to Sidewinder, in addition to funding aggregate exploration expenditures of $2,000,000 all over a total 41-month period. The Company also has an exclusive right and option to earn an additional 25% interest in the properties (for an aggregate of 100%) by funding and delivering a Feasibility Study. The agreement is subject to a 2% Net Smelter Royalty (“NSR”) 1% of which may be purchased for $1,000,000.

The right of Tower to exercise the option and acquire the 75% interest is conditional on Tower:

5. MINERAL PROPERTIES (cont'd)

making cash payments of an aggregate of $45,000 as follows:

not less than $20,000 within five business days following the date upon which Tower receives exchange acceptance (the Acceptance Date) (July 13, 2011 - paid) and

an additional $25,000 on or before the date that is one year following the Acceptance Date (July 8, 2012); and

issuing an aggregate of 1,200,000 common shares (300,000 post consolidation) in the capital of Tower within five business days of the Acceptance Date (July 13, 2011 – issued) and funding aggregate expenditures on the property of $2,000,000 as follows:

not less than $100,000 on or before the date that is one year following the Acceptance Date (July 8, 2012); and

not less than $700,000 on or before the date that is 29-months following the Acceptance Date (December 8, 2013); and

not less than $1,200,000 on or before the date that is 41-months following the Acceptance Date (December 8, 2014).

JD PROPERTY

On September 7, 2011 the Company entered into an agreement to acquire the JD gold - silver property, comprised of eight (8) mineral claims, located in the Omineca mining division of British Columbia. Under the terms of the option agreement Tower may acquire a 100% interest in the property by making cash payments of $200,000, and issuing 1.2 million common shares over a 5-year period, to the vendors, in addition to funding aggregate exploration expenditures of $5,000,000 over a total 63-month period. The agreement is subject to a 2% NSR, 1% of which can be purchased by Tower for $3,000,000.

The right of Tower to exercise the option and acquire the 100% interest is conditional on Tower making cash payments of an aggregate of $200,000 as follows:

not less than $45,000 on or before the date that is 15-months following the date upon which Tower receives exchange acceptance (the Acceptance Date) (December 16, 2012) and

an additional $40,000 on or before the date that is 27-months following the Acceptance Date (December 16, 2013); and

an additional $50,000 on or before the date that is 39-months following the Acceptance Date (December 16, 2014); and

an additional $65,000 on or before the date that is 51-months following the Acceptance Date (December 16, 2015); and

issuing an aggregate of 1,200,000 common shares in the capital of Tower as follows:

5. MINERAL PROPERTIES (cont'd)

not less than 125,000 shares within ten Business Days following the Acceptance Date (September 26, 2011) - issued at a price of $0.40 per share; and

an additional 150,000 shares on or before the date that is 15-months following the Acceptance Date (December 16, 2012); and

an additional 200,000 shares on or before the date that is 27-months following the Acceptance Date (December 16, 2013); and

an additional 250,000 shares on or before the date that is 39-months following the Acceptance Date (December 16, 2014); and

an additional 475,000 shares on or before the date that is 51-months following the Acceptance Date (December 16, 2015); and

funding aggregate expenditures on the property of $5,000,000 follows:

not less than $120,000 on or before September 1, 2012, including a firm and irrevocable commitment of $60,000 before November 15, 2011, for which Tower will be responsible to file the related cash-in-lieu or assessment work documentation with the Province of British Columbia (subsequently paid); and

an additional $80,000 on or before the date that is 15-months following the Acceptance Date (December 16, 2012); and

an additional $500,000 on or before the date that is 27-months following the Acceptance Date (December 16, 2013); and

an additional $1,000,000 on or before the date that is 39-months following the Acceptance Date (December 16, 2014); and

an additional $1,5000,000 on or before the date that is 51-months following the Acceptance Date (December 16, 2015); and

an additional $1,800,000 on or before the date that is 63-months following the Acceptance Date (December 16, 2016).

Tower will pay an advance royalty of $40,000 per year, for each year after Tower has earned the 100% interest, but has not yet reached the commencement of commercial production.

WATERLOO PROPERTY

On October 18, 2011 the Company entered into an agreement to acquire the Waterloo property, comprised of eighteen (18) mineral claims, located in the Osoyoos mining division of British Columbia. Under the terms of the option agreement Tower may acquire a 100% interest in the property by making cash payments of $70,000 and issuing 400,000 common shares to the vendor, in addition to funding aggregate exploration expenditures of $2,000,000 over a total 41-month period. The agreement is subject to a 2% NSR, of which 1% can be purchased by Tower for $3,000,000.

5. MINERAL PROPERTIES (cont'd)

The right of Tower to exercise the option and acquire the 100% interest is conditional on Tower making cash payments of an aggregate of $200,000 as follows:

For a 75% interest (the "First Option"):

making cash payments of an aggregate of $70,000 (the "**First Option Cash Payments**") as follows:

not less than $45,000 within ten Business Days following the date upon which Tower receives Exchange Acceptance (the "**Acceptance Date**") (December 23, 2011 – subsequently paid); and

not less than $25,000 on or before the date that is one year following the Acceptance Date (December 23, 2012);

issuing 400,000 common shares in the capital of Tower (the "**First Option Shares**") within ten Business Days following the Acceptance Date (December 23, 2011 – subsequently issued at a price of $0.33 per share);

funding aggregate Expenditures on the Property of $2,000,000 (the "**First Option Expenditures**") as follows:

not less than $100,000 on or before the date that is one year following the Acceptance Date December 13, 2012);

not less than an additional $700,000 on or before the date that is 29 months following the Acceptance Date (May 13, 2014); and

not less than $1,200,000 on or before the date that is 41 months following the Acceptance Date. (May 13, 2015);

Upon Tower completing and delivering a Feasibility Study, (the "**100% Exercise Date**"), Tower will be deemed to have exercised the Second Option and to have earned

an additional 25% Interest (for an aggregate 100% Interest), subject to the Royalty Interest (the "Royalty") as defined below, The Vendor will expeditiously execute all agreements and instruments necessary or advisable in the discretion of Tower to transfer the 25% Interest in favour of Tower or its designee.

At any time after Tower has earned the 25% Interest (for an aggregate 100% Interest), Tower will pay a royalty (the "**Royalty**") being equal to either:

$40,000 per year, in the form of an advanced royalty, for each year after Tower has earned the 100% Interest, but has not yet reached the Commencement of Commercial Production; or 2% of Net Smelter Returns, at such time Commencement of Commercial Production in attained, net of the total amount of advanced royalties paid above.

6. OIL & GAS PROPERTIES

	October 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 accrued $3,000 in asset retirement obligations in the year ended October 31, 2008.

6. OIL & GAS PROPERTIES (cont'd)

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.

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.

7. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the year ended October 31, 2011:

a) Management fees totaling $nil were paid or accrued to a company controlled by a former director of the Company (2010 - $33,000).

b) Consulting fees totaling $4,000 were paid or accrued to a director of the Company and $20,000 to a company controlled by the director (2010 - $23,000 to the director).

c) "Office and miscellaneous" includes rent totaling $9,000 paid to a company formerly related by common directors and officers (2010 - $13,600); rent of $8,353 (2010 - $nil) and other office expenses of $1,904 paid or accrued to a company related by common directors and officers.

d) "Mineral properties" includes geologist fees totaling $19,500 and vehicle rentals totaling $4,100 (2010 - $nil) paid to a company related by common directors and officers.

e) Consulting fees totaling $30,000 were paid to a company controlled the vice president exploration of the Company (2010 - $nil).

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.

7. RELATED PARTY TRANSACTIONS (cont'd)

As of October 31, 2011 the Company owed $34,881 (October 31, 2010 - $6,454) to the following related parties:

	October 31, 2011		October 31, 2010	
i. Company with a director in common for expenses	$	-	$	414
ii. CEO for expenses		4,042		-
iii. CFO for expenses		1,978		5,220
iv. Directors for expenses		-		604
v. Former director for loans		216		216
vi. Company with a director in common for expenses		28,645		-
	$	34,881	$	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.

8. SHARE CAPITAL

The authorized share capital of the Company is unlimited common shares without par value.

On September 20, 2011 the Company consolidated its capital on a 4:1 basis and cancelled the authorized 1,000,000 preference shares. All share and per share amounts have been restated to reflect the share consolidation unless otherwise indicated.

	Year ended October 31, 2011		Year ended October 31, 2010	
	Number of Shares	Value	Number of Shares	Value
Balance, beginning of year	12,943,183	$ 7,332,642	6,693,183	$ 6,844,589
Issued for cash by private placement	7,500,000	1,500,000	6,250,000	500,000
Warrants exercised	2,050,000	410,000	-	-
Options exercised	43,750	17,500	-	-
Transfer from contributed surplus on exercise of options	-	9,994	-	-
Issued for mineral properties	425,000	122,000	-	-
Share issue costs	-	-	-	(11,947)
Balance, end of year	22,961,933	$ 9,392,136	12,943,183	$ 7,332,642

8. SHARE CAPITAL (cont'd)

On November 30, 2009 the Company closed a private placement of 25,000,000 (6,250,000 post-consolidation) units at a price of $0.02 ($0.08 post-consolidation) 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 ($0.20 post-consolidation) up to December 1, 2010 and for $0.10 ($0.40 post-consolidation) for the four years thereafter. The Company paid share issue costs totaling $11,947 related to this transaction.

On November 2, 2010 the Company closed a private placement of 30,000,000 (7,500,000 post-consolidation) units at a price of $0.05 ($0.20 post consolidation) 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 ($0.40 post-consolidation) 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 were subject to a hold period expiring on March 3, 2011.

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

In February 2011, 50,000 (pre-consolidation) options were exercised at $0.10 for proceeds of $5,000. On April 21, 2011 100,000 (pre-consolidation) options were exercised at $0.10 for proceeds of $10,000. On May 10, 2011 25,000 (pre-consolidation) options were exercised at $0.10 for proceeds of $2,500.

On June 29, 2011 Company issued 1,200,000 (300,000 post-consolidation) common shares for property acquisition. On September 21, 2011 Company issued 125,000 common shares for property acquisition. Refer to Note 5.

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.

8. SHARE CAPITAL (cont'd)

On April 28, 2010 the Company granted 100,000 (pre-consolidation) one-year options to a Director, exercisable at $0.10. The options vested 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%, dividends of nil, and an expected volatility of 133%. The options were exercised on April 21, 2011 for proceeds of $10,000.

On November 10, 2010 the Company granted 1,900,000 (475,000 post-consolidation) incentive stock options to two directors and one consultant of the Company. The options are exercisable at $0.10 ($0.40 post-consolidation) 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%, dividends of nil, and an expected volatility of 164%.

On August 12, 2011 the Company granted 750,000 (187,500 post-consolidation) incentive stock options to the Vice President of the Company. The incentive stock options are priced at $0.10 ($0.40 post-consolidation) each and may be exercised for a period of up to three years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $64,103 was calculated using the Black-Scholes option pricing model with an expected life of 3 years, risk-free interest rate of 1.12%, dividends of nil, and an expected volatility of 167%.

On September 29, 2011 the Company granted 1,000,000 incentive stock options to four directors, an officer and two consultants of the Company. The incentive stock options are priced at $0.35 each and may be exercised for a period of up to five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $311,098 was calculated using the Black-Scholes option pricing model with an expected life of 5 years, risk-free interest rate of 1.4%, dividends of nil, and an expected volatility of 141%.

The Company recorded a stock-based management fee of $130,451 (2010 - $2,575) during the year ended October 31, 2011 being the fair value of the options vested in the year.

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

8. SHARE CAPITAL (cont'd)

	Year ended October 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	25,000	$ 0.40	0.49	-	$ -	-
Granted	1,662,500	0.37	4.20	25,000	0.40	1.00
Exercised	(43,750)	0.40	-	-	-	-
Expired/cancelled	-	-	-	-	-	-
Outstanding, end of year	1,643,750	$ 0.37	3.87	25,000	$ 0.40	0.49

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

			October 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, 2010	0.40	November 10, 2013	456,250	237,500	2.03	-	-	-
August 12, 2011	0.40	August 12, 2014	187,500	23,438	2.78			
September 29, 2011	0.35	September 29, 2016	1,000,000	125,000	4.92			
April 28, 2010	0.40	April 28, 2011	-	-	-	25,000	18,750	0.49
	0.37		1, 643,750	385,938	3.87	25,000	18,750	0.49

Warrants:

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

	Year ended October 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 year	6,250,000	$ 0.40	4.09	-	$ -	-
Granted	7,500,000	0.40	5.00	6,250,000	0.40	5.00
Exercised	(2,050,000)	0.40	-	-	-	-
Outstanding, end of year	11,700,000	$ 0.40	3.68	6,250,000	$ 0.40	4.09

8. SHARE CAPITAL (cont'd)

The Company had outstanding post-consolidation warrants entitling the holders to purchase an aggregate of 11,700,000 common shares as follows:

			October 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	$ 0.40	December 1, 2014	4,200,000	3.09	6,250,000	4.09
November 2, 2010	$ 0.40	November 2, 2015	7,500,000	4.01	-	-
			11,700,000	3.68	6,250,000	4.09

Contributed Surplus:

	Year ended October 31, 2011	Year ended October 31, 2010
Balance, beginning of year	$ 373,249	$ 370,674
Stock-based compensation expense	130,451	2,575
Transfer to share capital on exercise of options	(9,994)	-
Balance, end of year	$ 493,706	$ 373,249

9. SUPPLEMENTAL CASH FLOW INFORMATION

	Year ended October 31, 2011	Year ended October 31, 2010
Non-cash financing activities:		
Issue of share capital for mineral properties	$ 122,000	$ -
Issue of share capital for subscription advances	$ 710,000	$ -
Share subscription advances	$ (710,000)	$ -
	$ 122,000	$ -
Non-cash investing activities:		
Acquisition of mineral properties	$ (122,000)	$ -

10. FUTURE INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Loss before income taxes	$ (419,562)	$ (1,318,975)
Corporate tax rate	26.83%	28.75%
Expected tax expense (recovery) at statutory rates	(112,582)	(379,205)
Increase (decrease) resulting from:		
Change of tax rate	5,209	36,260
Unrecognized items for tax purposes	36,348	37,064
Non-capital losses expired	-	30,918
Tax benefits not realized (realized)	71,026	274,963
Income tax provision (recovery)	$ -	$ -

The Company’s future income tax assets and liabilities are made up as follows:

	2011	2010
Future income tax assets		
Non-capital losses carried forward	$ 465,450	$ 412,068
Capital loss carried forward	30,238	12,737
Exploration and development deductions	942,993	942,993
Property, plant and equipment	987	247
Share issue costs	1,792	2,389
Asset retirement obligation	3,250	3,250
	1,444,710	1,373,684
Valuation allowance	(1,444,710)	(1,373,684)
	$ -	$ -

10. FUTURE INCOME TAX (cont'd)

The Company has available non-capital losses for Canadian income tax purposes which may be carried forward to reduce taxable income in future years. The non-capital losses in the amount of approximately $1,861,798 expire as follows:

2014	$ 229,795
2015	330,732
2026	341,054
2027	169,785
2028	114,719
2029	186,033
2030	206,148
2031	283,532
	$ 1,861,798

At October 31, 2011 the Company has available mineral resource related expenditure pools totaling approximately $2,868,544 (2010 - $2,676,321) and oil and gas related expenditures pools totaling approximately $1,095,652 (2010 - $1,095,652) which may be deducted against future taxable income on a discretionary basis. In addition the Company has share issue costs totaling $7,168 (2010 - $9,557) which have not been claimed for income tax purposes.

11. 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.

11. MANAGEMENT OF FINANCIAL RISK (Cont'd)

Market risk

(a) Price risk

The Company is exposed 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. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

(b) 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 $20,000 annualized increase or decrease in net loss.

12. 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.

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

13. COMMITMENTS

The Company has signed a resource property acquisition consulting services agreement for US$5,000 expiring July 2012. The agreement may be terminated by either party any time after January 2012.

14. SUBSEQUENT EVENTS

On December 23, 2011 the Company completed a non-brokered private placement of 2,545,000 flow-through common shares at a price of $0.40 per share for gross proceeds of $1,018,000 and issued 400,000 shares pursuant to the Waterloo property option agreement (Note 5).

On December 9, 2011 the Company granted 100,000 incentive stock options to a consultant of the Company. The incentive stock options are priced at $0.35 each and may be exercised for a period of up to five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every four months thereafter. The fair value of $31,355 was calculated using the Black-Scholes option pricing model with the risk-free interest rate of 1.33%, dividends of nil and calculated volatility of 144%.

On February 20, 2012 the Company granted 200,000 incentive stock options to two consultants of the Company. The incentive stock options are priced at $0.35 each and may be exercised for a period of up to five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every four months thereafter. The fair value of $62,901 was calculated using the Black-Scholes option pricing model with the risk-free interest rate of 1.48%, dividends of nil, and calculated volatility of 145%.