



FINANCIAL STATEMENTS

For the year ended October 31, 2018

(Expressed in Canadian Dollars)

TOWER RESOURCES LTD.
INDEX TO FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

| | PAGE(S) |
|-----------------------------------------------|----------------|
| INDEPENDENT AUDITORS' REPORT | 3-4 |
| CONTENTS | |
| STATEMENTS OF FINANCIAL POSITION | 5 |
| STATEMENTS OF LOSS AND COMPREHENSIVE LOSS | 6 |
| STATEMENTS OF CASH FLOWS | 7 |
| STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY | 8 |
| NOTES TO FINANCIAL STATEMENTS | 9-28 |

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Tower Resources Ltd.

We have audited the accompanying financial statements of Tower Resources Ltd., which comprise the statements of financial position as at October 31, 2018 and 2017, and the statements of loss and comprehensive loss, changes in shareholders' equity, 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 International Financial Reporting Standards, 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.

Auditors' 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 audit 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 auditors' 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, these financial statements present fairly, in all material respects, the financial position of Tower Resources Ltd. as at October 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Tower Resources Ltd.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

February 21, 2019

TOWER RESOURCES LTD.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

| | October 31, 2018 | October 31, 2017 |
|-----------------------------------------------------------------|-----------------------------|-----------------------------|
| | \$ | \$ |
| ASSETS | | |
| Current | | |
| Cash | 615,376 | 2,462,500 |
| Receivables (Note 3) | 48,088 | 17,738 |
| Prepaid expenses and deposits | 28,954 | 22,425 |
| | <u>692,418</u> | <u>2,502,663</u> |
| Property and equipment (Note 4) | 22,530 | 13,033 |
| Exploration advance | - | 70,000 |
| Exploration and evaluation assets (Note 5) | 4,118,067 | 2,753,069 |
| Exploration and evaluation assets - oil and gas (Note 6) | 1 | 1 |
| Reclamation bonds (Note 7) | 80,000 | 45,000 |
| | <u>4,913,016</u> | <u>5,383,766</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (Notes 8 and 10) | 56,812 | 91,361 |
| Rehabilitation obligations (Note 6) | 1,237 | 1,237 |
| | <u>58,049</u> | <u>92,598</u> |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 9) | 17,584,000 | 17,333,793 |
| Reserves (Note 9) | 618,831 | 593,943 |
| Deficit | (13,347,864) | (12,636,568) |
| | <u>4,854,967</u> | <u>5,291,168</u> |
| | <u>4,913,016</u> | <u>5,383,766</u> |

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)
SUBSEQUENT EVENT (Note 16)

Approved and authorized on behalf of the Board:

/s/ "Garrett Macdonald"
Garrett Macdonald, Director

/s/ "Nicholas Nikolakakis"
Nicholas Nikolakakis, Director

The accompanying notes are an integral part of these financial statements

TOWER RESOURCES LTD.
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

| | For the year ended October 31, | |
|------------------------------------------------------------------------------|---------------------------------------|--------------------------|
| | 2018 | 2017 |
| | <u>\$</u> | <u>\$</u> |
| Expenses | | |
| Accounting and audit (Note 10) | 56,390 | 52,174 |
| Consulting fees | 77,187 | 45,800 |
| Depreciation (Note 4) | 21,921 | 6,129 |
| Investor relations | 17,233 | 47,008 |
| Legal fees | 31,275 | 31,148 |
| Management fees (Note 10) | 50,000 | 110,000 |
| Office and miscellaneous (Note 10) | 160,022 | 137,383 |
| Property investigation costs | - | 1,888 |
| Share-based compensation (Notes 9 and 10) | 323,956 | 257,112 |
| Transfer agent and filing fees | 31,858 | 30,255 |
| Travel and promotion | 58,918 | 24,760 |
| Wages and benefits (Note 10) | 162,933 | 23,245 |
| | <u>(991,693)</u> | <u>(766,902)</u> |
| Interest income | 6,048 | - |
| Gain on exploration and evaluation assets previously written off (Note 5) | 14,665 | - |
| Gain on rehabilitation obligations (Note 6) | - | 11,763 |
| Gain on sale of net smelter returns royalty (Note 5) | - | 92,698 |
| Rehabilitation obligations (Note 6) | <u>(1,650)</u> | <u>-</u> |
| Loss and comprehensive loss for the year | <u>(972,630)</u> | <u>(662,441)</u> |
| Basic and diluted loss per share | <u>(0.01)</u> | <u>(0.01)</u> |
| Weighted average number of common shares outstanding | <u>90,736,339</u> | <u>79,160,824</u> |

The accompanying notes are an integral part of these financial statements

TOWER RESOURCES LTD.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)

| | For the year ended October 31, | |
|------------------------------------------------------------------|---------------------------------------|-------------------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Cash flows used in operating activities | | |
| Loss for the year | (972,630) | (662,441) |
| Items not affecting cash | | |
| Depreciation | 21,921 | 6,129 |
| Share-based compensation | 323,956 | 257,112 |
| Gain on exploration and evaluation assets previously written off | (14,665) | - |
| Gain on sale of net smelter returns royalty | - | (92,698) |
| Gain on rehabilitation obligations | - | (11,763) |
| Changes in non-cash working capital items | | |
| Receivables | (30,350) | 36,322 |
| Prepaid expenses and deposits | (6,529) | (13,652) |
| Accounts payable and accrued liabilities | 6,103 | (10,387) |
| | <u>(672,194)</u> | <u>(491,378)</u> |
| Cash flows used in investing activities | | |
| Acquisition of equipment | (31,418) | (10,887) |
| Acquisition of exploration and evaluation assets | (1,270,985) | (1,723,572) |
| Proceeds from sale of net smelter returns royalty | - | 500,000 |
| Exploration advance | - | (70,000) |
| BC mining exploration tax credit received | 95,473 | - |
| Reclamation bonds | (35,000) | 10,000 |
| | <u>(1,241,930)</u> | <u>(1,294,459)</u> |
| Cash flows from financing activities | | |
| Proceeds from shares issued | - | 3,354,473 |
| Share issuance costs | - | (219,257) |
| Stock options exercised | 67,000 | - |
| | <u>67,000</u> | <u>3,135,216</u> |
| Net change in cash | (1,847,124) | 1,349,379 |
| Cash, beginning of year | <u>2,462,500</u> | <u>1,113,121</u> |
| Cash, end of year | <u>615,376</u> | <u>2,462,500</u> |

SUPPLEMENTAL CASH FLOW INFORMATION (Note 12)

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

TOWER RESOURCES LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

| | <u>Number of Shares Issued</u> | <u>Capital Stock \$</u> | <u>Reserves \$</u> | <u>Share Subscriptions \$</u> | <u>Deficit \$</u> | <u>Total Shareholders' Equity \$</u> |
|-----------------------------------------------------------------------|----------------------------------------|---------------------------------|------------------------|---------------------------------------|-----------------------|--------------------------------------------------|
| Balance at October 31, 2016 | 65,533,308 | 14,154,022 | 427,985 | 12,000 | (12,263,751) | 2,330,256 |
| Shares issued for cash | 23,022,231 | 3,338,223 | - | - | - | 3,338,223 |
| Share issuance costs | - | (363,111) | 158,410 | - | - | (204,701) |
| Stock options exercised | 25,000 | 2,090 | (840) | - | - | 1,250 |
| Warrants exercised | 180,000 | 27,000 | - | (12,000) | - | 15,000 |
| Shares issued for exploration and evaluation assets acquisition | 650,000 | 143,500 | - | - | - | 143,500 |
| Shares issued for advisory fee | 206,896 | 32,069 | 14,090 | - | - | 46,159 |
| Warrants issued for sale of net smelter returns royalty | - | - | 26,810 | - | - | 26,810 |
| Share-based compensation | - | - | 257,112 | - | - | 257,112 |
| Stock options expired | - | - | (192,958) | - | 192,958 | - |
| Stock options terminated | - | - | (96,666) | - | 96,666 | - |
| Loss for the year | - | - | - | - | (662,441) | (662,441) |
| Balance at October 31, 2017 | 89,617,435 | 17,333,793 | 593,943 | - | (12,636,568) | 5,291,168 |
| Stock options exercised | 1,275,000 | 116,818 | (49,818) | - | - | 67,000 |
| Units issued for exploration and evaluation assets acquisition | 500,000 | 70,000 | 32,723 | - | - | 102,723 |
| Shares issued for exploration and evaluation assets acquisition | 350,000 | 42,750 | - | - | - | 42,750 |
| Share-based compensation | - | - | 323,956 | - | - | 323,956 |
| Stock options expired | - | - | (21,927) | - | 21,927 | - |
| Stock options terminated | - | - | (239,407) | - | 239,407 | - |
| Warrants expired | - | 20,639 | (20,639) | - | - | - |
| Loss for the year | - | - | - | - | (972,630) | (972,630) |
| Balance at October 31, 2018 | 91,742,435 | 17,584,000 | 618,831 | - | (13,347,864) | 4,854,967 |

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

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 and on the OTCQB under the symbol TWRFF. The Company’s head office and principal address is located at 912 - 1112 West Pender Street, Vancouver, BC, V6E 2S1. The Company’s registered and records office is located at 39073 Kingfisher Road, Squamish, BC, V8B 0S9.

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 revenues and is considered to be in the exploration stage.

These 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 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 continuation 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 in turn is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals. These material uncertainties may cast significant doubt as to the ability of the Company to continue as a going concern. 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 favourable or adverse market conditions occur.

These financial statements do not reflect adjustments to the carrying value of assets and liabilities, the reported expenses and balance sheet classifications used that would be necessary if the going concern assumption were not appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

These financial statements were approved by the Audit Committee and Board of Directors of the Company on February 21, 2019.

Basis of presentation

The financial statements have been prepared on a historical cost basis, using the accrual basis of accounting, except for cash flow information and certain financial assets that are measured at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional currency

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar. The reporting currency of the Company is the Canadian dollar.

Use of estimates

The preparation of 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 financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amounts, 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 application of the going concern basis of preparation.

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

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.

Exploration and evaluation assets

Costs directly related to the acquisition and exploration of exploration and evaluation assets are capitalized once the legal rights to explore the exploration and evaluation assets are acquired or obtained. Prior to acquisition of legal rights, costs are expensed as incurred. When the technical and commercial viability of a mineral resource has been demonstrated and a development decision has been made, the capitalized costs of the related property are first tested for impairment and then are transferred to mining assets within property and equipment and depreciated using the units of production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

Acquisition costs include the cash or other consideration and the assigned value of shares issued, if any, on the acquisition of exploration and evaluation assets. Costs related to properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The Company does not accrue estimated future costs of maintaining its exploration and evaluation assets in good standing.

Capitalized costs as reported on the statement of financial position represent costs incurred to date and may not reflect actual, present, or future values. Recovery of carrying value is dependent upon future commercial success or proceeds from disposition of the exploration and evaluation property interests.

Management evaluates each property on a reporting period basis or as events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to which costs are capitalized or charged as impairment charges. Write-downs due to impairment in value are charged to profit or loss.

Exploration and evaluation assets, where future cash flows are not reasonably determinable, are evaluated for impairment based on results of exploration work, and management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

General exploration costs not related to specific properties, and general administrative expenses are charged to profit or loss in the year in which they are incurred.

Mining and exploration tax recoveries

The Company recognizes mining and exploration tax recoveries when collection is reasonably assured. The amount recoverable is subject to review and approval by the respective taxation authority.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in amount and timing of the Company's estimates of reclamation costs, are charged to profit or loss for the period. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

For the years presented, the Company recorded a rehabilitation obligation of \$1,237 (2017 - \$1,237) in relation to its oil and gas exploration and evaluation assets. The Company estimates that it has no significant restoration and environmental obligations related to its exploration and evaluation assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation for equipment is calculated using the declining balance method at the following annual rates:

| | |
|-------------------------|------|
| Computer hardware | 50% |
| Equipment and furniture | 20% |
| Computer software | 100% |

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Basic and diluted loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similarly to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods. For the years presented, this calculation proved to be anti-dilutive.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves.

Warrants that are issued as payment for agency or finders' fees or other transactions costs are accounted for as share-based payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

The Company has an incentive stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods using the graded vesting method. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options and compensatory warrants is determined using the Black-Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Company transfers the value of cancelled and expired unexercised vested stock options and compensatory warrants to deficit or share capital from reserves on the date of expiration, based on the nature of the item.

Impairment of non-financial assets

The carrying amount of the Company's assets (which include property and equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to depreciation and are tested annually for impairment.

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company classifies cash as fair value through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company classifies its receivables as loans and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment. The Company classifies its reclamation bonds as held-to-maturity investments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method, and includes accounts payable and accrued liabilities.

For the years presented, the Company did not have any derivative financial assets or liabilities.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Costs related to issuances not completed will be recorded as deferred financing costs if the completion of the transaction is considered likely; otherwise they are expensed as incurred.

Income taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the country where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred income tax

Deferred income tax is based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares

On the issuance of flow-through shares, any premium received in excess of the closing market price of the Company's common shares is initially recorded as a flow-through premium liability. Upon related expenditures being incurred, the Company proportionately derecognizes the liability and recognizes the offsetting amount in profit or loss.

The Company indemnifies the subscribers of flow-through shares against certain tax related amounts that become due related to their flow-through subscriptions.

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 year ended October 31, 2018 and have not been applied in preparing these financial statements. The Company does not expect there to be any changes other than disclosure 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, 2019 or later:

- a. IFRS 2 – Share Based Payments: The amendments eliminate the diversity in practice in the classification and measurement of particular share-based payment transactions which are narrow in scope and address specific areas of classification and measurement. It is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted provided it is disclosed. The Company expects the impact of this standard on its financial statements to be negligible.
- b. 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. The Company expects the impact of this standard on its financial statements to be additional disclosure.
- c. IFRS 15 – Revenue from Contracts with Customers: The amendments do not change the underlying principles of the standard, just clarify and offer some additional transition relief. The standard is effective for annual periods beginning on or after January 1, 2018. The Company expects the impact of this standard on its financial statements to be negligible.
- d. IFRS 16 – Leases: This standard establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard is effective for annual periods beginning on or after January 1, 2019. The Company has not yet assessed the potential impact of the application of this standard.

TOWER RESOURCES LTD.
Notes to Financial Statements
For the year ended October 31, 2018
(Expressed in Canadian Dollars)

3. RECEIVABLES

| | October 31, 2018 | October 31, 2017 |
|------------------------|------------------|------------------|
| | \$ | \$ |
| GST receivable | 10,596 | 16,163 |
| Interest receivable | 4,159 | - |
| Legal fees recoverable | 33,333 | - |
| Other receivable | - | 1,575 |
| | 48,088 | 17,738 |

4. PROPERTY AND EQUIPMENT

| | Computer hardware | Computer software | Equipment and furniture | Total |
|----------------------------|----------------------|----------------------|----------------------------|---------------|
| | \$ | \$ | \$ | \$ |
| Cost: | | | | |
| At October 31, 2016 | 19,069 | 39,911 | 16,052 | 75,032 |
| Additions | 5,287 | 5,600 | - | 10,887 |
| At October 31, 2017 | 24,356 | 45,511 | 16,052 | 85,919 |
| Additions | - | 31,418 | - | 31,418 |
| At October 31, 2018 | 24,356 | 76,929 | 16,052 | 117,337 |
| Depreciation: | | | | |
| At October 31, 2016 | 17,895 | 39,911 | 8,951 | 66,757 |
| Charge for the year | 1,909 | 2,800 | 1,420 | 6,129 |
| At October 31, 2017 | 19,804 | 42,711 | 10,371 | 72,886 |
| Charge for the year | 2,276 | 18,509 | 1,136 | 21,921 |
| At October 31, 2018 | 22,080 | 61,220 | 11,507 | 94,807 |
| Net book value: | | | | |
| At October 31, 2017 | 4,552 | 2,800 | 5,681 | 13,033 |
| At October 31, 2018 | 2,276 | 15,709 | 4,545 | 22,530 |

TOWER RESOURCES LTD.
Notes to Financial Statements
For the year ended October 31, 2018
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS

| | JD | Rabbit North | Nechako Gold | More Creek | Voigtberg | Total |
|-----------------------------------------------|-----------|---------------------|---------------------|-------------------|------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, October 31, 2016 | 1 | 1,410,090 | 75,798 | 42,300 | - | 1,528,189 |
| Acquisition costs | - | 145,553 | 85,500 | - | - | 231,053 |
| Deferred costs | | | | | | |
| Assays | - | 99,922 | 2,398 | 13,607 | - | 115,927 |
| Drilling | - | 618,185 | 23,989 | - | - | 642,174 |
| Equipment rental | - | 18,173 | 1,491 | - | - | 19,664 |
| Field supplies | - | 13,768 | 1,761 | 320 | - | 15,849 |
| Food | - | 11,707 | 141 | 1,413 | - | 13,261 |
| Geologist | - | 244,160 | 32,198 | 30,765 | - | 307,123 |
| Helicopter | - | - | - | 36,481 | - | 36,481 |
| Site development | - | - | 4,160 | - | - | 4,160 |
| Surveys | - | - | 63,975 | - | - | 63,975 |
| Travel | - | 25,276 | 16,904 | 25,468 | - | 67,648 |
| Vehicle | - | 4,920 | 158 | - | - | 5,078 |
| Total costs incurred during the year | - | 1,181,664 | 232,675 | 108,054 | - | 1,522,393 |
| Recovery from sale of royalty | - | (156,084) | (102,408) | (39,021) | - | (297,513) |
| Balance, October 31, 2017 | 1 | 2,435,670 | 206,065 | 111,333 | - | 2,753,069 |
| Acquisition costs | - | 30,000 | 77,750 | - | 156,723 | 264,473 |
| Deferred costs | | | | | | |
| Assays | - | 15,504 | 56,834 | 310 | - | 72,648 |
| Claim fees | - | - | - | - | 47,111 | 47,111 |
| Consulting | - | 5,978 | 1,955 | - | - | 7,933 |
| Drilling | - | 11,176 | 354,972 | - | - | 366,148 |
| Equipment rental | - | 1,725 | 1,280 | - | - | 3,005 |
| Field supplies | - | 8,299 | 10,904 | - | - | 19,203 |
| Food | - | 5,906 | 12,436 | - | - | 18,342 |
| Geologist | - | 350,515 | 242,580 | - | - | 593,095 |
| Site development | - | - | 1,908 | - | - | 1,908 |
| Travel | - | 33,344 | 8,245 | - | - | 41,589 |
| Vehicle | - | 3,473 | 6,878 | - | - | 10,351 |
| Total costs incurred during the year | - | 465,920 | 775,742 | 310 | 203,834 | 1,445,806 |
| B.C. mineral exploration tax credit recovered | - | (64,408) | (8,874) | (7,526) | - | (80,808) |
| Balance, October 31, 2018 | 1 | 2,837,182 | 972,933 | 104,117 | 203,834 | 4,118,067 |

5. EXPLORATION AND EVALUATION ASSETS (continued)

JD PROPERTY

The Company owns a 100% interest in the Belle property located in the Omineca mining division of British Columbia.

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

During the year ended October 31, 2018, the Company received \$14,665 (2017 - \$nil) for the B.C. mineral exploration tax credit, recorded as a gain on exploration and evaluation assets previously written off.

RABBIT NORTH PROPERTY

The Company owns a 100% interest in the Rabbit North property, comprised of certain mineral claims, located in the Kamloops mining division of British Columbia. The Company acquired the property by making cash payments of \$170,000, issuing 1,300,000 common shares, and funding aggregate exploration expenditures of \$2,150,000.

The property is subject to a 3% NSR in favour of the optionors, of which 1% of the 3% may be purchased by the Company for \$2,000,000 and the second 1% of the 3% may be purchased by the Company for \$1,500,000. If these buy-back rights are exercised, the NSR would be reduced to 1%. In March 2017, the Company entered into a royalty buyback assignment agreement with Sandstorm Gold Ltd. ("Sandstorm") pursuant to which it assigned to Sandstorm the Company's right to purchase the second 1% of the Company's 2% buyback rights with respect to the optionors' NSR. Under the terms of the agreement, the Company received \$50,000. If the Company makes a decision to develop the Rabbit North property and put it into production, the Company has agreed to exercise its right to buy back 1% of the NSR, contingent upon Sandstorm exercising its right to buy back the second 1% (as assigned to it), whereupon the Company will grant directly to Sandstorm a 1% NSR. If these transactions occur, the optionors will hold a 1% NSR on the Rabbit North property and Sandstorm will hold a 1% NSR, for a total royalty burden of 2%. During the year ended October 31, 2018, the Company paid \$30,000 (2017 - \$nil), in advanced annual royalty payments.

The Company acquired additional claims, contiguous to Rabbit North, by staking, known as the Rabbit North Extension property. In March 2017, the Company entered into a NSR agreement with Sandstorm. Under the terms of the agreement, the Company received \$150,000 in return for granting Sandstorm a 2% NSR on the Rabbit North Extension property. The Company will have the option to buy back 1% of the NSR from Sandstorm for cash consideration of \$500,000.

In relation to the transactions, the Company incurred total expenses of \$43,916. As a result, the Company recorded a recovery of exploration and evaluation expenditures from the sale of a NSR of \$156,084 on the Rabbit North property during fiscal 2017.

5. EXPLORATION AND EVALUATION ASSETS (continued)

NECHAKO GOLD PROPERTY

In July 2016, the Company entered into two property option agreements (Porphyry and Chutanli) under which it was granted the right to acquire 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 has the right to 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</i>) | 10,000 | 100,000 | - |
| July 21, 2017 (<i>paid, issued, and incurred</i>) | 10,000 | 100,000 | 50,000 |
| July 21, 2018 (<i>paid, issued, and incurred</i>) | 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.

During the year ended October 31, 2018, the Company fulfilled its obligations under the option agreement and has earned the right to acquire a 100% interest in the Porphyry property.

Chutanli Property Option Agreement

Pursuant to the terms of the Chutanli Property option agreement, the Company has the right to 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</i>) | - | 100,000 | - |
| July 10, 2017 (<i>paid and incurred</i>) | 10,000 | - | 50,000 |
| July 21, 2017 (<i>issued</i>) | - | 150,000 | - |
| July 10, 2018 (<i>paid and incurred</i>) | 15,000 | - | 175,000 |
| July 21, 2018 (<i>issued</i>) | - | 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.

In March 2017, the Company entered into certain NSR agreements with Sandstorm. Under the terms of the agreements, the Company received \$250,000 in return for granting Sandstorm a 2% NSR on the Nechako Gold property. The Company will have the option to buy back 1% of the NSR from Sandstorm for cash consideration of \$500,000. In relation to the transaction, the Company incurred total expenses of \$54,894. As a result, the Company recorded a recovery of exploration and evaluation expenditures from the sale of NSR of \$102,408 on the Nechako Gold property and a gain from the sale of royalty of \$92,698 during fiscal 2017.

5. EXPLORATION AND EVALUATION ASSETS (continued)

MORE CREEK PROPERTY

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

In March 2017, the Company entered into an NSR agreement with Sandstorm. Under the terms of the agreement, the Company has granted to Sandstorm a 2% NSR on the Company's More Creek property in consideration of payment of the sum of \$50,000. The Company has the option to buy back 1% of the NSR from Sandstorm for cash consideration of \$500,000. In relation to the transaction, the Company incurred total expenses of \$10,979. As a result, the Company recorded a recovery of exploration and evaluation expenditures from the sale of NSR of \$39,021 to the More Creek property during fiscal 2017.

VOIGTBERG PROPERTY

On December 18, 2017, the Company entered into an option agreement with Kaminak Gold Corporation ("Kaminak"), a wholly-owned subsidiary of Goldcorp Inc. ("Goldcorp"), to acquire the Voigtberg exploration property, comprised of certain mineral claims located in the Golden Triangle region of northwestern British Columbia. Under the terms of the option agreement, the Company may acquire a 100% interest in the property by issuing 3,000,000 units and incurring aggregate exploration expenditures of \$1,925,000 over a three year period. Each unit is comprised of one common share and one-half of one share purchase warrant, with each full warrant entitling the holder to acquire one additional common share for a period of 60 months from their date of issuance. The initial warrants issued have an exercise price of \$0.22 and all subsequent grants will have an exercise price of 150% of the market price determined as of the last trading date before the date of issuance. The schedule is as follows:

| <i>Date</i> | <i>Number of Units</i> | <i>Work Commitment</i> |
|--------------------------------------|------------------------|----------------------------|
| | | \$ |
| January 30, 2018 (<i>issued</i>) | 500,000 | - |
| December 31, 2018 (<i>Note 16</i>) | 625,000 | - |
| December 31, 2019 | 875,000 | 725,000 |
| December 31, 2020 | 1,000,000 | 1,200,000 |

The Company paid a \$54,000 finder's fee in connection with the option agreement.

The option agreement is subject to a 1% NSR in favour of Kaminak/Goldcorp. In addition, the Company is required to issue a bonus of 1,000,000 common shares upon the first public announcement of a mineral resource which exceeds 500,000 gold equivalent ounces in all resource categories.

6. EXPLORATION AND EVALUATION ASSETS - OIL AND GAS

| | October 31, 2018 and October 31, 2017 | |
|-------------------------|---------------------------------------|---|
| | Acquisition Costs | |
| Poplar Winstar Strachan | \$ | 1 |

POPLAR WINSTAR STRACHAN

The Company owns a 1.2367% interest in the Winstar Strachan 8-10-38-10 W5M well in the West Central area of Alberta.

TOWER RESOURCES LTD.
Notes to Financial Statements
For the year ended October 31, 2018
(Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS - OIL AND GAS (continued)

POPLAR WINSTAR STRACHAN (continued)

Rehabilitation obligations of \$1,237 (2017 - \$1,237) have been recorded based on the Company's proportionate share of obligations estimated by the operators of the properties. During the year ended July 31, 2018, the Company paid \$1,650 (2017 - \$nil) for their proportionate share of a final reclamation certificate application. The change in the rehabilitation obligations during fiscal 2017 of \$11,763 has been recorded as a gain on rehabilitation obligations.

7. RECLAMATION BONDS

In relation to the Rabbit North and Nechako properties, the Company has posted reclamation bonds totaling \$45,000 and \$35,000 (2017 - \$10,000 and \$35,000), respectively. During fiscal 2017, a reclamation bond relating to the JD property for \$45,000 was released and refunded back to the Company.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | October 31, 2018 | October 31, 2017 |
|----------------------------------|-------------------------|-------------------------|
| | \$ | \$ |
| Accounts payable | 29,712 | 58,000 |
| Accrued liabilities | 25,000 | 27,500 |
| Due to related parties (Note 10) | 2,100 | 5,861 |
| | 56,812 | 91,361 |

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, 2018

In January 2018, the Company issued 500,000 units pursuant to the Voigtberg property agreement (Note 5). Each unit is comprised of one common share and one-half of one share purchase warrant, with each full warrant entitling the holder to acquire one additional common share of the Company at the exercise price of \$0.22 per share for a period of 60 months. The common shares were valued at \$70,000 and the warrants were valued at \$32,723.

In July 2018, the Company issued 150,000 common shares, valued at \$18,750, pursuant to the Chutanli property agreement (Note 5).

In July 2018, the Company issued 200,000 common shares, valued at \$24,000, pursuant to the Porphyry property agreement (Note 5).

During the year ended October 31, 2018, the Company issued 1,275,000 common shares pursuant to the exercise of options for proceeds of \$67,000.

9. SHARE CAPITAL AND RESERVES (continued)

Issued share capital (continued)

During the year ended October 31, 2017

In February 2017, the Company issued 200,000 common shares valued at \$33,000 pursuant to the Rabbit North property amendment agreement (Note 5).

In April 2017, the Company completed a private placement for 23,022,231 units at a price of \$0.145 per unit for gross proceeds of \$3,338,224. Each unit is comprised of one common share and one-half of one share purchase, with each full warrant entitling the holder to acquire one additional common share of the Company at the exercise price of \$0.22 per share for a period of 60 months. Finder's fees and expenses of \$363,111 were paid in connection with this financing of which \$204,701 was paid in cash and \$158,410 was the fair value of the issuance of 1,085,620 finders' warrants.

In connection with the NSR sale agreement, the Company issued 206,896 units as an advisory fee. These units have the same terms as the units issued in the private placement. The shares were valued at \$32,069 and the warrants were valued at \$14,090.

In July 2017, the Company issued 200,000 common shares valued at \$45,000 pursuant to the Rabbit North property agreement (Note 5), 150,000 common shares valued at \$40,500 pursuant to the Chutanli property option agreement (Note 5), and 100,000 common shares valued at \$25,000 pursuant to the Porphyry property option agreement (Note 5).

During the year ended October 31, 2017, the Company issued 25,000 common shares pursuant to the exercise of options for proceeds of \$1,250.

During the year ended October 31, 2017, the Company issued 180,000 common shares pursuant to the exercise of warrants for proceeds of \$27,000.

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, 2018, 175,000 (2017 - 625,000) incentive stock options expired unexercised and 2,950,000 (2017 - 675,000) incentive stock options were terminated in accordance with their terms; accordingly \$21,927 (2017 - \$192,958) and \$239,407 (2017 - \$96,666), respectively, were reversed from reserves to deficit. Furthermore, 1,275,000 (2017 - 25,000) stock options were exercised for proceeds of \$67,000 (2017 - \$1,250). As a result, \$49,818 (2017 - \$840) was transferred from reserves to share capital.

During the year ended October 31, 2018, the Company granted 3,500,000 (2017 - 2,200,000) incentive stock options with a fair value of \$414,115 (2017 - \$321,508) using the Black-Scholes option pricing model. The Company expensed \$323,956 (2017 - \$257,112) as share-based compensation.

TOWER RESOURCES LTD.
Notes to Financial Statements
For the year ended October 31, 2018
(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

Stock options (continued)

The fair value of options granted is estimated on the grant date using the Black-Scholes option pricing model using the following variables:

| | For the year ended October 31, | |
|---------------------------------|---------------------------------------|-------------|
| | 2018 | 2017 |
| Risk-free interest rate | 2.17% | 1.33% |
| Expected option life in years | 5 years | 4.8 years |
| Expected stock price volatility | 171% | 175% |
| Expected forfeiture rate | 0% | 0% |

The following is a summary of stock options activities:

| | Number of options | Weighted average exercise price |
|---------------------------------|------------------------------|--------------------------------------------|
| | | \$ |
| Outstanding at October 31, 2016 | 5,000,000 | 0.13 |
| Granted | 2,200,000 | 0.16 |
| Terminated | (675,000) | 0.16 |
| Expired | (625,000) | 0.32 |
| Exercised | (25,000) | 0.05 |
| Outstanding at October 31, 2017 | 5,875,000 | 0.12 |
| Granted | 3,500,000 | 0.13 |
| Terminated | (2,950,000) | 0.14 |
| Expired | (175,000) | 0.13 |
| Exercised | (1,275,000) | 0.05 |
| Outstanding at October 31, 2018 | 4,975,000 | 0.13 |

The Company has outstanding options entitling the holder to purchase common shares at October 31, 2018 as follows:

| Number outstanding | Number exercisable | Exercise price | Weighted average remaining life (years) | Expiry date |
|-------------------------------|-------------------------------|-----------------------|------------------------------------------------------------|--------------------|
| | | \$ | | |
| 100,000 | 100,000 | 0.06 | 0.68 | July 7, 2019 |
| 50,000 | 50,000 | 0.05 | 1.01 | November 4, 2019 |
| 200,000 | 200,000 | 0.09 | 2.81 | August 23, 2021 |
| 775,000 | 775,000 | 0.13 | 2.88 | September 16, 2021 |
| 175,000 | 131,250 | 0.16 | 3.27 | February 6, 2022 |
| 100,000 | 75,000 | 0.16 | 3.57 | May 25, 2022 |
| 275,000 | 171,875 | 0.16 | 3.91 | September 28, 2022 |
| 3,300,000 | 1,100,000 | 0.125 | 4.50 | May 2, 2023 |
| 4,975,000 | 2,603,125 | | | |

The weighted average exercise price of exercisable options is \$0.12.

9. SHARE CAPITAL AND RESERVES (continued)

Warrants

In connection with the Voigtberg option agreement, the Company issued 250,000 warrants, with each warrant exercisable into one common share at \$0.22 for a period of 60 months. The warrants were valued at \$32,723 calculated using the Black-Scholes option pricing model assuming a life expectancy of five years, a risk free interest rate of 1.99%, a forfeiture rate of nil, and volatility of 172%.

In conjunction with the April 2017 financing, the Company issued 11,511,115 warrants, each exercisable into one common share of the Company at a price of \$0.22 for a period of 60 months. The Company also issued 1,085,620 agents' warrants, each such warrant exercisable into one common share at \$0.22 for a period of 60 months. The agents' warrants were valued at \$158,410 calculated using the Black-Scholes option pricing model assuming a life expectancy of five years, a risk free interest rate of 1.03%, a forfeiture rate of nil, and volatility of 175%. The 103,448 warrants issued with the units to settle the advisory fees were valued at \$14,090 calculated using the Black-Scholes option pricing model assuming a life expectancy of five years, a risk free interest rate of 1.03%, a forfeiture rate of nil, and volatility of 175%.

In connection with the Sandstorm NSR agreement (Note 5), the Company issued an additional 172,413 warrants with each warrant exercisable into one common share at \$0.22 for a period of 60 months. The warrants were valued at \$26,810 calculated using the Black-Scholes option pricing model assuming a life expectancy of five years, a risk free interest rate of 0.94%, a forfeiture rate of nil, and volatility of 174%.

During year ended October 31, 2018, nil (2017 - 180,000) warrants were exercised for proceeds of \$nil (2017 - \$27,000).

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, 2016 | 15,350,000 | 0.15 |
| Issued | 12,872,596 | 0.22 |
| Exercised | <u>(180,000)</u> | 0.15 |
| Outstanding and exercisable at October 31, 2017 | 28,042,596 | 0.18 |
| Issued | 250,000 | 0.22 |
| Expired | <u>(15,170,000)</u> | 0.15 |
| Outstanding and exercisable at October 31, 2018 | <u>13,122,596</u> | 0.22 |

The Company has outstanding warrants entitling the holders to purchase an aggregate of common shares at October 31, 2018 as follows:

| <u>Number outstanding</u> | <u>Exercise price</u> | <u>Expiry date</u> |
|---------------------------|-----------------------|--------------------|
| | \$ | |
| 12,700,183 | 0.22 | April 6, 2022 |
| 172,413 | 0.22 | May 1, 2022 |
| 250,000 | 0.22 | January 16, 2023 |
| <u>13,122,596</u> | | |

10. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties during the year ended October 31, 2018:

- a) "Office and miscellaneous" includes rent recovery of \$4,669 (2017 - \$18,000) from companies related by a former director. As at October 31, 2018, \$nil (2017 - \$1,576) was included in receivables for rent recovery owed from these companies.

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

| | For the year ended October 31, | |
|--------------------------|---------------------------------------|----------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Accounting fees | 15,548 | - |
| Management fees | 50,000 | 110,000 |
| Office and miscellaneous | 10,000 | 30,000 |
| Share-based compensation | 219,494 | 150,454 |
| Wages and benefits | 134,615 | - |
| | 429,657 | 290,454 |

Amounts owing to related parties (including key management personnel) included in accounts payable and accrued liabilities total \$2,100 (2017 - \$5,861).

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. SUPPLEMENTAL CASH FLOW INFORMATION

The significant non-cash investing and financing transactions are as follows:

| | For the year ended October 31, | |
|--------------------------------------------------------------------------|---------------------------------------|-------------|
| | 2018 | 2017 |
| | \$ | \$ |
| Non-cash transactions not included in investing or financing activities: | | |
| Shares issued for exploration and evaluation assets | 42,750 | 143,500 |
| Exploration and evaluation assets in accounts payable | - | 40,652 |
| Agents' warrants issued | - | 158,410 |
| Units issued as an advisory fee | - | 46,159 |
| Expiration of options | 21,927 | 192,958 |
| Termination of options | 239,407 | 96,666 |
| Compensatory warrants on NSR sale | - | 26,810 |
| Fair value of options exercised | 49,818 | 840 |
| Shares for subscriptions received in prior year | - | 12,000 |
| Units issued for exploration and evaluation assets | 102,723 | - |
| Exploration advance reallocated to exploration and valuation assets | 70,000 | - |
| Expiration of warrants | 20,639 | - |

13. 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.

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 receivable 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 financing to continue its operations and discharge its commitments. The Company is exposed to liquidity risk.

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 October 31, 2018, the Company held demand deposits with a face value of \$668,000 (2017 - \$10,000). A change in interest rates of 1% would change income by \$6,680 (2017 - \$100) 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.

14. 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 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. There have been no significant changes in the Company's objectives, policies, and processes for managing its capital during the year ended October 31, 2018.

15. INCOME TAXES

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

| | October 31, 2018 | October 31, 2017 |
|-----------------------------------------------------------------|---------------------|---------------------|
| | \$ | \$ |
| Loss before income taxes | (972,630) | (662,441) |
| Expected income tax recovery at statutory tax rates | (261,000) | (172,000) |
| Change in statutory rate and other items | (21,000) | (104,000) |
| Share issuance cost | - | (53,000) |
| Permanent difference | 87,000 | 69,000 |
| Adjustment to prior year provision versus statutory tax returns | 25,000 | (89,000) |
| Change in unrecognized deductible temporary differences | 170,000 | 349,000 |
| Total deferred taxes | - | - |

The significant components of the Company's unrecorded deferred tax assets are as follows:

| | October 31, 2018 | October 31, 2017 |
|----------------------------------------|---------------------|---------------------|
| | \$ | \$ |
| Property and equipment | 26,000 | 20,000 |
| Non-capital losses | 1,253,000 | 1,069,000 |
| Allowable capital losses | 33,000 | 33,000 |
| Exploration and evaluation assets | 1,231,000 | 1,234,000 |
| Share issuance costs | 42,000 | 59,000 |
| Total unrecognized deferred tax assets | 2,585,000 | 2,415,000 |

Tax attributes are subject to review and potential adjustment by tax authorities.

TOWER RESOURCES LTD.
Notes to Financial Statements
For the year ended October 31, 2018
(Expressed in Canadian Dollars)

15. INCOME TAXES (continued)

The significant components of the Company's unrecognized deductible temporary differences and unused tax losses are as follows:

| | October 31, | | October 31, | |
|-----------------------------------|--------------------|---------------------|--------------------|---------------------|
| | 2018 | Expiry dates | 2017 | Expiry dates |
| | \$ | | \$ | |
| Share issuance costs | 156,000 | 2019 to 2020 | 217,000 | 2018 to 2020 |
| Allowable capital losses | 121,000 | No expiry | 121,000 | No expiry |
| Property and equipment | 95,000 | No expiry | 73,000 | No expiry |
| Exploration and evaluation assets | 4,558,000 | No expiry | 4,570,000 | No expiry |
| Non-capital losses | 4,640,000 | 2026 to 2038 | 3,960,000 | 2026 to 2037 |
| Rehabilitation obligation | 1,000 | No expiry | 1,000 | No expiry |
| | <u>9,571,000</u> | | <u>8,942,000</u> | |

16. SUBSEQUENT EVENT

Subsequent to October 31, 2018, the Company issued 625,000 units pursuant to the Voigtberg property agreement (Note 5). Each unit is comprised of one common share and one-half of one share purchase warrant, with each full warrant entitling the holder to acquire one additional common share of the Company at the exercise price of \$0.0375 per share for a period of 60 months.