TOWER ENERGY LTD.

INDEX TO THE FINANCIAL STATEMENTS
OCTOBER 31, 2010
and OCTOBER 31, 2009

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CHARTERED
ACCOUNTANTS
MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC V6E 4T5
Tel: (604) 687-4511
Fax: (604) 687-5805
Toll Free: 1-800-351-0426
www.MacKay.ca

mackay.ca

Auditors' Report

To the Shareholders of
Tower Energy Ltd.

We have audited the balance sheets of Tower Energy Ltd. as at October 31, 2010 and 2009, the statements of operations and deficit, comprehensive income (loss), accumulated other comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"MacKay LLP"
Chartered Accountants

Vancouver, Canada.
February 10, 2011

TOWER ENERGY LTD.
BALANCE SHEETS
OCTOBER 31, 2010 AND 2009

	October 31, 2010		October 31, 2009	
ASSETS				
CURRENT				
Cash	$	1,161,864	$	14,572
Accounts receivable		-		232
Promissory note receivable (Note 4)		27,706		25,206
Harmonized sales tax recoverable		5,200		1,439
Due from related parties (Note 7)		-		7,009
Prepaid expenses		-		1,276
Investments (Note 3)		-		34,500
		1,194,770		88,234
Equipment (Note 5)		2,964		237
Oil and gas properties (Note 6)		1		893,553
	$	1,197,735	$	978,024
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT				
Accounts payable and accrued liabilities	$	47,781	$	35,983
Due to related parties (Note 7)		6,454		2,194
Asset retirement obligations		13,000		-
		67,235		38,177
LONG-TERM				
Asset retirement obligations		-		13,000
TOTAL LIABILITIES		67,235		51,177
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 8)		7,332,642		6,844,589
SHARES SUBSCRIBED		710,000		-
CONTRIBUTED SURPLUS (Note 8)		373,249		370,674
DEFICIT		(7,285,391)		(5,966,416)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		-		(322,000)
		1,130,500		926,847
	$	1,197,735	$	978,024

NATURE OF BUSINESS AND CONTINUED OPERATION (Note 1)

SUBSEQUENT EVENTS (Note 12)

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 ENERGY LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	Year ended	
	October 31, 2010	October 31, 2009
GENERAL AND ADMINISTRATIVE EXPENSES		
Accounting and audit	$ 49,539	$ 47,976
Amortization	988	102
Consulting (Note 7)	25,725	28,309
Filing fees	17,147	11,580
Legal fees	13,315	-
Loss on write down of oil and gas property (Note 6)	897,123	9,999
Management fees (Note 7)	33,000	36,000
Management fees – stock-based	2,575	-
Office and miscellaneous (Note 7)	25,372	13,479
Parking	2,245	-
Property examination costs	2,645	7,724
Telephone	3,937	2,001
Transfer agent	5,071	5,293
Travel and promotion	618	-
LOSS BEFORE OTHER ITEMS	1,079,300	162,463
OTHER ITEMS		
Loss on disposal of investment	241,907	81,759
Loss on disposal of equipment	237	-
Interest income (Note 4)	(2,665)	(206)
Bad debt expense	232	-
Oil and gas net revenue	(36)	215
NET LOSS FOR THE YEAR	1,318,975	244,231
DEFICIT – BEGINNING OF YEAR	5,966,416	5,722,185
DEFICIT – ENDING OF YEAR	$ 7,285,391	$ 5,966,416
BASIC AND DILUTED LOSS PER SHARE	$ (0.03)	$ (0.01)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	49,512,451	26,772,725

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

TOWER ENERGY LTD.
STATEMENTS OF COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	Year ended October 31, 2010	Year ended October 31, 2009
Net income (loss)	$ (1,318,975)	$ (244,231)
Unrealized loss on CPH warrants	-	(2,656)
Realized loss on expiry of CPH warrants transferred to net loss	-	23,976
Unrealized gain (loss) on CPH Shares	80,093	(48,593)
Realized loss on sale of CPH shares transferred to net loss	241,907	57,783
Other comprehensive income (loss)	322,000	30,510
Comprehensive income (loss)	$ (996,975)	$ (213,721)

STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	Year ended October 31, 2010	Year ended October 31, 2009
Beginning balance	$ (322,000)	$ (352,510)
Change during the year:		
Unrealized loss on CPH warrants	-	(2,656)
Realized loss on expiry of CPH warrants transferred to net loss	-	23,976
Unrealized gain (loss) on CPH Shares	80,093	(48,593)
Realized loss on sale of CPH shares transferred to net loss	241,907	57,783
Ending balance	$ -	$ (322,000)

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 ENERGY LTD.
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	Year ended October 31, 2010	Year ended October 31, 2009
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Income (loss) for the year	$ (1,318,975)	$ (244,231)
Adjustments for items not affecting cash:		
Amortization	988	102
Stock-based compensation	2,575	-
Loss on write-down of oil and gas property	897,123	9,999
Loss on disposal of investment	241,907	81,759
Loss on disposal of equipment	237	-
Accrued interest on promissory note	(2,500)	(206)
	(178,645)	(152,577)
Net changes in non-cash working capital items:		
Harmonized sales tax recoverable	(3,761)	51
Prepaid expenses	1,276	544
Accounts receivable	232	1,343
Accounts payable and accrued liabilities	11,798	(3,902)
Net cash used in operating activities	(169,100)	(154,541)
FINANCING ACTIVITIES		
Issuance of share capital for cash	500,000	-
Share issue costs	(11,947)	-
Share subscriptions received	710,000	-
Related party advances (net of repayments)	11,269	(5,693)
Net cash used in financing activities	1,209,322	(5,693)
INVESTING ACTIVITIES		
Promissory notes receivable	-	(25,000)
Proceeds on CPH shares sold	114,593	13,504
Deferred exploration costs	(3,571)	(2,961)
Purchase of equipment	(3,952)	-
Net cash used in investing activities	107,070	(14,457)
NET INCREASE (DECREASE) IN CASH	1,147,292	(174,691)
CASH – BEGINNING OF YEAR	14,572	189,263
CASH – END OF YEAR	$ 1,161,864	$ 14,572

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

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

TOWER ENERGY LTD.

SCHEDULES OF DEFERRED EXPLORATION AND DEVELOPMENT COSTS
OIL AND GAS PROPERTIES
FOR THE YEARS ENDED OCTOBER 31, 2010 AND 2009

	Sarcee Well	2010 Total	Sarcee Well	2009 Total
Miscellaneous	$ 3,571	$ 3,571	$ 2,961	$ 2,961
Drilling & testing	-	-	-	-
Total costs incurred during the year	3,571	3,571	2,961	2, 961
Balance, beginning of year	883,552	883,552	880,591	887,591
	887,123	887,123	883,552	890,552
Write-off of capitalized costs	(887,123)	(887,123)	-	(7,000)
Balance, end of year	$ -	$ -	$ 883,552	$ 883,552

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

1. NATURE OF BUSINESS AND CONTINUED OPERATIONS

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

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

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

	October 31, 2010		October 31, 2009	
Deficit	$	(7,285,391)	$	(5,966,416)
Working capital	$	1,127,535	$	50,057

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. 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.

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

a. Oil and Gas Properties (cont'd)

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.

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.

b. 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.

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

c. 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.

d. 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.

e. 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.

f. Joint Interests

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

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

g. 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.

h. 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.

i. Share Issue Costs

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

j. 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.

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

k. 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

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.

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

k. Financial Instruments (cont'd)

The Company classified investments in marketable securities, warrants and convertible debentures as available-for-sale; 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 10 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, promissory note receivable, 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.

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.

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

k. Financial Instruments (cont'd)

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, 2010 the Company's financial instruments measured at fair value are as follows:

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

As at October 31, 2009 the Company's financial instruments measured at fair value are as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash	$ 14,572	-	-	$ 14,572
Investments	$ 34,500	-	-	$ 34,500

The Company's marketable securities are valued using quoted market prices in active markets, and therefore are classified as Level 1.

l. 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.

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

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.

3. INVESTMENTS – AVAILABLE FOR SALE

CPH Warrants

On April 11, 2007 the Company received 919,972 two-year warrants exercisable at $0.125 per common share of Arapahoe Energy Corporation. The Company determined that at April 11, 2007 the fair market value of the warrants was $23,976.

The warrants expired unexercised on April 11, 2009. The Company recorded a realized loss on expiry of the warrants of $23,976 in the year ended October 31, 2009.

CPH Shares

On April 29, 2008, pursuant to the trust indenture the Canadian Phoenix Resources Corp. ("CPH") convertible debenture was converted by CPH to common shares at 12 shares per dollar invested for a total of 2,759,916 common shares. The Company determined that the fair market value of the shares was $427,787 or $0.155 per share.

The Company determined that at October 31, 2008 the fair market value of the shares was $96,597 or $0.035 per share based on the bid price at that date. The Company recorded an unrealized loss of $331,190 in the year ended October 31, 2008.

During the year ended October 31, 2009 the Company sold 459,916 shares for proceeds of $13,504. The Company recorded a realized loss of $57,783 on the sale of the shares. The Company determined that at October 31, 2009 the fair market value of the remaining shares was $34,500 or $0.015 per share based on the bid price at that date. The Company recorded an unrealized loss of $48,313 in the year ended October 31, 2009 on the remaining shares.

On November 17, 2009 CPH shares were consolidated on a 25:1 basis.

On August 20, 2010 the Company sold the 92,000 remaining shares for proceeds of $114,593. The Company recorded a realized loss of $241,907 on the sale of the shares.

4. PROMISSORY NOTE RECEIVABLE

On October 1, 2009 the Company lent $25,000 to a holding company in exchange for a $25,000 unsecured promissory note payable on demand. The promissory note pays interest at ten percent per annum. The President of the holding company was related by common directorships in another public company to a director of the Company. The Company recorded interest receivable of $206 in the year ended October 31, 2009. The Company recorded interest receivable of $2,500 in the year ended October 31, 2010.

5. EQUIPMENT

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

	Cost	Accumulated Amortization	October 31, 2009 Net Book Value
Computer hardware	$ 7,437	$ 7,200	$ 237

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.

6. OIL & GAS PROPERTIES

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

October 31, 2009	Acquisition Costs	Deferred Costs	Write-off of Capitalized Costs	Total
Poplar Winstar Strachan	$ 3,000	$ 7,000	$ (9,999)	$ 1
Sarcee 12-13-23-4W5M well	10,000	883,552	-	893,552
	$ 13,000	$ 890,552	$ (9,999)	$ 893,553

6. OIL & GAS PROPERTIES (cont'd)

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 in well costs in the year ended October 31, 2006; $5,270 in the year ended October 31, 2007; and $926 in the year ended October 31, 2008. 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.

In the year ended October 31, 2010 the Company incurred $3,571 in development costs (2009 - $2,961).

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 %, calculated as ($300,000 x 60%) / total gross cost to drill, complete and tie in the well or ($300,000 x 60%) / $14,555,543. In addition, the Company has accrued $3,000 in asset retirement obligations in the year ended October 31, 2008.

During the year ended October 31, 2009 management of the Company resolved to write down the value of the property to the estimated recoverable amount of $1 (2008 - $10,000).

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, 2010:

a) Management fees totaling $33,000 were paid or accrued to a company controlled by a director of the Company (2009 - $36,000).

b) Consulting fees totaling $23,000 were paid or accrued to a director of the Company (2009 - $10,130).

c) Consulting fees totaling $nil were paid or accrued to a company with a director in common (2009 - $3,501).

d) Office and miscellaneous includes rent totaling $13,600 paid to a company related by common directors and officers (2009 - $9,000).

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

As of October 31, 2010 the Company was owed $nil (2009 - $7,009) from the following related parties:

	October 31, 2010		October 31, 2009	
i. Company controlled by a director for prepaid fees	$	-	$	3,000
ii. Company with a director in common for prepaid expenses		-		859
iii. Director for prepaid fees		-		3,150
	$	-	$	7,009

As of October 31, 2010 the Company owed $6,454 (2009 - $2,194) to the following related parties:

	October 31, 2010		October 31, 2009	
i. Company with a director in common for expenses	$	414	$	1,978
ii. Directors for expenses		5,824		-
iii. Former director for loans		216		216
	$	6,454	$	2,194

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 and 100,000,000 Preference Shares with a par value of $1.00 each.

	October 31, 2010		October 31, 2009	
	Number of Shares	Value	Number of Shares	Value
Balance, beginning of year	26,772,725	$ 6,844,589	26,772,725	$ 6,844,589
Issued for cash by private placement at $.02 per unit (net of financing costs)	25,000,000	500,000	-	-
Share issue costs	-	(11,947)	-	-
Balance, end of year	51,772,725	$ 7,332,642	26,772,725	$ 6,844,589

There were no transactions for the issue of share capital in the year ended October 31, 2009.

On November 30, 2009 the Company closed a private placement of 25,000,000 units at a price of $0.02 per unit for gross proceeds of $500,000. Each unit is comprised of one common share and one share purchase warrant which entitles the holder to purchase one additional common share of the Company for $0.05 up to December 1, 2010 and for $0.10 for four years thereafter. The Company paid share issue costs totaling $11,947 related to this transaction.

In October 2010 the Company received subscriptions for 14,200,000 units at a price of $0.05 per unit for proceeds of $710,000. Refer to Note 12.

Stock Options

The Company has adopted an incentive stock option plan (the “Plan”). As at October 31, 2010, 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 5,354,545. Options granted under the Plan will have a maximum term of five years. The exercise price of options granted under the Plan shall be equal to the closing price of the common shares on the TSX Venture Exchange on the day immediately preceding the date of grant, subject to a minimum price of $0.10 per share. Options granted under the Plan shall vest 12.5% upon TSX Venture Exchange approval and 12.5% every three months thereafter.

8. SHARE CAPITAL (cont'd)

On November 19, 2010 the shareholders of the Company approved a new incentive stock option plan (the "2010 Plan").The essential elements of the 2010 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 10% of the issued and outstanding common shares of the Company. Options granted under the Plan will have a maximum term of ten years. The exercise price of options granted under the Plan will be set by the board of directors at the time such Option is allocated under the Plan, and cannot be less than the Discounted Market Price as defined by the TSX Venture Exchange. Options granted under the Plan shall vest as determined by the board of directors.

On April 28, 2010 the Company granted 100,000 options to a Director, exercisable at $0.10. The options expire on April 28, 2011. They vest in equal quarterly instalments over 4 quarters. The total fair value of $6,866 was estimated using the Black-Scholes option pricing model assuming an expected life of 1 year, a risk-free interest rate of 3.00% and an expected volatility of 133%. The Company recorded a stock-based management fee of $2,575 during the year ended October 31, 2010 being the fair value of the options vested in the period.

A summary of the status of the Company's stock option plan as of October 31, 2010 and October 31, 2009 and changes during the years then ended is as follows:

	Year ended October 31, 2010			Year ended October 31, 2009		
	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	-	$ -	-	-	$ -	-
Granted	100,000	0.10	1.00	-	-	-
Exercised	-	-	-	-	-	-
Expired/cancelled	-	-	-	-	-	-
Outstanding, end of year	100,000	$ 0.10	0.49	-	$ -	-
Exercisable, end of year	100,000	$ 0.10	0.49	-	$ -	-

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

8. SHARE CAPITAL (cont'd)

	October 31, 2010			October 31, 2009		
Expiry Date	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
April 28, 2011	100,000	$ 0.10	0.49	-	$ -	-

Warrants:
A summary of the status of the Company's warrants as of October 31, 2010 and October 31, 2009 and changes during the years then ended is as follows:

	Year ended October 31, 2010			Year ended October 31, 2009		
	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	-	$ -	-	-	$ -	-
Granted	25,000,000	0.05/0.10	5.00	-	-	-
Outstanding, end of year	25,000,000	$ 0.10	4.09	-	$ -	-

The Company had outstanding warrants entitling the holders to purchase an aggregate of 25 million common shares as follows:

			October 31, 2010		October 31, 2009	
Date Issued	Exercise Price Per Share	Expiry Date	Number of Shares	Weighted Average Life in Years	Number of Shares	Weighted Average Life in Years
December 2, 2009[1]	$ 0.10	December 1, 2014	25,000,000	4.09	-	-
			25,000,000	4.09	-	-

[1]Warrants issued December 2, 2009 were exercisable at $.05 to December 1, 2010 and at $.10 from December 2, 2010 to December 1, 2014.

Contributed Surplus:

	October 31, 2010	October 31, 2009
Balance, beginning of year	$ 370,674	$ 370,674
Stock-based compensation expense	2,575	-
Balance, end of year	$ 373,249	$ 370,674

9. FUTURE INCOME TAX

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

	2010	2009
Loss before income taxes	$ (1,318,975)	$ (244,231)
Corporate tax rate	28.75%	30.08%
Expected tax expense (recovery) at statutory rates	(379,205)	(73,473)
Increase (decrease) resulting from:		
Change of tax rate	36,260	40,507
Unrecognized items for tax purposes	37,064	14,376
Non-capital losses expired	30,918	84,208
Tax benefits not realized (realized)	274,963	(65,618)
Income tax provision (recovery)	$ -	$ -

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

	2010	2009
Future income tax assets		
Non-capital losses carried forward	$ 412,068	$ 369,915
Capital loss carried forward	12,737	-
Investments	-	40,250
Exploration and development deductions	942,993	718,712
Property, plant and equipment	247	2,418
Share issue costs	2,389	4,426
Asset retirement obligation	3,250	3,250
	1,373,684	1,138,971
Valuation allowance	(1,373,684)	(1,138,971)
	$ -	$ -

9. 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 $1,648,271 expire as follows:

2014	$ 229,795
2015	330,732
2026	341,054
2027	169,785
2028	184,724
2029	186,033
2030	206,148
	$ 1,648,271

At October 31, 2010 the Company has available mineral resource related expenditure pools totaling approximately $2,676,321 (2009 - $2,676,321) and oil and gas related expenditures pools totaling approximately $1,095,652 (2009 - $1,092,081) which may be deducted against future taxable income on a discretionary basis. In addition the Company has share issue costs totaling $9,557 (2009 - $17,703) which have not been claimed for income tax purposes.

10. MANAGEMENT OF FINANCIAL RISK

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

Credit Risk
The Company is exposed to industry credit risks arising from its cash holdings and accounts receivable. The Company manages credit risk by placing cash with major Canadian financial institutions. The Company's receivables consist of oil and gas revenues receivable and HST due from the Federal Government of Canada. Management believes that credit risk related to these amounts is nominal.

Liquidity risk
Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital and replacement debt structures to continue its operations and discharge its commitments as they become due.

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

11. 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 year ended October 31, 2010. The Company is not subject to externally imposed capital requirements.

12. SUBSEQUENT EVENTS

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

Subsequent to October 31, 2010 8,200,000 warrants from an earlier private placement were exercised at $0.05 for proceeds of $410,000.

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

During February 2011 50,000 options were exercised at $.10 for proceeds of $5,000.