TOWER ENERGY LTD.
FORM 51-102.F1 MANAGEMENT'S DISCUSSION AND ANALYSIS – February 23, 2011
FOR THE YEAR ENDED OCTOBER 31, 2010

Overall Performance

Tower Energy Ltd. is engaged in the business of acquiring, exploring and developing oil and gas properties. The Company does not have any oil and gas properties in production and, therefore, did not generate any revenue from operations during the year ended October 31, 2010.

Due to the Company's net loss, the continuation of the Company is dependent upon its ability to attain profitable operations and to generate cash flow there from and/or to raise equity capital through the sale of its securities, or secure additional exploration funding through option or joint venture agreements on its oil and gas properties, or through the sale of capital assets or oil and gas properties. In order to obtain financing sufficient to continue operations, the Company will continue to seek private placement funding, and joint venture partners and/or exploration funding for its properties. On November 30, 2009 the Company closed a private placement of 25,000,000 units for net proceeds of $500,000. On November 2, 2010 the Company closed a private placement of 30,000,000 units for net proceeds of $1,500,000.

The Company had two projects as of October 31, 2010 - the Sarcee well 12-13-23-4W5M, subsequently relinquished, and one farm-in agreement - Poplar Winstar Strachan. Management is currently assessing possible acquisitions.

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

On June 13, 2005 the Company entered into an agreement with Arapahoe Energy Corporation for a 10% participating interest in the drilling of a well located at 12-13-23-4 W5M (the "Mississippian Test Well") on the Tsuu 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

During the year the Company ended October 31, 2010 the Company incurred $3,571 (2009 - $2,961) in development costs related to the Sarcee well. 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 to be calculated as ($300,000 x 60%) / total gross cost to drill, complete and tie in the well.

During the year Winstar sold its interest in the well to Crossbow Energy Partners Ltd, which sold its interest to Vermilion Energy Trust.

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).

Oil and 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

Selected Annual Information

Year ended	Revenues	Profit or (Loss)	Profit or (Loss) per share	Exploration Expenditures	General & Admin. Expenditures	Total Assets
	$	$	$	$	$	$
31-Oct-10	-	(1,318,975)	(0.03)	3,571	182,177	1,197,735
31-Oct-09	-	(244,231)	(0.01)	2,961	162,463	978,024
30-Oct-08	-	(270,296)	(0.01)	926	443,640	1,194,331

The net loss of $1,318,975 in the year ended October 31, 2010 includes a loss on write down of oil and gas property of $897,123 and a loss on disposal of investment of $241,907.

Results of Operations

The following discussion should be read in conjunction with the accompanying financial statements and related notes.

The Company realized a net loss of $1,318,975 in the year ended October 31, 2010 or $0.03 per share, compared to a net loss of $244,231 or $0.01 per share in the year ended October 31, 2009.

Audit and accounting fees totaled $49,539 in the year ended October 31, 2010 (2009 - $47,976). The Company incurred consulting costs of $25,725 in the year ended October 31, 2010 (2009 - $28,309). Management fees totaled $33,000 in the year ended October 31, 2010 (2009 - $36,000).

The Company recorded a loss on disposal of investment of $241,907 and a loss on disposal of equipment of $238. The Company recorded other comprehensive income of $322,000 (2009 - $30,150) related to the change in the fair value of its investment in financial instruments.

The Company recorded a write-down of oil and gas property of $897,123 upon management's determination to relinquish the Company's interest in the Sarcee well.

Fourth Quarter

The Company's primary activities in the three months ended October 31, 2010 were as follows:

The Company realized a net loss of $1,202,175 (2009 - $111,482).

The Company recorded a loss of $241,907 (2009 – $57,640) on disposal of its investment in financial instruments.

The Company wrote down the oil and gas property of $897,123 upon management's determination to relinquish the Company's interest in the Sarcee well.

Audit and accounting fees increased to $24,605 (2009 - $19,971).

General and administrative expenses were $63,855 (2009 – $43,625).

The Company incurred consulting costs of $6,000 (2009 – $3,000) in relation to evaluation of potential acquisitions. Management fees totaled $6,000 (2009 - $9,000).

Summary of Quarterly Results

Period	Revenues	Profit or (Loss)	Profit or (Loss) per share	Exploration Expenditures	General & Admin. Expenditures
4th Quarter 2010	$ -	$(1,202,175)	$ (0.03)	$ 25	$ 63,856
3rd Quarter 2010	-	(30,025)	-	3,546	30,742
2nd Quarter 2010	-	(54,290)	-	-	55,094
1st Quarter 2010	-	(32,485)	-	-	32,485
4th Quarter 2009	-	(111,276)	(0.01)	-	53,624
3rd Quarter 2009	-	(28,000)	-	2,671	27,813
2nd Quarter 2009	-	(77,515)	-	290	53,586
1st Quarter 2009	-	(27,440)	-	-	27,440

Liquidity

The amount of cash on hand as of October 31, 2010 was $1,161,864 as compared to $14,572 at October 31, 2009. The primary uses of cash in the year ended October 31, 2010 were the funding of operations - $169,100 (2009 - $154,541), deferred exploration expenditures - $3,571 (2009 – $2,961) and the purchase of equipment $3,952 (2009 – nil).

The main source of cash was the issuance of shares - $500,000, share subscriptions received - $710,000 and proceeds on the sale of CPH shares - $114,593.

The Company had working capital of $1,127,535 at October 31, 2010. The Company currently has no source of operating cash flow, limited financial resources, and has no assurance that additional funding will be available to it for further exploration and development of its properties or to enable it to fulfill its obligations under any applicable agreements.

Significant Transactions for the Issue of Share Capital

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

Authorized and issued share capital as at February 23, 2011

Authorized – Unlimited common shares without par value and 100,000,000 Preference Shares with a par value of $1.00 each

Issued and Outstanding: 90,022,725 common shares

The following options, warrants, were outstanding as at February 23, 2011:

(i) <u>Options</u>

Number	Exercise Price	Expiry Date
1,850,000	$0.10	November 10, 2013
100,000	$0.10	April 28, 2011
1,950,000		

(i) <u>Warrants</u>

Number	Terms and expiry dates
16,800,000	$0.10 warrants to December 1, 2014
30,000,000	$0.10 warrants to November 2, 2015
46,800,000	

Refer to subsequent events for additional transactions for the issue of share capital.

For a detailed description of share transactions please refer to the Company's financial statements.

Related Party

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 Charles Ross, the former CFO of the Company (2009 - $36,000).

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

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

d) Rent totaling $13,600 was paid to Goldex Resources Corporation, 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.

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

	October 31, 2010	October 31, 2009
i. Company with a director in common for expenses	$ 414	$ 1,978
ii. Directors for expenses	5,825	-
iii. Former director for loans	216	216
	$ 6,455	$ 2,194

New Accounting Standards Not Yet Adopted

International Financial Reporting Standards

In January 2006, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada are expected to converge with International Financial Reporting Standards ("IFRS") over a transition period ending January 1, 2011. The transition date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. The impact of the transition to IFRS on the Company's financial statements has yet to be determined.

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. Additional disclosures and analysis of impacts will be provided leading up to adoption on November 1, 2011.

Management has developed a project plan for the conversion to IFRS. The conversion plan is comprised of three phases:
1) Scoping phase which will assess the overall impact and effort required by the Company in order to transition to IFRS;
2) Planning phase which will include a detailed analysis of the conversion process and implementation plan required for disclosure for the Company's first quarter; and,
3) Transition phase which will include the preparation of an IFRS compliant opening balance sheet as at October 31, 2010, any necessary conversion adjustments and reconciliations, preparation of a fully compliant pro forma financial statements including all note disclosures and disclosures required for the MD&A.

Management has completed phase one, and is now progressing through phase two and three. Management prepared a component evaluation of its existing financial statement line items, comparing Canadian GAAP to the corresponding IFRS guidelines, and has identified a number of differences. Many of the differences identified are not expected to have a material impact on the reported results and financial position. Management is working towards policy choices by the third quarter of 2011.

IFRS 1, "First-Time Adoption of International Financial Reporting Standards". Under IFRS most adjustments made on transition to IFRS must made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. During the third quarter of 2011, management will prepare a presentation to the Audit Committee and the Board of Directors which will focus on the key issues and transitional choices under IFRS 1 applicable to the Company. Set out below are the most significant areas, management has identified to date, where changes in accounting policies may have the highest potential impact on the Company's financial statements based on the accounting policy choices approved by the Audit Committee and Board of Directors.

Oil and Gas Properties
Oil and gas assets in the development and production phases, are subject to additional and significant changes from current GAAP accounting. Such differences include items that may be expensed or capitalized, number of depletable bases and cash generating units, determination of significant components or parts within an asset, as well as the accounting treatment for disposition of assets.

Depletion Expense
On transition to IFRS, Management has the option to base the depletion calculation using either proved reserves or proved and probable reserves. The Company has not concluded at this time which method it will use.

Impairment of Oil and Gas Properties
Under IFRS, impairment tests of Oil and Gas Properties must be performed on specific portions of Oil and Gas Properties as opposed to the entire Oil and Gas Properties balance which is currently required under Canadian GAAP through the full cost ceiling test. Impairment calculations will be performed at the cash generating unit level using either total proved or proved plus probable reserves.

ARO Liability
There may also be significant differences in the calculation of the ARO liability between IFRS and Canadian GAAP. The Company has not determined the impact of the IFRS changes on the ARO liability including the appropriate discount rate to use.

Share-Based Payments
IFRS and Canadian GAAP largely converge on the accounting treatment for share – based transactions with only a few differences. Canadian GAAP allows either accelerated or straight line method of amortization for the fair value of stock options under graded vesting. Currently, the Company is using the straight line method. IFRS 2, on the other hand, allows only the accelerated method. Under IFRS, the estimate for forfeitures must be made when determining the number of equity instruments expected to vest, while under Canadian GAAP forfeitures can be recognized as they occur. Upon adoption of IFRS, the Company will change both the method of amortization, which would give rise to an accelerated compensation expense, and the method of forfeiture recognition.

Future Income Taxes

Like Canadian GAAP, deferred income taxes under IFRS are determined using the liability method for temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, and by generally applying tax rates applicable to the Company to such temporary differences. Deferred income taxes relating to temporary differences that are in equity are recognized in equity and under IFRS subsequent adjustments thereto are backward traced to equity.

Based on management assessment of the information system currently used by the Company, all information required to be reported under IFRS will be available with minimal system changes.

One of the more significant impacts identified to date of adopting IFRS is the expanded presentation and disclosures required. Disclosure requirements under IFRS generally contain more breadth and depth than those required under Canadian GAAP and, therefore, will result in more extensive note references. The Company is continuing to assess the level of presentation and disclosures required to its financial statements. Management will continue to review new standards, as well as the impact of the new accounting standards, to ensure all relevant changes are addressed.

Risks and Uncertainties

The main risks that can affect the Company include operational risks, changes in natural gas and oil prices, and government regulation.

Operational
The Company is exposed to operational risks associated in exploring for, developing and producing crude oil and natural gas. There are numerous uncertainties in estimating oil and gas reserves and in projecting future production, costs and expenses and the results, timing and costs of exploration and development projects. Total amounts or timing of production may vary significantly from reserves and production estimates.

Natural Gas and Oil prices
The Company's operations may be adversely affected by changes in crude oil or natural gas prices which can be influenced by global and regional supply and demand, wars, natural disasters and the political and economic conditions of major oil producing countries throughout the world.

Government regulation
The Company's operations may be adversely affected by changes in Governmental policies or other economic developments which are not within the control of the Company including a change in crude oil or natural gas pricing policy, taxation policies, economic sanctions, and currency control. The Company is subject to various laws governing exploration, development, production, taxes, labour standards and occupational health, toxic substances, land use, water use, land claims of local people and other matters. No assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could increase the cost of operations.

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.

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.

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

Management's Responsibility for Financial Statements

The Company's management is responsible for presentation and preparation of annual financial statements and the Management's Discussion and Analysis ("MD&A"). The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The MD&A has been prepared in accordance with the requirements of securities regulators, including National Instrument 51-102 of the Canadian Securities Administrators.

This report includes certain "forward looking statements" with respect to its anticipated future results and activities. Without limitation, statements regarding potential mineralization and resources, exploration results, and future plans and objectives of the Company are forward-looking statements that involve various risks. Actual results could differ materially from those projected as a result of the following factors, among others: risks inherent in mineral exploration; risks associated with development, construction and mining operations; the uncertainty of future profitability and uncertainty of access to additional capital. The information provided herein with respect to the Company's properties and activities should be read in reference to the technical reports and other relevant disclosure documents prepared by or on behalf of the Company, which may be viewed by interested parties at www.sedar.com.