

Financial Statements

Stroud Resources Ltd.
December 31, 2003 and 2002

AUDITORS' REPORT

To the Shareholders of
Stroud Resources Ltd.

We have audited the balance sheets of **Stroud Resources Ltd.** as at December 31, 2003 and 2002 and the statements of loss and deficit 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 December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
May 10, 2004.

Ernst & Young LLP

Chartered Accountants

Stroud Resources Ltd.
 Incorporated under the laws of Ontario

BALANCE SHEETS

As at December 31

	2003 \$	2002 \$
ASSETS		
Current		
Cash	256,405	256,680
Accounts receivable	8,910	8,970
Prepaid expenses	3,963	3,735
Total current assets	269,278	269,385
Capital assets, net <i>[note 3]</i>	7,509	4,400
Mineral properties and deferred costs <i>[note 4]</i>	2,320,380	2,113,419
Oil and gas interests, net of accumulated depletion of \$246,569 [2002 - \$243,569] <i>[note 5]</i>	23,138	—
	2,620,305	2,387,204
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	213,750	49,850
Royalty tax payable	3,771	3,771
Total current liabilities	217,521	53,621
Commitments <i>[note 10]</i>		
Shareholders' equity <i>[note 7]</i>		
Share capital	7,854,658	7,604,658
Loan payable	75,000	75,000
Contributed surplus	143,811	—
Deficit	(5,670,685)	(5,346,075)
Total shareholders' equity	2,402,784	2,333,583
	2,620,305	2,387,204

See accompanying notes

On behalf of the Board:

"George E. Coburn"
 Director

"Lonnie Kirsh"
 Director

Stroud Resources Ltd.

STATEMENTS OF LOSS AND DEFICIT

Years ended December 31

	2003 \$	2002 \$
OIL AND GAS OPERATIONS		
Revenue, net of royalties	53,814	47,805
Operating expenses	7,394	7,558
Depletion of oil and gas interests	3,000	2,869
	10,394	10,427
Income from oil and gas operations	43,420	37,378
MINERAL OPERATIONS		
Mineral exploration costs	6,258	12,287
ADMINISTRATIVE EXPENSES		
Administrative fees	22,000	13,250
Business promotion	21,824	6,699
Interest	—	10,715
Licences and fees	34,276	25,389
Stock-based compensation <i>[note 7[b]]</i>	143,811	—
Office and general	28,046	13,416
Printing	5,562	3,720
Professional fees	90,155	48,696
Rent	16,098	19,987
	361,772	141,872
Loss before the following	(324,610)	(116,781)
Miscellaneous income	—	10,000
Net loss for the year	(324,610)	(106,781)
Deficit, beginning of year	(5,346,075)	(5,239,294)
Deficit, end of year	(5,670,685)	(5,346,075)
Basic and fully diluted loss per share	\$(0.005)	\$(0.002)
Basic and diluted weighted average number of common shares outstanding <i>[000's]</i>	63,704	56,916

See accompanying notes

Stroud Resources Ltd.**STATEMENTS OF CASH FLOWS**

Years ended December 31

	2003 \$	2002 \$
OPERATING ACTIVITIES		
Net loss for the year	(324,610)	(106,781)
Add items not involving cash		
Depletion and amortization	5,680	4,073
Stock-based compensation	143,811	
Non-cash interest expense	—	20,000
	(175,119)	(82,708)
Net change in non-cash working capital balances related to operations <i>[note 8]</i>	28,902	(67,913)
Cash used in operating activities	(146,217)	(150,621)
INVESTING ACTIVITIES		
Mineral properties and deferred costs	(72,131)	(108,411)
Capital assets	(5,789)	—
Oil and gas interests	(26,138)	—
Cash used in investing activities	(104,058)	(108,411)
FINANCING ACTIVITIES		
Issuance of common shares	250,000	415,862
Loan payable	—	75,000
Cash provided by financing activities	250,000	490,862
Net increase (decrease) in cash during the year	(275)	231,830
Cash, beginning of year	256,680	24,850
Cash, end of year	256,405	256,680

See accompanying notes

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

1. NATURE OF OPERATIONS AND GOING CONCERN

Stroud Resources Ltd. [the "Company"] was incorporated on March 18, 1983. The Company, directly and through working interests, is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The success of the Company will be influenced by a number of factors including environmental risks, political risks, precious metals prices and the ability of the Company to discover economically recoverable reserves and to bring such reserves into future profitable production.

The Company has an accumulated deficit of \$5,670,685 of which \$324,610 in losses were incurred during the current year. Therefore, the Company's ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and its ability to obtain third party financing. The accompanying financial statements have been prepared on the assumption that the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business and do not reflect any adjustments that may be required if this assumption proves to be incorrect [note 11].

The recoverability of amounts shown as mineral properties and deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof. It is reasonably possible that economically recoverable reserves may not be discovered and accordingly, a material portion of the carrying value of mineral claims and options could be written off.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. These financial statements have been prepared within the framework of the significant accounting policies summarized below:

Fair value of financial instruments

The carrying values represented in the balance sheet for accounts receivable, accounts payable and accrued liabilities and royalty tax payable approximate their fair values due to the short-term nature of these instruments.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Mineral properties and deferred costs

An impairment may occur in the carrying value of mineral interests when one of the following conditions exists:

- [i] the enterprise's work program on a property has significantly changed, so that previously identified resource targets or work programs are no longer being pursued;
- [ii] exploration results are not promising and no more work is being planned in the foreseeable future; or
- [iii] remaining lease terms are insufficient to conduct necessary studies or exploration work.

Once an impairment has been determined then a portion of the carrying value will be written down to net realizable value.

Acquisition costs of mining claims, together with direct exploration and development expenditures thereon, are capitalized in the accounts by specific project and are written off if the project area is abandoned. When the carrying value of a property exceeds its net recoverable amount, the excess is charged to income.

Upon sale of an entire property, the capitalized costs of the property are removed from the accounts and any gain or loss thereon is recorded in income. Upon partial sale of a property, the proceeds are netted against the capitalized costs of the property and no gain or loss is recognized thereon.

Oil and gas interests

The Company follows the full cost method of accounting for its interest in oil and gas operations. Under this method all costs relating to the exploration for and the development of oil and gas reserves are capitalized in one Canadian cost centre. Such costs include lease acquisition costs, geological and geophysical expenses, carrying charges on non-productive wells and overhead expenses related to exploration activities. The carrying value of the Company's oil and gas interests is limited to the undiscounted value of future net revenue from proved reserves based on year-end prices and costs after deducting estimated future general and administrative expenses, financing costs and income taxes, together with the value of unproved properties at the lower of cost and net realizable value. Depletion is provided on costs accumulated in producing cost centres using the unit-of-production method based on estimated proven oil and gas reserves, before deduction of royalties. For purposes of the calculation, oil and gas volumes are converted to a common unit of measure on the basis of relative energy content.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

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Capital assets

Capital assets are initially recorded at cost. Amortization is provided on a declining balance basis from the month of purchase at the following annualized rates, which are expected to charge operations with the total cost of the assets over their estimated useful lives:

Furniture and fixtures	20%
Leasehold improvements	30%
Other equipment	30%

Flow-through common shares

From time to time, the Company enters into agreements for "flow-through" common shares, as this term is defined in the Income Tax Act (Canada). Such shares entitle the subscriber to earn income tax deductions in respect of qualifying expenditures made by the Company. The Company must incur Canadian exploration expenses in an amount equal to the consideration paid for the shares and renounce these expenses to the holders of these flow-through common shares.

Proceeds received from flow-through common shares are credited to share capital net of share issuance costs, including the cost of future income taxes arising from temporary differences resulting from renounced exploration expenses.

Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury method. The dilutive effect of convertible securities is determined using the "if-converted" method.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Stock-based compensation plan

The Company has a stock-based compensation plan, which is further described in note 7[b]. Prior to January 1, 2003, no compensation expense was recognized for the plan when stock or stock options were issued to employees, officers and directors. During the fourth quarter of 2003, the Company adopted the fair value method of accounting for stock-based compensation plans in accordance with The Canadian Institute of Chartered Accountants Handbook Section 3870, "Stock-based Compensation and other Stock-based Payments" ["CICA 3870"]. The Company has selected the prospective method of adoption, accordingly, results from prior years have not been restated [note 7[b]]. The fair value of stock options granted is recognized on a straight-line basis over the applicable vesting period as an expense in the statements of loss and deficit and as contributed surplus on the balance sheets. On the exercise of stock options, consideration received and the accumulated contributed surplus amount is credited to share capital.

Stock options and warrants awarded to non-employees are accounted for using the fair value method and expensed as the service or product is received.

During the year, the Company recorded stock-based compensation expense of \$143,811. No compensation expense for stock options granted to employees at fair market value was included in the determination of net loss for the year ended December 31, 2002. The following table presents, for comparative purpose, the Company's pro forma net loss and loss per share as if the fair value-based method of CICA 3870 had been applied for all stock options granted during the year ended December 31, 2002:

	2003 \$	2002 \$
Net loss for the year	(324,610)	(106,781)
Total pro forma stock-based compensation expense determined under fair value-based method [note 7[b]]	—	(62,000)
Pro forma net loss	(324,610)	(168,781)
Basic and diluted loss per share		
As reported	\$(0.005)	\$(0.002)
Pro forma	\$(0.005)	\$(0.003)

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

Income taxes

The Company follows the liability method of tax allocation accounting. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured by using the substantively enacted tax rates that will be in effect when the differences are expected to reverse. Valuation allowances are provided if it is more likely than not that some or all of the future tax assets will not be realized.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions, particularly with respect to the valuation of mineral properties and deferred costs, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. CAPITAL ASSETS

Capital assets consist of the following:

	<u>2003</u>			<u>2002</u>		
	<u>Cost</u>	<u>Accumulated</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated</u>	<u>Net</u>
	<u>\$</u>	<u>amortization</u>	<u>book</u>	<u>\$</u>	<u>amortization</u>	<u>book</u>
		<u>\$</u>	<u>value</u>		<u>\$</u>	<u>value</u>
			<u>\$</u>			<u>\$</u>
Furniture and fixtures	32,642	29,623	3,019	32,642	28,868	3,774
Leasehold improvements	2,475	2,037	438	2,475	1,849	626
Other equipment	8,126	4,074	4,052	2,337	2,337	—
	43,243	35,734	7,509	37,454	33,054	4,400

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NOTES TO FINANCIAL STATEMENTS

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4. MINERAL PROPERTIES AND DEFERRED COSTS

The mineral properties to which the Company has exploration rights are as follows:

Hislop projects

The Company has a 100% interest in properties located in Hislop, Ontario. To date, there has been no revenue earned from this project, as production has not commenced.

The Company had capitalized costs in previous years of \$3,539,667 with respect to other specific projects and general exploration in the Hislop region. Since the Company has not conducted exploration on the Hislop properties over the previous three fiscal years, management decided to write off these capitalized costs in order to comply with the accounting policy as described in note 2.

During 2003 the Company developed an exploration program in the Hislop region in order to further advance the properties. As at December 31, 2003, this site is considered to be in the pre-production stage and total costs of \$48,638 incurred to further develop this site in the current year have been capitalized and included in mineral properties and deferred costs

Leckie/Penrose project

The Company has a 100% interest in the Leckie/Penrose project. The interests in this property are 100% owned and not subject to any outstanding obligations or commitments. To date, there has been no revenue earned on this project as production has not commenced.

The Company had capitalized costs in previous years of \$602,613 with respect to this project. Since the Company has not conducted exploration on the property over the previous three fiscal years, management decided to write off these capitalized costs in order to comply with the accounting policy as described in note 2.

Compania Minera project

On April 18, 2002 and as amended September 27, 2002, the Company entered into an agreement with New Bullet Group ["NBG"], a related party, whereby the two companies agreed in principle to form a joint venture, subject to NBG meeting certain funding requirements, for the purpose of acquiring and operating mineral concessions in Mexico owned by Minera San Diego y La Espanola S.A. de C.V. ["Compania Minera"], a private Mexican company. The Company had previously spent in excess of U.S. \$1,000,000 on the acquisition of Compania Minera and the exploration of its concessions under option and exploration agreements with its owners.

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December 31, 2003 and 2002

NBG was required to invest U.S. \$1,000,000 in eligible expenditures, including the purchase or subscription for shares in the capital of Compania Minera. To date, NBG has funded U.S. \$946,717 of the U.S. \$1,000,000 required as follows:

- Acquired 200,000 common shares in trust for cash consideration of U.S. \$100,000. At the time of the transaction the 200,000 common shares represented 24% of the outstanding shares of Compania Minera.
- Acquired the option to purchase the remaining 75% or 600,000 common shares in trust for cash consideration of U.S. \$150,000.
- Acquired 6,094,500 common shares of Compania Minera in trust through a private placement for cash consideration of U.S. \$600,000.

One-half of all shares acquired to date by NBG are held in trust for the Company. As at December 31, 2003, the shares held by NBG represent approximately 91.3% of the common shares of Compania Minera. Upon the formation of a joint venture between the parties, NBG has the option to increase its interest to 70% of the parties' collective interests upon funding the cost of a bankable feasibility study on the concessions.

As at December 31, 2003, this site is considered to be in the pre-production stage and total costs of \$2,271,742 incurred to further develop this site have been capitalized and included in mineral properties and deferred costs. Of this amount, \$23,493 was incurred during the year ended December 31, 2003.

In 1990, Compania Minera incurred a debt with a federal lending agency to the mining industry in Mexico, and subsequently defaulted in repayment. The agency filed a lawsuit for payment and exercised its security upon Compania Minera. Subsequent to year-end, the agency settled the debt for U.S. \$200,000. The settlement was split equally between NBG and the Company. The Company has accrued and capitalized in mineral properties U.S. \$100,000.

5. OIL AND GAS INTERESTS

The Company holds interests [approximately 3.75%] in three oil and gas producing properties in Alberta. The properties are currently operated by Talisman Energy Inc. The Company's proportionate share of the revenue from these properties, net of operating expenses, is received from the operator on a monthly basis.

During the year the Company spent \$26,138 in developing a well.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

6. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2003, the Company entered into the following related party transactions:

- [i] The Company paid to the President of the Company \$55,000 [2002 - \$34,395] in consulting fees. Of this amount \$33,000 has been deferred and capitalized within mineral properties as they relate to the further development of the sites.
- [ii] The Company paid legal fees of \$47,938 to a law firm in which a director of the Company is a partner. The legal services, which are in the normal course of operations, have been measured at the exchange amount.

During the year ended December 31, 2002, the Company entered into the following related party transactions:

- [i] Mineral properties - NBG was considered to be a related party as a former member of the Company's board and senior management also held a director and senior officer position with NBG.
- [ii] As discussed in note 7, 2,500,000 of the 7,000,000 common shares issued and \$15,000 of the \$75,000 loan payable were transacted with the President of the Company and an individual directly related to this individual.
- [ii] The Company issued 1,646,571 common shares related to the exercise of warrants held by the President of the Company. The warrants had an exercise price of \$0.04 per share.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

7. SHAREHOLDERS' EQUITY

[a] Share capital

Authorized share capital consists of unlimited common shares.

The continuity of share capital is as follows:

	Number #	Amount \$
Balance, December 31, 2001	46,080,773	6,797,396
For cash [i]	7,000,000	350,000
Shares issued in connection with loan payable [ii]	500,000	20,000
Convertible debenture converted [iii]	7,518,218	371,400
Exercise of warrants [note 6]	1,646,571	65,862
Balance, December 31, 2002	62,745,562	7,604,658
For cash [iv]	5,000,000	250,000
Balance, December 31, 2003	67,745,562	7,854,658

[i] On June 19, 2002, the Company completed a private placement for 7,000,000 units, raising gross proceeds of \$350,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitled the holder to acquire one common share at an exercise price of \$0.10 per share until June 19, 2003. The date of expiry of these warrants has been extended to June 18, 2004.

[ii] On February 14, 2002, the Company received loans aggregating \$75,000. In lieu of interest charges, the Company issued 500,000 common shares at a prescribed value of \$0.04 per share. For accounting purposes, the value of 500,000 common shares has been classified as interest expense.

In addition, should the loans not be repaid by March 18, 2002, the Company is required to repay the principal of \$75,000 by issuing 1,500,000 common shares of the Company. As at December 31, 2003, the loans have not been settled and the amounts are included within shareholders' equity.

[iii] During the year ended December 31, 2002, \$371,400 principal amount of adjustable, redeemable, convertible, subordinated debentures were converted into 7,518,218 common shares of the Company at a price of \$0.05 per common share.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

[iv] On October 23, 2003 the Company completed a private placement for 5,000,000 units, raising gross proceeds of \$250,000. Each unit consisted of one common share and one common share purchase warrant. Each full warrant entitles the holder to acquire one common share at an exercise price of \$0.10 per share until October 1, 2004.

[b] Stock options

As at December 31, 2003, the Company had available for issuance 3,558,500 stock options under this plan.

A summary of the status of the plan as at December 31, 2003 and 2002, and changes during the years ended on those dates, is presented below:

	<u>2003</u>		<u>2002</u>	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of year	6,200,000	0.05	700,000	0.05
Forfeited	(6,200,000)	0.05	(700,000)	0.08
Granted	3,250,000	0.10	6,200,000	0.05
Outstanding, end of year	3,250,000	0.10	6,200,000	0.05

The options granted during the year have a vesting period as follows: 1/3 vest immediately, 1/3 on the seven-month anniversary and 1/3 on the 13-month anniversary.

As at December 31, 2003, 1,072,500 [2002 - 6,200,000] stock options are exercisable.

The above outstanding options all have an exercise price of \$0.10 and a weighted average remaining contractual life of approximately three years.

Pro forma disclosure is calculated using the Black-Scholes option pricing model. The Black-Scholes option pricing model estimates the value of freely tradable, fully transferable options without vesting restriction, which significantly differs from the Company's stock option awards. This model also requires assumptions, including future stock price volatility and expected time until exercise, which greatly affects the calculated values. Accordingly, management believes that this model does not necessarily provide a reliable single measure of fair value of the Company's stock option awards.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

During the year ended December 31, 2003, the Company issued 3,250,000 stock options. The fair value of the stock options was estimated using the Black-Scholes option pricing model using the following assumptions:

	2003	2002
Volatility	140%	nil
Risk free interest rate	3.47%	4.55%
Expected life [years]	3	2
Dividend yield	nil	nil

The 2002 volatility of nil was determined based on the Company's historical transactions over a two-year period.

The fair value of the above options was estimated to be \$260,000 of which \$143,811 was amortized and included in determining net loss for the year with a corresponding credit to contributed surplus.

8. STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2003	2002
	\$	\$
Accounts receivable	60	(8,022)
Prepaid expenses	(228)	(1,025)
Accounts payable and accrued liabilities	29,070	(55,768)
Royalty tax payable	—	(3,098)
	28,902	(67,913)

The Company did not pay any interest or income taxes in 2003 and 2002.

Excluded from the statement of cash flows is the issuance of 500,000 common shares associated with the \$75,000 loan payable during the year ended December 31, 2002.

Stroud Resources Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2003 and 2002

9. INCOME TAXES

The provision for income taxes differs from that which would be obtained by applying the statutory tax rate of 38.93% as any amount would be offset by the tax effect of losses and temporary differences not recorded.

The Company has provided a full valuation allowance against its future tax assets. The future income tax assets consist of the following temporary differences:

	2003	2002
	\$	\$
Mineral properties and deferred costs	411,609	403,129
Non-capital losses carried forward	323,029	231,597
Capital assets	62,818	58,746
Other	4,399	9,845
Gross future income tax assets	801,855	703,317
Valuation allowance	(801,855)	(703,317)
Net future income tax asset	—	—

For tax purposes, the Company has Canadian Exploration Expense tax pool, Canadian Development Expense tax pool and Foreign Exploration and Development Expenses tax pool aggregating approximately \$3,000,000, the benefit to which have not been recognized for tax purposes. In addition, the Company also has non-capital losses totaling approximately \$940,000 set to expire at \$115,000, \$178,000, \$125,000, \$85,000, \$106,000, \$116,000 and \$215,000 in the years 2004, 2005, 2006, 2007, 2008, 2009 and 2010, respectively.

10. COMMITMENTS

The Company has an annual rent commitment of approximately \$22,800 over the next four and one-half years.

11. SUBSEQUENT EVENTS

On April 27, 2004, the Company completed a private placement for 12,233,411 units, raising gross proceeds of \$2,076,680. Each unit consisted of one common share and one-half common share purchase warrant. Each full warrant entitles the holder to acquire one common share at an exercise price of \$0.25 per share until January 29, 2005. All securities are subject to a four-month holding period expiring August 29, 2004.