

Consolidated Financial Statements

**Stroud Resources Ltd.**

December 31, 2008 and 2007

## AUDITORS' REPORT

To the Shareholders of  
**Stroud Resources Ltd.**

We have audited the consolidated balance sheets of **Stroud Resources Ltd.** as at December 31, 2008 and 2007 and the consolidated statements of net loss and comprehensive 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, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 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,  
April 28, 2009.

*Ernst & Young LLP*

Chartered Accountants  
Licensed Public Accountants

**Stroud Resources Ltd.**

Incorporated under the laws of Ontario

**CONSOLIDATED BALANCE SHEETS**

[In Canadian dollars]

As at December 31

|  | 2008              | 2007                            |
|--|-------------------|---------------------------------|
|  | \$                | \$                              |
|  |                   | <i>[restated -<br/>note 16]</i> |
| <b>ASSETS</b>  |                   |                                 |
| <b>Current</b>   |                   |                                 |
| Cash and cash equivalents  | 19,459            | 324,689                         |
| Royalty tax recoverable  | 19,401            | 32,403                          |
| Accounts receivable  | 38,027            | 231,040                         |
| Prepaid expenses and other assets  | 6,584             | 6,584                           |
| <b>Total current assets</b>  | <b>83,471</b>     | <b>594,716</b>                  |
| Capital assets, net <i>[note 4]</i>  | 535,392           | 674,600                         |
| Mineral properties and deferred costs <i>[note 5]</i>  | 10,795,338        | 9,472,900                       |
| Oil and gas interests, net of accumulated depletion<br>of \$374,568 [2007 - \$342,568] <i>[note 6]</i> | 142,614           | 174,614                         |
|  | <b>11,556,815</b> | <b>10,916,830</b>               |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                   |                                 |
| <b>Current</b>   |                   |                                 |
| Accounts payable and accrued liabilities <i>[note 7]</i>   | 235,951           | 179,241                         |
| <b>Total current liabilities</b>   | <b>235,951</b>    | <b>179,241</b>                  |
| Long term income tax payable   | 11,185            | 11,185                          |
| Future income tax liabilities <i>[note 10]</i>   | 2,108,287         | 1,794,386                       |
| <b>Total liabilities</b>   | <b>2,355,423</b>  | <b>1,984,812</b>                |
| <i>Commitments [notes 5 and 11]</i>  |                   |                                 |
| <b>Shareholders' equity [note 8]</b>   |                   |                                 |
| Share capital  | 17,248,394        | 16,465,092                      |
| Contributed surplus  | 1,314,303         | 661,923                         |
| Deficit  | (9,361,305)       | (8,194,997)                     |
| <b>Total shareholders' equity</b>  | <b>9,201,392</b>  | <b>8,932,018</b>                |
|  | <b>11,556,815</b> | <b>10,916,830</b>               |

*See accompanying notes*

On behalf of the Board:

"George E. Coburn"  
Director

"Lonnie Kirsh"  
Director

**Stroud Resources Ltd.**

**CONSOLIDATED STATEMENTS OF NET LOSS  
AND COMPREHENSIVE LOSS AND DEFICIT**

[In Canadian dollars, unless otherwise noted]

Years ended December 31

|  | <b>2008</b>        | <b>2007</b>                     |
|--|--------------------|---------------------------------|
|  | \$                 | \$                              |
|  |                    | <i>[restated -<br/>note 16]</i> |
| <b>OIL AND GAS OPERATIONS</b>  |                    |                                 |
| Revenue, net of royalties  | <b>251,426</b>     | 222,658                         |
| Operating expenses   | <b>48,101</b>      | 26,150                          |
| Depletion of oil and gas interests   | <b>32,000</b>      | 32,000                          |
|  | <b>80,101</b>      | 58,150                          |
| <b>Income from oil and gas operations</b>  | <b>171,325</b>     | 164,508                         |
| <b>ADMINISTRATIVE EXPENSES</b>   |                    |                                 |
| Administrative fees  | <b>53,500</b>      | 42,875                          |
| Business promotion   | <b>153,225</b>     | 140,323                         |
| Licences and fees  | <b>37,146</b>      | 28,537                          |
| Stock-based compensation <i>[note 8[b]]</i>  | <b>412,380</b>     | 188,272                         |
| Bad debts  | <b>94,834</b>      | —                               |
| Office and general   | <b>30,303</b>      | 41,967                          |
| Depreciation   | <b>8,770</b>       | 12,447                          |
| Professional fees  | <b>205,293</b>     | 228,059                         |
| Rent   | <b>33,434</b>      | 35,589                          |
|  | <b>1,028,885</b>   | 718,069                         |
| Loss before the following  | <b>(857,560)</b>   | (553,561)                       |
| Foreign exchange gain  | <b>56,840</b>      | 272,754                         |
| Interest and other income  | <b>7,079</b>       | 24,330                          |
| Loss before income taxes   | <b>(793,641)</b>   | (256,477)                       |
| Income tax expense   | —                  | 11,185                          |
| Future income tax expense (recovery)   | <b>372,667</b>     | (101,451)                       |
| <b>Net loss and comprehensive loss for the year</b>  | <b>(1,166,308)</b> | (166,211)                       |
| Deficit, beginning of year   | <b>(8,194,997)</b> | (8,028,786)                     |
| <b>Deficit, end of year</b>  | <b>(9,361,305)</b> | (8,194,997)                     |
| <b>Basic and fully diluted loss per share</b>  | <b>\$(0.0086)</b>  | \$(0.0013)                      |
| <b>Basic and diluted weighted average number<br/>of common shares outstanding <i>[000's]</i></b> | <b>134,900</b>     | 124,520                         |

See accompanying notes

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

[In Canadian dollars]

Years ended December 31

|  | <b>2008</b>        | <b>2007</b> |
|--|--------------------|-------------|
|  | \$                 | \$          |
| <b>OPERATING ACTIVITIES</b>  |                    |             |
| Net loss for the year  | <b>(1,166,308)</b> | (166,211)   |
| Add (deduct) items not involving cash  |                    |             |
| Depletion and depreciation   | <b>40,770</b>      | 44,447      |
| Write-off of accounts receivable   | <b>94,834</b>      | —           |
| Stock-based compensation   | <b>412,380</b>     | 188,272     |
| Foreign exchange gain  | <b>(56,840)</b>    | (272,754)   |
| Impact of Ontario tax harmonization  | —                  | 11,185      |
| Future income tax expense (recovery)   | <b>372,667</b>     | (101,451)   |
|  | <b>(302,497)</b>   | (296,512)   |
| Net change in non-cash working capital balances<br>related to operations <i>[note 9]</i> | <b>167,891</b>     | (164,617)   |
| <b>Cash used in operating activities</b>   | <b>(134,606)</b>   | (461,129)   |
| <b>INVESTING ACTIVITIES</b>  |                    |             |
| Mineral properties and deferred costs  | <b>(1,188,151)</b> | (1,625,092) |
| Capital assets   | —                  | (678,182)   |
| Oil and gas interests  | —                  | (63,335)    |
| <b>Cash used in investing activities</b>   | <b>(1,188,151)</b> | (2,366,609) |
| <b>FINANCING ACTIVITIES</b>  |                    |             |
| Issuance of units under private<br>placement net of issuance costs <i>[note 8]</i>       | <b>992,600</b>     | 647,370     |
| Issuance of common shares upon exercise<br>of warrants <i>[note 8]</i>                   | <b>24,927</b>      | —           |
| <b>Cash provided by financing activities</b>   | <b>1,017,527</b>   | 647,370     |
| <b>Net decrease in cash and cash equivalents<br/>during the year</b>                     | <b>(305,230)</b>   | (2,180,368) |
| Cash and cash equivalents, beginning of year   | <b>324,689</b>     | 2,505,057   |
| <b>Cash and cash equivalents, end of year</b>  | <b>19,459</b>      | 324,689     |

*See accompanying notes*

## **Stroud Resources Ltd.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

December 31, 2008 and 2007

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

Stroud Resources Ltd. ["the Company"] was incorporated on March 18, 1983 and is an international mineral exploration company with an exploration portfolio in Canada and Mexico. A significant portion of the Company's exploration and development costs relate to its Santa Domingo project situated in the state of Jalisco, Mexico. The Company holds its interest in this property through its wholly owned registered subsidiary, Compañía Minera, which holds prospecting and exploration permits for the property.

The recoverability of the amounts shown for exploration and development costs is dependent upon the existence of economically recoverable resources, the ability of the Company to obtain all necessary permits and raise financing to complete the exploration and development, and future profitable production or proceeds from the disposition of such properties. In addition, the Company's properties may be subject to sovereign risk, including political and economic uncertainty, changes in existing government regulations to mining which may withhold the receipt of required permits or impede the Company's ability to acquire the necessary surface rights as well as currency fluctuations and local inflation. These risks may adversely affect the investment in the properties and may result in the impairment or loss of all or part of the Company's investment.

The Company has an accumulated deficit of \$9,361,305 as at December 31, 2008, of which \$1,166,308 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 its ability to obtain further financing. The accompanying consolidated 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.

As at December 31, 2008, the Company had negative operating cash flows of \$134,606 [2007 - \$461,129] and does not have sufficient cash to fund the further development and exploration of its properties. It will require additional financing which, if not raised, would result in the curtailment of activities.

To date the Company has raised funds principally through the issuance of shares. In the foreseeable future the Company will likely remain dependent on the issuance of shares to raise funds to explore and develop its properties, and on the availability of project financing for the development of the Company's properties. Management has anticipated that it will be able to fund its immediate cash requirements through \$1,200,000 in a non-brokered private placement and that additional financing will be available and may be sourced in sufficient time to allow the Company to continue its planned and future exploration and development activities. However, there can be no assurance that it will be successful.

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There can be no assurances that the Company's activities will be successful or sufficient funds can be raised in a timely manner. As a result, there is significant doubt regarding the "going concern" assumption and accordingly, the use of accounting principles applicable to a going concern. These consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. If the "going concern" assumption was not appropriate for these consolidated financial statements, then adjustments to the carrying values of the assets and liabilities, expenses and balance sheet classifications, which could be material, would be necessary.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **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 accounts receivable, mineral properties, deferred costs and oil and gas interests, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and cash equivalents**

Cash and cash equivalents consist of commercial accounts, trust accounts and interest-bearing bank deposits with remaining maturities of 90 days or less at the time of purchase. As at December 31, 2008, the Company's cash and cash equivalents consist of cash on account of \$19,459.

### **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 Company's work program on a property has significantly changed, so that previously identified resource targets or work programs are no longer being pursued;

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# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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- [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 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 oil and gas properties, whereby all the costs associated with the exploration for, and the development of, petroleum and natural gas reserves, whether productive or unproductive, are capitalized in cost centres on a country-by-country basis. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. The Company currently has one Canadian cost centre.

Revenue, net of royalties from oil and gas operations is recognized when title passes from the Company to the customer, generally at the time of shipment.

The costs related to the cost centre are depleted and amortized on a unit-of-production basis. The recoverability of a cost centre is tested by comparing the carrying value of the cost centre to the sum of the undiscounted cash flows expected from the cost centre's use and eventual disposition. If the carrying value is unrecoverable, the cost centre is written down to its fair value estimated at the present value of expected future cash flows from proved and probable reserves and the value of unproved properties. This approach incorporates risks and uncertainties in the expected future cash flows which are discounted using a risk-free rate. The cash flows are estimated using expected future product prices and costs.

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**Capital assets**

Capital assets are recorded at acquisition cost less accumulated amortization. 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 as follows:

|                        |     |
|------------------------|-----|
| Motor vehicle          | 30% |
| Furniture and fixtures | 20% |
| Other equipment        | 30% |
| Drilling equipment     | 20% |

**Loss per share**

Basic and diluted loss per share is calculated using the weighted average number of common shares outstanding during the year.

**Stock-based compensation plan**

The fair value of stock options granted is recognized on a straight-line basis over the applicable vesting period as an expense in the consolidated statements of net loss and comprehensive loss and deficit and as contributed surplus on the consolidated balance sheets. On the exercise of stock options, consideration received and the respective accumulated contributed surplus amount are 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.

## **Stroud Resources Ltd.**

# **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

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### **Income and mining taxes**

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recognized to the extent the recoverability of future income tax assets is not considered more likely than not to be realized.

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. The proceeds received on the issuance of such shares have been credited to share capital and the related exploration costs are deferred to when they are incurred. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renouncement will reduce share capital.

### **Fair value of financial instruments**

The carrying values represented in the consolidated balance sheets for cash and cash equivalents, accounts receivable, prepaid expenses and other assets, accounts payable and accrued liabilities and royalty tax recoverable approximate their fair values due to the short-term nature of these financial instruments.

### **Long-lived assets**

A loss is recognized on a long-lived asset held for use when its carrying value exceeds the undiscounted cash flows from its use and eventual disposition. The amount of the loss is determined by deducting the asset's fair value based on discounted cash flows from its carrying value.

### **Foreign currency translation**

The Company conducts business in Canada and Mexico. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date. Revenue and expenses denominated in foreign currencies are translated using the average exchange rate for the year. Foreign currency gains and losses arising from translation of balances are included in the determination of net loss for the year.

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### **Comprehensive income**

Section 1530 sets out reporting and disclosure standards with respect to comprehensive income and its components. Comprehensive income is composed of net income and other comprehensive income ["OCI"]. The Company does not have any components of comprehensive income except for net loss and therefore this policy has had no impact on the Company's consolidated financial statements.

### **Financial instruments**

Section 3855 sets out standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be measured at fair value on initial recognition and recorded on the balance sheet. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets and financial liabilities considered held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets are measured at fair value with unrealized gains and losses recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

The Company has made the following classifications:

- Cash, short-term investments and interest bearing deposits are classified as "held-for-trading" and measured at fair value. Gains and losses resulting from change in fair values are recorded in net income.
- Accounts receivable and royalty tax recoverable are classified as "loans and receivables" and are recorded at amortized cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable is classified as "other financial liabilities" and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

## Stroud Resources Ltd.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars, unless otherwise noted]

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## Hedges

The Company may use derivative instruments to manage foreign exchange and interest rate risk. The Company may choose to designate derivative instruments as hedges.

- Cash flow hedges - The effective portion of the changes in fair value of financial instruments designated as a cash flow hedge is recognized in OCI, net of tax, with any ineffective portion being recognized immediately in net income. Gains and losses are recovered from OCI and recognized in net income in the same period as the hedged item affects net income. If at any point the hedged transaction is no longer expected to occur, the cumulative gain or loss recognized in accumulated other comprehensive income is reclassified to net income immediately.
- Fair value hedges - Both the financial instrument designated as the hedging item, and the underlying hedged asset or liability are measured at fair value. Changes in the fair value of both the hedging and hedged item are reflected in net income immediately. The carrying value of the hedged item is adjusted through net income for changes in its fair value attributable to the hedged risk.
- Net investment hedges - Foreign exchange gains and losses on debt designated as a net investment hedge are recognized in OCI, net of tax, to the extent the hedge is effective. The ineffective portion of such hedges is recognized in net income.

The Company had no such hedges for the year ended December 31, 2008 and therefore this policy has had no impact on the Company's consolidated financial statements.

## 3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ["CICA"] Handbook Section 1400, Assessing Going Concern, Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures and Handbook Section 3863, Financial Instruments – Presentation. These standards were adopted on a prospective basis and, as such, prior period financial statements have not been restated.

### *Assessing Going Concern* [Section 1400]

Section 1400 has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The resulting disclosures from implementation are presented in Note 1.

## **Stroud Resources Ltd.**

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[In Canadian dollars, unless otherwise noted]

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### *Capital Disclosures* [Section 1535]

Section 1535 specifies the disclosure of the Company's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements and the consequences, if any, of non-compliance and how the Company is meeting its objectives for managing capital. The resulting disclosures from implementation are presented in Note 13.

### *Financial Instruments – Disclosures and Presentation* [Sections 3862 and 3863]

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The adoption of these standards did not have any material impact on the Company's results of operations or financial position and the required disclosures are presented in Note 12.

In March 2007, the CICA approved Handbook Section 3031, Inventories, which replaces the existing Handbook Section 3030, Inventories. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, with earlier application encouraged. The standard provides more guidance on the measurement and disclosure requirements for inventories. The Company currently does not have any inventory and therefore this standard has had no impact on the Company's consolidated financial statements.

## **NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

### **International Financial Reporting Standards**

The Canadian Accounting Standards Board has announced its decision to replace Canadian GAAP with IFRS for all Canadian Publicly Accountable Enterprises [PAEs]. The effective changeover date is January 1, 2011, at which time IFRS will take effect. Following this timeline, the Company will issue its first set of interim financial statements prepared under IFRS in the first quarter of 2011. The Company is currently assessing the impact of transition to IFRS on its consolidated financial statements.

### **Goodwill and Intangible Assets**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets", and Section 3450, "Research and Development Costs". The purpose of this Section is to establish recognition, measurement, and disclosure of goodwill and intangible assets and to provide more specific guidance on the recognition of internally developed intangible assets and requires that research and development expenditures be evaluated against the same criteria as expenditures for intangible assets. The

## Stroud Resources Ltd.

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Section substantially harmonizes Canadian standards with IFRS and applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. It is not expected to have a material impact on the Company's consolidated financial statements.

#### **Business Combinations [Section 1582], Consolidated Financial Statements [Section 1601] and Non-controlling Interests [Section 1602]**

These Sections replace the former Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. These Sections provide the Canadian equivalent to FASB Statements No. 141(R) Business Combinations and No. 160, Non-controlling interests in Consolidated Financial Statements. Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

#### **4. CAPITAL ASSETS**

Capital assets consist of the following:

|                        | 2008           |                          |                | 2007           |                          |                |
|------------------------|----------------|--------------------------|----------------|----------------|--------------------------|----------------|
|                        | Cost           | Accumulated amortization | Net book value | Cost           | Accumulated amortization | Net book value |
|                        | \$             | \$                       | \$             | \$             | \$                       | \$             |
| Drilling equipment     | 674,382        | 170,843                  | 503,539        | 674,382        | 44,959                   | 629,423        |
| Motor vehicle          | 44,253         | 33,628                   | 10,625         | 44,253         | 29,074                   | 15,179         |
| Furniture and fixtures | 34,934         | 33,100                   | 1,834          | 34,934         | 32,641                   | 2,293          |
| Other equipment        | 81,594         | 62,200                   | 19,394         | 81,594         | 53,889                   | 27,705         |
|                        | <b>835,163</b> | <b>299,771</b>           | <b>535,392</b> | <b>835,163</b> | <b>160,563</b>           | <b>674,600</b> |

Amortization of \$130,438 [2007 - \$51,464] has been capitalized to deferred mineral costs.

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## **5. 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.

During the year, the Company developed an exploration program in the Hislop region in order to further advance the properties. As at December 31, 2008, this site is considered to be in the pre-production stage and total costs of \$1,418,095 [2007 - \$1,402,009] incurred to further develop this site have been capitalized and included in mineral properties.

### **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. As at December 31, 2008, this site is considered to be in the pre-production stage and no costs have been incurred or capitalized and included in mineral properties in 2008 or 2007.

### **Compañía Minera project**

The Company has a 100% interest in Compañía Minera. Compañía Minera owns certain mineral concessions in the state of Jalisco, Mexico. The Company is obligated to pay Amerix Precious Metals Corporation ["APM"] a royalty fee of 5% from any of Compañía Minera's net proceeds of sale of minerals to a maximum of \$1,000,000.

An additional amount of U.S. \$2,450,000 is to be paid in quarterly instalments to a prior owner, if and when revenue is generated from minerals extracted by Compañía Minera, commencing three months after the start of commercial production. Each quarterly instalment will be equal to 0.5% of the net smelter return [defined as revenue actually received by Compañía Minera from the sale of smelter minerals].

As at December 31, 2008, this site is considered to be in the pre-production stage. The carrying value of \$9,288,855 [2007 - \$8,024,038] relates to costs incurred by the Company to acquire and to further develop this site and has been capitalized and included in mineral properties and deferred costs.

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### **Santa Cruz project**

On June 14, 2007, the Company entered into an agreement under which it may acquire a 100% interest in the Santa Cruz silver gold property, by making cash payments to the optionors of U.S. \$145,000 and by issuing to the optionors 145,000 shares of the Company over a three-year period. The cost assigned to these shares was \$0.165. The optionors will retain a 1.5% net smelter return royalty on the property of which 1.25% can be purchased for U.S. \$1,250,000 at any time by the Company. The Company has made an initial payment of U.S. \$70,000 and plans to carry out exploration work on the property over the next three years. This site has been capitalized and included in mineral properties.

In January 2008, the Company issued 35,000 shares under this agreement. The accounting treatment for this transaction was a credit to share capital of \$5,775 based on a previously agreed share value of \$0.165 per share and a debit to mineral properties.

As at December 31, 2008, this site is considered to be in the pre-production stage. The carrying value of \$88,388 [2007 - \$46,853] relates to costs incurred by the Company to acquire and to further develop this site and has been capitalized and included in mineral properties and deferred costs.

### **6. OIL AND GAS INTERESTS**

The Company holds a 3.75% interest in six [2007 - four] oil and gas producing properties in Alberta. The properties are currently operated by Omers 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 nil [2007 - \$63,335] in developing two additional wells that were purchased in 2007 and brought into production in 2008.

### **7. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2008, the Company entered into the following related party transactions:

- The Company paid to its President \$85,000 [2007 - \$85,000] in consulting fees. Of this amount \$31,500 [2007 - \$42,125] has been deferred and capitalized within mineral properties as they relate directly to the further development of the sites.

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- At December 31, 2008, accounts payable includes \$4,977 owing to company that is controlled by a person related to the President. The company provides promotion and drafting services which are in the normal course of operations and have been measured at the exchange amount.
- The Company paid legal fees of \$66,828 [2007 - \$36,642] 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.

#### 8. SHAREHOLDERS' EQUITY

##### [a] Share capital

Authorized share capital consists of unlimited common shares with no par value.

The continuity of share capital is as follows:

|  | Number<br>#        | Amount<br>\$      |
|--|--------------------|-------------------|
| <b>Balance, December 31, 2006</b>                            | 121,072,352        | 16,309,242        |
| Cancellation of common shares issued for debt settlement [i] | (250,000)          | (55,000)          |
| Issuance of common shares [ii]                               | 6,550,000          | 549,120           |
| Renouncement of flow-through share expenditures [note 10]    | —                  | (338,270)         |
| <b>Balance, December 31, 2007</b>                            | 127,372,352        | 16,465,092        |
| Issuance of common shares for mineral properties [iii]       | 35,000             | 5,775             |
| Issuance of common shares [iv]                               | 9,581,000          | 752,600           |
| Issuance of common shares upon exercise of warrants [ii]     | 166,182            | 24,927            |
| <b>Balance, December 31, 2008</b>                            | <b>137,154,534</b> | <b>17,248,394</b> |

[i] On March 27, 2006, the Company agreed to settle an obligation for services received related to Compañía Minera by issuing 750,000 common shares of the Company at a negotiated value of \$0.22. During 2007, the Company settled the obligation by issuing 500,000 common shares to the service provider, and the remaining 250,000 shares were cancelled.

[ii] On May 4, 2006, the Company completed a private placement for 23,333,333 units at a price of \$0.18 per unit raising gross proceeds of \$4,199,999. Each unit consisted of one common share and one-half common share purchase warrant. Management determined the warrants to have a minimal value and accordingly, the proceeds from the issuance

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were allocated in their entirety to common shares. Each full warrant entitled the holder to acquire one common share at an exercise price of \$0.30 until May 4, 2008. The Company paid finder's fees of \$347,200 in cash and issued 1,706,665 broker warrants exercisable at \$0.235 for a 12-month period. During the year, the Company changed the exercise price of the warrants to \$0.15. The Company issued 166,182 common shares for share purchase warrants that were exercised during the year for gross proceeds of \$24,927, and the balance of the warrants expired unexercised.

[iii] On January 18, 2008, the Company issued 35,000 common shares to the optioners of the Santa Cruz property. The shares had been valued at \$0.165 per share.

[iv] On February 19, 2008, the Company completed a private placement for 9,581,000 units at a price of \$0.105 per unit raising gross proceeds of \$1,006,005. [The net proceeds is the gross amount less legal fees, finder's fees and warrants equivalent and aggregated to \$752,600.] Each unit consisted of one common share and one-half common share purchase warrant. Management determined the warrants to have a value of \$0.09 and accordingly, \$240,000 of the proceeds from the issuance was allocated to contributed surplus, and the balance of the proceeds was allocated to common shares. Each full warrant entitled the holder to acquire one common share at an exercise price of \$0.15 until February 19, 2010. The Company paid finder's fees of \$4,040 and a legal fee of \$9,365 in cash and issued 38,480 broker warrants exercisable at \$0.15 for a 12-month period.

As at December 31, 2008, the Company had the following warrants outstanding:

|                                 | <b>Purchase warrants</b> |                 |               |              |
|---------------------------------|--------------------------|-----------------|---------------|--------------|
|                                 | <b>Number</b>            | <b>Exercise</b> | <b>Expiry</b> | <b>Year</b>  |
|                                 | <b>#</b>                 | <b>price</b>    | <b>date</b>   | <b>of</b>    |
|                                 |                          | <b>\$</b>       | <b>#</b>      | <b>issue</b> |
| Share purchase warrants         | <b>3,275,000</b>         | <b>0.15</b>     | 12/19/2009    | 2007         |
| Share purchase warrants         | <b>4,790,500</b>         | <b>0.15</b>     | 2/19/2010     | 2008         |
| Broker warrants                 | <b>38,480</b>            | <b>0.15</b>     | 2/19/2009     | 2008         |
| <b>Outstanding, end of year</b> | <b>8,103,980</b>         |                 |               |              |

The weighted average exercise price of the outstanding warrants as at December 31, 2008 was \$0.15.

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#### [b] Stock options

On August 18, 1995, the shareholders authorized and approved a Stock Option Plan for the Company [the "Plan"]. Options may be granted to directors, senior officers and service providers by resolution of the Board of Directors at exercise prices not less than the market price. The aggregate maximum number of common shares which may be issued under the Plan is 17,000,000.

On April 15, 2008, the Company granted options to acquire an aggregate of 3,575,000 common shares to directors, officers and consultants of the Company under its Plan. Each option is exercisable to acquire one common share at a price of \$0.15 per share for a three- year period. The options vest as to one-third immediately and one-third on each of the 7 and 13 month anniversaries of the date of grant.

On June 14, 2008, the Company granted options to acquire an aggregate of 200,000 common shares to an investor relations firm for services to be provided. Each option is exercisable to acquire one common share at a price of \$0.25 per share for a two-year period. The options vest over a twelve-month period. Subsequent to the end of the year, these options expired unexercised. The accounting treatment for this transaction was a credit to contributed surplus of \$11,422 based on the fair value of the option and prorated 2008 grant period, and a debit to stock-compensation expense.

As at December 31, 2008, the Company has available for issuance 1,603,500 stock options under this Plan. A summary of the status of the Plan as at December 31 and changes during the years then ended is presented below:

|                                  | 2008      |                                 | 2007        |                                 |
|----------------------------------|-----------|---------------------------------|-------------|---------------------------------|
|                                  | Number    | Weighted average exercise price | Number      | Weighted average exercise price |
|                                  | #         | \$                              | #           | \$                              |
| Outstanding, beginning of year   | 3,950,000 | 0.20                            | 3,475,000   | 0.22                            |
| Forfeited                        | —         |                                 | (2,025,000) | 0.25                            |
| Granted                          | 3,775,000 | 0.155                           | 2,500,000   | 0.17                            |
| Outstanding, end of year         | 7,725,000 |                                 | 3,950,000   | 0.20                            |
| Options exercisable, end of year | 6,383,332 |                                 | 2,283,334   |                                 |

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The following table summarizes information about stock options outstanding at December 31, 2008:

| Exercise price<br>\$ | Options outstanding<br># | Weighted average contractual life<br>[years] | Options exercisable<br># |
|----------------------|--------------------------|--|--------------------------|
| 0.25                 | 1,450,000                | 0.42   | 1,450,000                |
| 0.15                 | 2,500,000                | 1.59   | 2,500,000                |
| 0.25                 | 200,000                  | 1.46   | 50,000                   |
| 0.15                 | 200,000                  | 2.29   | 133,333                  |
| 0.15                 | 3,375,000                | 2.29   | 2,249,999                |
|                      | <u>7,725,000</u>         | <u>1.78</u>                                  | <u>6,383,332</u>         |

The above outstanding options have a weighted average exercise price of \$0.188.

The fair value of stock options 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 restrictions, 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 affect 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.

During the year ended December 31, 2008, the Company granted 3,775,000 [2007 - 2,500,000] stock options. The fair value of the stock options was estimated using the Black-Scholes option pricing model using the following assumptions:

|                         | 2008   | 2007  |
|-------------------------|--------|-------|
| Volatility              | 133.6% | 71.6% |
| Risk-free interest rate | 2.9%   | 4.6%  |
| Expected life [years]   | 3      | 3     |
| Dividend yield          | nil    | nil   |

The fair value of the options issued in 2008 was \$407,250 [2007 - \$200,000]. Total stock-based compensation expense recorded for the year was \$412,380 [2007 - \$188,272].

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#### [c] Diluted earnings per share

There has been no impact on diluted earnings per share as a result of outstanding stock options and warrants as the impact would be anti-dilutive.

#### [d] Contributed surplus

The following table sets forth the changes in contributed surplus for the years ended December 31:

|                                     | 2008<br>\$       | 2007<br>\$ |
|-------------------------------------|------------------|------------|
| <b>Balance, beginning of year</b>   | <b>661,923</b>   | 375,401    |
| Stock-based compensation            | <b>412,380</b>   | 188,272    |
| Issuance of share purchase warrants | <b>240,000</b>   | 98,250     |
| <b>Balance, end of year</b>         | <b>1,314,303</b> | 661,923    |

### 9. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

|  | 2008<br>\$     | 2007<br>\$ |
|--|----------------|------------|
| Accounts receivable                      | <b>98,179</b>  | (71,537)   |
| Prepaid expenses and other assets        | —              | 122,359    |
| Royalty tax recoverable                  | <b>13,002</b>  | (9,191)    |
| Accounts payable and accrued liabilities | <b>56,710</b>  | (206,248)  |
|  | <b>167,891</b> | (164,617)  |

The Company did not pay interest or income taxes in 2008 and 2007.

## Stroud Resources Ltd.

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#### 10. INCOME TAXES

##### Future income tax assets and liabilities

The future income tax assets and liabilities as at December 31 consist of the following:

|  | 2008<br>\$         | 2007<br>\$  |
|--|--------------------|-------------|
| <b>Future income tax assets</b>          |                    |             |
| Non-capital losses carried forward       | 537,186            | 474,000     |
| Mineral properties and deferred costs    | 752,283            | 744,106     |
| Capital assets                           | 125,586            | 88,000      |
| Other                                    | 76,630             | 73,000      |
| <b>Gross future income tax assets</b>    | <b>1,491,685</b>   | 1,379,106   |
| Valuation allowance                      | <b>(1,491,685)</b> | (1,379,106) |
|  | —                  | —           |
| <b>Future income tax liabilities</b>     |                    |             |
| Mineral properties and deferred costs    | <b>(2,108,287)</b> | (1,794,386) |
| <b>Net future income tax liabilities</b> | <b>(2,108,287)</b> | (1,794,386) |

During 2007, the Company renounced approximately \$994,000 of expenditures pursuant to flow-through share agreements, which created a future tax liability of \$338,270. This future tax liability reduces share capital since it is considered a cost of issuing the flow-through shares. A future tax recovery has been recognized in the amount of \$338,270, as a result of recognizing the tax benefit of current year losses and/or future tax assets for which a valuation allowance had previously been set up, in order to offset the future tax liability.

In addition, the Company also has non-capital losses totalling approximately \$1,990,000 that have not been tax benefited and expire as follows:

|      | \$               |
|------|------------------|
| 2009 | 106,000          |
| 2010 | 326,000          |
| 2011 | 349,000          |
| 2015 | 126,000          |
| 2026 | 355,000          |
| 2027 | 356,000          |
| 2028 | 372,000          |
|      | <b>1,990,000</b> |

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For tax purposes, the Company has a Canadian Exploration Expense tax pool, a Canadian Development Expense tax pool, a Canadian Oil and Gas Property Expense tax pool and a Foreign Exploration and Development Expenses tax pool aggregating approximately \$4,347,000 for which the future tax benefit of approximately \$1,174,000, has not been recognized for tax purposes.

The provision for income taxes differs from the expense that would be obtained by applying Canadian statutory rates to loss before income taxes as a result of the following:

|  | 2008             | 2007             |
|--|------------------|------------------|
|  | \$               | \$               |
| <b>Loss before income taxes</b>                        | <b>(793,641)</b> | <b>(256,477)</b> |
| Income tax recovery expected at average statutory rate | (249,996)        | (87,202)         |
| Non-deductible amounts for income tax purposes         | 157,994          | 65,200           |
| Capital expenditures without tax basis                 | 372,667          | 236,819          |
| Impact of Ontario harmonization                        | —                | 11,185           |
| Non-taxable foreign exchange gain                      | (17,068)         | (59,566)         |
| Change in valuation allowance                          | 109,070          | (256,702)        |
| <b>Future income tax expense (recovery)</b>            | <b>372,667</b>   | <b>(90,266)</b>  |
| <b>Represented by</b>                                  |                  |                  |
| Current  | —                | 11,185           |
| Future   | 372,667          | (101,451)        |
|  | <b>372,667</b>   | <b>(90,266)</b>  |

## 11. COMMITMENTS

On June 14, 2007, the Company entered into an agreement under which it may acquire a 100% interest in the Santa Cruz silver gold property, by making cash payments to the optionors of U.S. \$145,000 and by issuing to the optionors 145,000 shares of the Company over a three-year period. The optionors will retain a 1.5% net smelter return royalty on the property of which 1.25% can be purchased for U.S. \$1,250,000 at any time by the Company.

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The following is a summary of rental lease commitments for various periods due for the next five years. The annual rent payments consist of minimum rent plus realty taxes, maintenance and utilities.

|                  | 2008<br>\$     | 2007<br>\$    |
|------------------|----------------|---------------|
| Less than 1 year | 27,429         | —             |
| 1 - 3 years      | 83,321         | 33,434        |
| 4 - 5 years      | 57,614         | —             |
|                  | <u>168,364</u> | <u>33,434</u> |

#### 12. FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. Unless otherwise noted, the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

##### Fair value

The fair value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximates their carrying values due to their short-term maturity.

##### Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the consolidated balance sheet dates. The Company is not presently subject to credit risk at September 30, 2008.

##### [i] Cash

The Company minimizes its exposure to credit risk by keeping the majority of its cash as cash on deposit with a major Canadian chartered bank. Management expects the credit risk to be minimal.

##### [ii] Receivables

Management does not expect these counterparties to fail to meet their obligations. The Company does not have receivables that it considers impaired or otherwise uncollectible.

##### Foreign exchange risk

The prices paid by the Company for some services and supplies are paid in U.S. dollars or Mexican pesos and the Company raises funds in Canadian dollars. As of September 30, 2008, the Company believes the exchange risk is limited and not a risk to be hedged at the present time.

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### **Interest rate risk**

The Company has no borrowings and considers itself to have very minimal exposure to interest rate risk.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company's objective is to maintain sufficient liquid resources to meet operational requirements. As at December 31, 2008, the Company had cash and cash equivalents of \$19,459 [2007 - \$324,689]. In addition, at December 31, 2008, the Company's working capital position was negative \$152,480 [2007 - positive \$415,475].

### **Capital risk**

The Company's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The Company is not subject to any externally imposed capital requirements. The Company's objective is to insure adequate working capital to continue its exploration programs.

## **13. CAPITAL DISCLOSURES**

The Company's financial strategy is designed and formulated to maintain a flexible capital structure to allow the Company the ability to respond to changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue additional equity. The Company's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Company's needs and market conditions at the time of the transaction.

There were no changes in the Company's approach to capital management during the year.

## **14. SEGMENTED INFORMATION**

The Company operates in two segments: [1] mineral exploration and [2] oil and gas exploration and development. All required segment information is disclosed in the Company's consolidated statements of net loss and comprehensive loss and deficit and notes 4 and 5.

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**15. SUBSEQUENT EVENT**

Subsequent to the end of the year, the Company announced plans to raise up to \$1,200,000 in a non-brokered private placement. The Company is proposing to offer up to 24 million units at a price of \$0.05 per unit, and pay a cash commission of 7% and 7% broker warrants at \$0.08 for 12 months. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at an exercise price of \$0.08 for a period of 12 months from the date of the offering. The Company has received \$115,000 in subscriptions to April 23, 2009.

**16. RESTATEMENT OF PRIOR YEAR'S FINANCIAL STATEMENTS**

During the year, the Company assessed the accounting for its foreign exploration expenditures and determined that a future tax liability was required to be recorded for certain prior period expenditures. Accordingly, the prior year's financial statements have been restated to reflect an increase in future income tax liabilities of \$311,954, a decrease in the net loss for 2007 of \$60,019 [\$0.0007 per share] and an increase in the deficit as of January 1, 2007 of \$371,973.