

Consolidated Financial Statements

Stroud Resources Ltd.

December 31, 2007 and 2006

AUDITORS' REPORT

To the Shareholders of
Stroud Resources Ltd.
(A Development Stage Company)

We have audited the consolidated balance sheets of **Stroud Resources Ltd.** (a development stage company) as at December 31, 2007 and 2006 and the consolidated 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, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)
Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario, Canada
April 25, 2008.

Stroud Resources Ltd.

Incorporated under the laws of Ontario

CONSOLIDATED BALANCE SHEETS

[In Canadian dollars]

As at December 31

	2007	2006
	\$	(restated note 14) \$
ASSETS		
Current		
Cash and cash equivalents	324,689	2,505,057
Royalty tax recoverable	32,403	23,212
Accounts receivable	231,040	159,503
Prepaid expenses and other assets	6,584	128,943
Total current assets	594,716	2,816,715
Capital assets, net [note 4]	674,600	60,329
Mineral properties and deferred costs [note 5]	9,472,900	7,814,165
Oil and gas interests, net of accumulated depletion of \$342,568 [2006 - \$310,568] [note 6]	174,614	143,279
	10,916,830	10,834,488
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities [note 8]	179,241	348,309
Total current liabilities	179,241	348,309
Commitments [notes 5 and 11]		
Long term income tax payable	11,185	—
Future income tax liabilities [note 10]	1,482,432	1,458,349
Shareholders' equity [note 8]		
Share capital	16,465,092	16,309,242
Contributed surplus	661,923	375,401
Deficit	(7,883,043)	(7,656,813)
Total shareholders' equity	9,243,972	9,027,830
	10,916,830	10,834,488

See accompanying notes

On behalf of the Board:

"George E. Coburn"
Director"Lonnie Kirsh"
Director

Stroud Resources Ltd.**CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT**

[In Canadian dollars, unless otherwise noted]

Years ended December 31

	2007	2006
	\$	\$
OIL AND GAS OPERATIONS		
Revenue, net of royalties	222,658	189,490
Operating expenses	26,150	25,796
Depletion of oil and gas interests	32,000	24,000
	58,150	49,796
Income from oil and gas operations	164,508	139,694
ADMINISTRATIVE EXPENSES		
Administrative fees	42,875	42,500
Business promotion	140,323	180,219
Licences and fees	28,537	92,428
Stock-based compensation [note 8[b]]	188,272	261,649
Office and general	41,967	23,085
Depreciation	12,447	25,343
Professional fees	228,059	149,467
Rent	35,589	32,520
	718,069	807,211
Loss before the following	(553,561)	(667,517)
Foreign exchange gain	212,735	28,155
Interest and other income	24,330	51,818
	(316,496)	(587,544)
Loss before income taxes	(316,496)	(587,544)
Income tax expense	11,185	—
Future income tax expense (recovery)	(101,451)	324,877
Net loss and comprehensive loss for the year	(226,230)	(912,421)
Deficit, beginning of year	(7,656,813)	(6,744,392)
Deficit, end of year	(7,883,043)	(7,656,813)
Basic and fully diluted loss per share	\$(0.0019)	\$(0.0085)
Basic and diluted weighted average number of common shares outstanding [000's]	124,520	107,411

See accompanying notes

Stroud Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars, unless otherwise noted]

December 31, 2007 and 2006

1. NATURE OF OPERATIONS AND GOING CONCERN

Stroud Resources Ltd. [the "Company"] was incorporated on March 18, 1983 and is considered to be in the development stage. The Company 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 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.

The Company has an accumulated deficit of \$7,883,043 of which \$226,230 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.

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 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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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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, 2007, the Company's cash and cash equivalents consist of cash on account of \$324,689.

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;
- [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.

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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.

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%
Drill 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 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.

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Income and mining 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 using the substantively enacted tax rates and laws 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.

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 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 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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3. CHANGES IN ACCOUNTING POLICY

Effective January 1, 2007, the Company adopted four new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”) in 2005: Handbook Section 1530 *Comprehensive Income*; Handbook Section 3855 *Financial Instruments - Recognition and Measurement*; Handbook Section 3861 *Financial Instruments - Presentation and Disclosure*; and Handbook Section 3865 *Hedges*. These accounting policy changes were adopted on a prospective basis; accordingly, comparative amounts for prior periods have not been restated.

(a) Comprehensive Income (Section 1530)

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. The Company does not have any components of comprehensive income except for net income and therefore this policy has had no impact on the Company’s financial statements.

(b) Financial Instruments – Recognition and Measurement (Section 3855); Presentation and Disclosure (Section 3861)

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. Section 3861 sets out standards for the presentation and disclosure of financial instruments.

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 other comprehensive income. 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.

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•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.

(c) Hedges (Section 3865)

Section 3865 sets out standards on the use of hedge accounting. The Company currently does not have any hedges in place and therefore this policy has had no impact on the Company’s financial statements.

(d) Impact upon adoption of CICA Handbook Sections 1530, 3855, 3861 and 3865

The adoption of these new accounting standards has had no impact on the Company’s consolidated financial statements.

(e) Accounting changes

Effective January 1, 2007, the Company adopted the revised CICA Handbook section 1506 Accounting Changes, relating to changes in accounting policies, changes in accounting estimates and errors. Adoption of these recommendations had no effect on the consolidated financial statements for the nine month period ended December 31, 2007, except for the disclosure of accounting changes that have been issued by the CICA but have not yet been adopted by the Company because they are not effective until a future date (refer to Future Accounting Standards below).

(f) Future accounting standards

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures; Handbook Section 3862, Financial Instruments – Disclosures; Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual financial statements for the Company’s reporting period beginning on January 1, 2008. Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The new Handbook 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

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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 Company is currently assessing the impact of these new accounting standards on its financial statements.

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 financial statements.

4. CAPITAL ASSETS

Capital assets consist of the following:

	2007			2006		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
	\$	\$	\$	\$	\$	\$
Drilling Equipment	674,382	44,959	629,423	—	—	—
Motor vehicle	44,253	29,074	15,179	44,253	22,569	21,684
Furniture and fixtures	34,934	32,641	2,293	34,934	32,068	2,866
Other equipment	81,594	53,889	27,705	77,794	42,015	35,779
	835,163	160,563	674,600	156,981	96,652	60,329

Depreciation of \$51,464 has been capitalized as deferred mineral cost.

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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, 2007, this site is considered to be in the pre-production stage and total costs of \$1,402,009 [2006 - \$583,988] incurred to further develop this site 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.

Compañía Minera project

On August 8, 2006, the Company purchased from Amerix Precious Metals Corporation ["APM"] the remaining 50% interest in Compañía Minera not already owned by the Company for cash consideration of \$1,823,000. Compañía Minera owns certain mineral concessions in the state of Jalisco, Mexico. In addition to the cash purchase price, the Company is obligated to pay APM a royalty fee of 5% from any Compañía Minera's net proceeds of sale of minerals to a maximum of \$1,000,000. This acquisition has been recorded under the purchase method of accounting with the Company's proportionate share of results of operations of the acquired business being included in the consolidated financial statements since the date of acquisition.

The purchase price of \$1,823,000 [including transaction costs] was allocated as follows:

	\$
Cash	5,892
Accounts receivable	49,845
Mineral properties and deferred costs	2,429,172
Accounts payable	(2,062)
Future income tax liabilities	(659,847)
	<u>1,823,000</u>

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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, 2007, this site is considered to be in the pre-production stage. The carrying value of \$8,024,038 [2006 - \$7,230,177] relates to cost incurred by the Company to acquire and to further develop this site and has been capitalized and included in mineral properties and deferred costs.

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 US \$145,000 and by issuing to the optionors 145,000 shares of the Company over a 3 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 US \$1,250,000 at any time by the company. The Company has made an initial payment of US \$35,000 and plans to carry out exploration work on the property over the next three years.

In January 2008, the Company issued 35,000 shares under this agreement.

As at December 31, 2007, this site is considered to be in the pre-production stage. The carrying value of \$46,853 [2006 - \$nil] relates to cost 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 interests [approximately 3.75%] in four [2006 - 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 \$63,335 [2006 - \$83,778] in developing two additional wells that were brought into production during the year.

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7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2007, the Company entered into the following related party transactions:

- The Company paid to the President of the Company \$85,000 [2006 - \$85,000] in consulting fees. Of this amount \$42,125 [2006 - \$42,500] has been deferred and capitalized within mineral properties as they relate directly to the further development of the sites.
- The Company paid legal fees of \$36,642 [2006 - \$83,649] 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 #	Amount \$
Balance, December 31, 2005	90,128,973	10,871,293
Issuance of common shares for debt settlement [i]	750,000	165,000
Issuance of common shares [ii]	23,333,333	3,852,790
Issuance of common shares under flow-through [iii]	1,630,046	346,759
Issuance of common shares under flow-through [iv]	2,480,000	578,400
Exercise of stock options	2,750,000	495,000
Balance, December 31, 2006	<u>121,072,352</u>	<u>16,309,242</u>
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)
Balance, December 31, 2007	<u>127,372,352</u>	<u>16,465,092</u>

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- [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 the year, 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 \$4,199,990. 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 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. Subsequent to the end of the year, the Company changed the exercise price of the warrants to \$0.15.

- [iii] On November 17, 2006, the Company completed a private placement of 1,630,046 flow-through common shares, raising proceeds of \$346,759, net of issuance costs of \$35,653.

- [iv] On December 28, 2006, the Company completed a private placement for 2,480,000 flow-through common shares, raising proceeds of \$578,400, net of issuance costs of \$49,100.

- [v] On December 19, 2007, the Company completed a private placement for 6,550,000 units at a price of \$0.105 per unit raising gross proceeds of \$687,750. Each unit consisted of one common share and one-half common share purchase warrant. Management determined the warrants to have a value of \$0.03 and accordingly, \$98,250 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 December 19, 2009. The Company paid finder's fees of \$26,880 in cash and issued 256,000 broker warrants exercisable at \$0.15 for a 12-month period.

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As at December 31, 2007, the Company had the following warrants outstanding:

	Purchase warrants			
	Number #	Exercise price \$	Expiry date #	Year of issue
Share purchase warrants	11,666,667	0.30	04/05/2008	2006
Share purchase warrants	3,275,000	0.15	12/19/2009	2007
Broker warrants	256,000	0.15	12/19/2008	2007
Outstanding, end of year	15,197,667			

The weighted average exercise price of the outstanding warrants as at December 31, 2007 was \$0.265.

[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. As at December 31, 2007, the Company has available for issuance 5,378,500 stock options under this Plan.

A summary of the status of the Plan as at December 31 and changes during the years ended is presented below:

	2007		2006	
	Number #	Weighted average exercise price \$	Number #	Weighted average exercise price \$
Outstanding, beginning of year	3,475,000	0.22	4,375,000	0.13
Forfeited	(2,025,000)	0.25	—	—
Exercised	—	—	(2,750,000)	0.10
Granted	2,500,000	0.17	1,850,000	0.25
Outstanding, end of year	3,950,000	0.20	3,475,000	0.22
Options exercisable, end of year	2,283,334		2,775,000	

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The following table summarizes information about stock options outstanding at December 31, 2007:

Exercise price \$	Options outstanding		Options exercisable #
	Options outstanding #	Weighted average remaining contractual life [years]	
0.25	1,450,000	1.33	1,450,000
0.17	2,500,000	2.59	833,334
	3,950,000	2.13	2,283,334

The above outstanding options have a weighted average exercise price of \$0.20.

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 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 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, 2007, the Company granted 2,500,000 [2006 - 1,850,000] stock options. The fair value of the stock options was estimated using the Black-Scholes option-pricing model using the following assumptions:

	2007	2006
Volatility	71.6%	138.6%
Risk-free interest rate	4.6%	4.1%
Expected life [years]	3	3
Dividend yield	nil	nil

The fair value of the options issued in 2007 was \$200,000 [2006 - \$462,500]. Total stock-based compensation expense recorded for the year was \$188,272 [2006 - \$261,649].

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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 year:

	2007	2006
	\$	\$
Balance, beginning of the year	375,401	333,752
Stock based compensation	188,272	261,649
Exercise of stock options	—	(220,000)
Issuance of share purchase warrants	98,250	—
Balance, end of year	661,923	375,401

9. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2007	2006
	\$	\$
Amounts due to related parties	—	4,959
Accounts receivable	(71,537)	(34,086)
Prepaid expenses and other assets	122,359	187,613
Accounts payable and accrued liabilities	(206,248)	250,459
Royalty tax recoverable	(9,191)	(8,770)
	(164,617)	400,175

The Company did not pay interest or income taxes in 2007 and 2006.

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10. INCOME TAXES

Future income tax assets and liabilities

The future income tax assets and liabilities consist of the following:

	2007	2006
	\$	\$
Future income tax assets		
Non-capital losses carried forward	474,000	530,000
Mineral properties and deferred costs	393,000	660,000
Capital assets	88,000	82,000
Other	73,000	103,000
Gross future income tax assets	1,028,000	1,375,000
Valuation allowance	(882,400)	(1,204,000)
	145,600	171,000
Future income tax liabilities		
Mineral properties and deferred costs	(1,628,032)	(1,629,349)
Net future income tax liabilities	(1,482,432)	(1,458,349)

During the year, 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 totaling approximately \$1,754,000 that have not been tax benefited and expire as follows:

	\$
2008	136,000
2009	106,000
2010	326,000
2011	349,000
2015	126,000
2026	355,000
2027	356,000
	1,754,000

Stroud Resources Ltd.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 \$4,315,000 of which the tax benefit of approximately \$820,000, 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:

	2007 \$	2006 \$
Loss before income taxes	(316,496)	(587,544)
Income tax recovery expected at average statutory rate	(107,608)	(199,765)
Non-deductible amounts for income tax purposes	65,200	83,618
Capital expenditures without tax basis	236,819	324,877
Impact of Ontario harmonization	11,185	—
Income tax losses not recognized	—	124,030
Non-taxable foreign exchange gain	(59,566)	(7,883)
Change in valuation allowance	(236,296)	—
Income tax expense (recovery)	(90,266)	324,877

11. COMMITMENTS

The Company has an annual rent commitment of approximately \$37,925 over the next two years.

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 US \$145,000 and by issuing to the optionors 145,000 shares of the Company over a 3 year period. The optionors will retain a 1.5% net smelter return royalty on the property of which 1.25% can be purchased for US \$1,250,000 at any time by the Company.

Stroud Resources Ltd.

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December 31, 2007 and 2006

12. 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 loss and deficit and notes 4 and 5.

13. SUBSEQUENT EVENTS

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. Each unit consisted of one common share and one-half common share purchase warrant. 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 in cash and issued 38,480 broker warrants exercisable at \$0.15 for a 12-month period

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 Stroud's stock option 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.

14. PRIOR PERIOD ADJUSTMENT

The Company has changed its accounting for the treatment of flow through shares issued in 2006, and reclassified the comparative accounts to reflect the accounting change. Accordingly, accounts payable for 2006 has decreased by \$238,802, and share capital for 2006 has increased by \$238,802.