

Unaudited Interim Consolidated Financial Statements

**Stroud Resources Ltd.**

September 30, 2008

## **NOTICE**

The accompanying unaudited financial statements of Stroud Resources Ltd. for the three and nine months ending September 30, 2008 have been prepared by management and approved by the Board of Directors of the Company.

These financial statements have not been reviewed by the external auditors of the Company.

**Stroud Resources Ltd.  
Balance Sheet**

	<i>September 30</i>	<i>December 31</i>
	<i>2008</i>	<i>2007</i>
	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	52,259	324,689
Royalty tax recoverable	15,650	32,403
Accounts receivable	187,902	231,040
Prepaid expenses and other assets	6,479	6,584
<b>Total current assets</b>	<b>262,290</b>	<b>594,716</b>
<b>Capital assets (net)</b>		
Mineral properties and deferred costs	10,701,954	9,472,900
Oil and gas interests, net of accumulated depletion	150,614	174,614
<b>Total assets</b>	<b>11,685,052</b>	<b>10,916,830</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	164,974	179,241
<b>Total liabilities</b>	<b>164,974</b>	<b>179,241</b>
Commitments <i>[notes 4 and 10]</i>		
Long term income taxes payable <i>[note 8]</i>	11,185	11,185
Future income tax liabilities <i>[note 9]</i>	1,894,107	1,482,432
<b>Shareholders' Equity</b>		
Shares capital	17,354,394	16,465,092
Contributed surplus	1,056,675	661,923
Deficit	(8,796,283)	(7,883,043)
<b>Total Shareholders' Equity</b>	<b>9,614,786</b>	<b>9,243,972</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>11,685,052</b>	<b>10,916,830</b>

*Unaudited Interim Consolidated  
Financial Statements*

*See accompanying notes*

"George E. Coburn"  
Director

"Lonnie Kirsh"  
Director

**Stroud Resources Ltd.**  
**Consolidated Statement of Operations and Deficit**  
*(Unaudited)*

	<i>For the Three Months Ended September 30, 2008</i>	<i>For the Three Months Ended September 30, 2007</i>	<i>For the Nine Months Ended September 30, 2008</i>	<i>For the Nine Months Ended September 30, 2007</i>
	\$	\$	\$	\$
<b>Oil and Gas Operations</b>				
Revenue (net of Crown royalties)	77,874	57,545	199,589	176,115
Operating expenses	8,243	5,552	28,045	23,206
Depletion of oil and gas reserves	8,000	8,000	24,000	24,000
	<b>16,243</b>	<b>13,552</b>	<b>52,045</b>	<b>47,206</b>
<b>Income from oil and gas operations</b>	<b>61,631</b>	<b>43,993</b>	<b>147,544</b>	<b>128,909</b>
<b>Administrative Expenses</b>				
Administrative fees	15,938	10,625	47,814	31,625
Business promotion	47,435	28,302	123,256	119,256
Stock-based compensation	78,405	52,714	260,752	95,094
Licences and fees	7,948	3,891	32,164	21,559
Office and general	5,435	4,406	19,519	28,820
Depreciation	2,546	16,033	6,931	24,939
Professional fees	44,166	50,990	170,085	191,986
Rent	11,146	10,458	25,076	27,597
	<b>213,019</b>	<b>177,419</b>	<b>685,597</b>	<b>540,876</b>
Loss before the following	<b>(151,388)</b>	<b>(133,426)</b>	<b>(538,053)</b>	<b>(411,967)</b>
Foreign exchange gain (loss)	122	11,200	(44,495)	43,000
Interest and other income	978	2,506	7,079	24,330
<b>Loss before income taxes</b>	<b>(150,288)</b>	<b>(119,720)</b>	<b>(575,469)</b>	<b>(344,637)</b>
Future income tax expense (recovery)	78,771	96,097	337,771	150,956
<b>Net income (loss)loss for the period</b>	<b>(229,059)</b>	<b>(215,817)</b>	<b>(913,240)</b>	<b>(495,593)</b>
Deficit, beginning of period	<b>(8,567,224)</b>	<b>(7,936,589)</b>	<b>(7,883,043)</b>	<b>(7,656,813)</b>
Defecit, end of period	<b>(8,796,283)</b>	<b>(8,152,406)</b>	<b>(8,796,283)</b>	<b>(8,152,406)</b>
Basic and fully diluted loss per share	<b>(0.0018)</b>	<b>(0.0010)</b>	<b>(0.0071)</b>	<b>(0.0041)</b>
Basic and diluted weighted average number of common shares outstanding [000's]	<b>128,922</b>	<b>120,822</b>	<b>128,922</b>	<b>120,822</b>

See accompanying notes

**Stroud Resources Ltd.**  
**Consolidated Statement of Changes in Financial Position**  
*(Unaudited)*

	<i>For the Three Months Ended September 30, 2008</i>	<i>For the Three Months Ended September 30, 2007</i>	<i>For the Nine Months Ended September 30, 2008</i>	<i>For the Nine Months Ended September 30, 2007</i>
	\$	\$	\$	\$
<b>OPERATING ACTIVITIES</b>				
Net loss for the period	(229,059)	(554,087)	(913,240)	(495,593)
Add (deduct) items not involving cash				
Depletion and amortization	10,546	24,033	30,931	48,939
Stock-based compensation expense	78,405	52,714	260,752	95,094
Foreign exchange gain/loss	(122)	(11,200)	44,495	(43,000)
Other	0	0	0	55,000
Future income tax expense	78,771	434,367	337,771	150,956
Changes in non-cash working capital balances	(14,286)	405,510	45,729	(52,980)
<b>Cash provided by operating activities</b>	<b>(75,745)</b>	<b>351,337</b>	<b>(193,562)</b>	<b>(241,584)</b>
<b>INVESTING ACTIVITIES</b>				
Mineral properties and deferred costs	(226,475)	(317,522)	(1,096,395)	(1,424,321)
Capital assets	0	(694,773)	0	(698,574)
Oil and gas interests	0	(4,267)	0	(63,335)
<b>Cash used in investing activities</b>	<b>(226,475)</b>	<b>(1,016,562)</b>	<b>(1,096,395)</b>	<b>(2,186,230)</b>
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares under private placement	0	0	992,600	0
Issuance of common shares on exercise of warrants	0	0	24,927	0
<b>Cash provided by financing activities</b>	<b>0</b>	<b>0</b>	<b>1,017,527</b>	<b>0</b>
<b>Decrease in cash during the period</b>	<b>(302,220)</b>	<b>(665,225)</b>	<b>(272,430)</b>	<b>(2,427,814)</b>
Cash, beginning of period	354,479	742,468	324,689	2,505,057
<b>Cash, end of period</b>	<b>52,259</b>	<b>77,243</b>	<b>52,259</b>	<b>77,243</b>

See accompanying notes

**Stroud Resources Ltd.**

## **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

### **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 consolidated financial statements include the accounts of the Company's wholly owned subsidiary, Compania Minera San Diego y La Espanola, S.A. de C.V.

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 properties could be written off.

The Company has an accumulated deficit of \$8,796,283 of which \$913,240 in losses were incurred during the current nine-month period. 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

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

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 September 30, 2008, the Company's cash and cash equivalents consist of cash on account of \$52,259.

**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.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**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.

**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 period.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**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.

**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 until 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.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**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 period. Foreign currency gains and losses arising from translation of balances are included in the determination of net loss for the period.

**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 income and therefore this policy has had no impact on the Company's 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. 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.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

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.

**Hedges (Section 3865)**

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 [“AOCI”] 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 period ended September 30, 2008 and therefore this policy has had no impact on the Company’s financial statements.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**3. CHANGES IN ACCOUNTING POLICY**

Effective January 1, 2008, the Company adopted 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 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.

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.

**RECENT ACCOUNTING PRONOUNCEMENTS**

International Financial Reporting Standards

In May 2007, the CICA published an updated version of its “Implementation Plan for Incorporating International Financial Reporting Standards (“IFRS”) into Canadian GAAP”. This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting principles with IFRS. The changeover date from Canadian GAAP to IFRS is for annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

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 Section substantially harmonizes Canadian standards with International Financial Reporting Standards and applies to annual and interim 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 financial statements.

**4. CAPITAL ASSETS**

Capital assets consist of the following:

	<b>September 30, 2008</b>			<b>December 31, 2007</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net book value</b>
	\$	\$	\$	\$	\$	\$
Drilling Equipment	<b>674,382</b>	<b>139,372</b>	<b>535,010</b>	674,382	44,959	629,423
Motor vehicle	<b>44,253</b>	<b>32,489</b>	<b>11,764</b>	44,253	29,074	15,179
Furniture and fixtures	<b>34,934</b>	<b>32,986</b>	<b>1,948</b>	34,934	32,641	2,293
Other equipment	<b>81,594</b>	<b>60,122</b>	<b>21,472</b>	81,594	53,889	27,705
	<b>835,163</b>	<b>264,969</b>	<b>570,194</b>	835,163	160,563	674,600

Depreciation of \$97,475 has been capitalized as deferred mineral cost during the nine-month period.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**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.

As at September 30, 2008, this site is considered to be in the pre-production stage and total costs of \$1,416,515 [2007 - \$1,402,009] 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>

## **Stroud Resources Ltd.**

# **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

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 Compañia 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 Compañia Minera from the sale of smelter minerals].

As at September 30, 2008, this site is considered to be in the pre-production stage. The carrying value of \$9,314,898 [2007 - \$8,157,754] 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 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 payments totaling US \$70,000 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. The cost assigned to these shares was \$0.165.

As at September 30, 2008, this site is considered to be in the pre-production stage. The carrying value of \$88,388 [2007 - \$46,853] 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 six 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.

## Stroud Resources Ltd.

# NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

[In Canadian dollars, unless otherwise noted]

September 30, 2008

During the nine-month period, the Company spent \$NIL in capital expenditures on the properties, and spent \$59,068 during the same period in 2007 in developing two additional wells that were brought into production during the 2007.

## 7. RELATED PARTY TRANSACTIONS

During the nine-month period ended September 30, 2008, the Company entered into the following related party transactions:

- The Company paid to the President of the Company \$63,750 [2007 - \$63,750] in consulting fees. Of this amount, \$15,936 [2007 - \$32,125] has been deferred and capitalized within mineral properties as they relate directly to the further development of the sites.
- The Company incurred legal fees of \$43,503 [2007 - \$23,122] payable 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 \$
<b>Balance, December 31, 2006</b>	<b>121,072,352</b>	<b>16,309,242</b>
Cancellation of common shares issued for debt settlement <i>[i]</i>	(250,000)	(55,000)
Issuance of common shares <i>[iii]</i>	6,550,000	549,120
Renouncement of flow -through share expenditures <i>[note 10]</i>	—	(338,270)
<b>Balance, December 31, 2007</b>	<b>127,372,352</b>	<b>16,309,242</b>
Issued for mineral properties	35,000	5,775
Issuance of common shares <i>[ii]</i>	9,581,000	858,600
Issuance of common shares on exercise of warrants <i>[ii]</i>	166,182	24,927
<b>Balance, September 30, 2008</b>	<b>137,154,534</b>	<b>17,354,394</b>

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

- [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 \$4,199,990. Each unit consisted of one common share and one-half of one 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. During the nine-month period, the Company reduced the exercise price of the warrants to \$0.15. Of the warrants outstanding, 166,812 were exercised for gross proceeds of \$24,927 and the balance expired unexercised.
- [iii] 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 of one 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 entitles 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.
- [iv] On January 18, 2008, the Company issued 35,000 common shares to the optioners of the Santa Cruz project.
- [v] 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. Management determined the warrants to have a value of \$134,000 and this portion 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 in cash and issued 38,480 broker warrants exercisable at \$0.15 for a 12-month period.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

As at September 30, 2008, the Company had the following warrants outstanding:

	<b>Purchase warrants</b>			
	<b>Number #</b>	<b>Exercise price \$</b>	<b>Expiry date #</b>	<b>Year of 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>	02/19/2010	2008
Broker warrants	<b>256,000</b>	<b>0.15</b>	12/19/2008	2007
Broker warrants	<b>38,480</b>	<b>0.15</b>	02/19/2009	2008
<b>Outstanding, end of period</b>	<b>8,359,980</b>			

The weighted average exercise price of the outstanding warrants as at September 30, 2008 was \$0.15.

**[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 September 30, 2008, the Company has available for issuance 1,603,500 stock options under this Plan.

A summary of the status of the Plan and changes during the periods ended is presented below:

	<b>September 30, 2008</b>		<b>December 31, 2007</b>	
	<b>Number #</b>	<b>Weighted average exercise price \$</b>	<b>Number #</b>	<b>Weighted average exercise price \$</b>
<b>Outstanding, beginning of period</b>	<b>3,950,000</b>	<b>0.20</b>	3,475,000	0.22
Forfeited	—	—	(2,025,000)	0.25
Exercised	—	—	—	—
Granted	<b>3,775,000</b>	<b>0.155</b>	2,500,000	0.17
<b>Outstanding, end of period</b>	<b>7,725,000</b>	<b>0.17</b>	3,950,000	0.20

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

Options exercisable, end of period 5,141,666 2,283,334  
 The following table summarizes information about stock options outstanding at September 30, 2008:

Exercise price \$	Options outstanding		Options exercisable #
	Options outstanding #	Weighted average contractual life [years]	
0.25	1,450,000	0.92	1,450,000
0.17	2,500,000	2.09	2,500,000
0.15	3,575,000	2.88	1,191,666
0.25	200,000	2.00	-
	<u>7,725,000</u>	2.18	5,141,666

The above outstanding options have a weighted average exercise price of \$0.171. 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 nine-month period ended September 30, 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	132.0%	71.6%
Risk-free interest rate	1.9%	4.6%
Expected life [years]	2.8	3
Dividend yield	nil	nil

The fair value of the options issued in 2008 was \$322,300 [2007 - \$200,000]. Total stock-based compensation expense recorded for the nine-month period was \$260,752 [2007 - \$95,094].

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**[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 period:

	2008	2007
	\$	\$
<b>Balance, beginning of the period</b>	661,923	375,401
Stock based compensation	182,347	188,272
Exercise of stock options	—	—
Issuance of share purchase warrants	134,000	98,250
<b>Balance, end of period</b>	<b>978,270</b>	<b>661,923</b>

**[e] Shareholder rights plan**

During the period, the Company adopted a shareholder rights plan (the "Plan"). One right was issued in respect of each outstanding common share of the Company, to holders of record at 4:00 p.m. (Toronto time) on August 7, 2008. Upon a triggering event, the rights would permit all shareholders other than the triggering party to acquire additional common shares of the Company at a discount to the then current market price. For administrative convenience, the rights will trade with the common shares until a triggering event occurs and will be represented by the certificates representing common shares. The Plan was effective immediately but is subject to ratification by shareholders at a meeting to be held within 6 months of adoption.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**9. CONSOLIDATED STATEMENTS OF CASH FLOWS**

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

	2008 \$	2007 \$
Accounts receivable	43,138	(27,687)
Prepaid expenses and other assets	105	122,186
Accounts payable and accrued liabilities	(14,267)	(139,817)
Royalty tax recoverable	16,753	(7,662)
	<u>45,729</u>	<u>(52,980)</u>

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

**10. INCOME TAXES**

**Future income tax assets and liabilities**

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

	2008 \$	2007 \$
<b>Future income tax assets</b>		
Non-capital losses carried forward	516,000	474,000
Mineral properties and deferred costs	237,000	393,000
Capital assets	107,000	88,000
Other	94,000	73,000
<b>Gross future income tax assets</b>	<u>954,000</u>	1,028,000
Valuation allowance	(931,541)	(882,400)
	<u>22,459</u>	145,600
<b>Future income tax liabilities</b>		
Mineral properties and deferred costs	(1,916,566)	(1,628,032)
<b>Net future income tax liabilities</b>	<u>(1,894,107)</u>	<u>(1,482,432)</u>

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

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 period 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 \$2,174,000 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	546,000
	<u>2,174,000</u>

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.

**11. COMMITMENTS**

The Company has rent commitments of approximately \$28,443 over the next one and a half 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. To date, the Company has made payments totaling US \$70,000 and issued 35,000 shares under this agreement. 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.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

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

The Company's financial instruments consist of cash, 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, 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 counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Company is not presently subject to credit risk at September 30, 2008.

**Market 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.

**Interest Rate Risk**

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

**Liquidity Risk**

Liquidity risk includes the risk that the Company will not be able to meet operational liquidity requirements to conduct its business.

The Company's operating cash requirements include amounts necessary to conduct its exploration programs. The Company may consider future financing to address its liquidity risk.

**Capital Risk**

The Company's objective when managing capital is to safeguard the entity's 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.

**Stroud Resources Ltd.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL  
STATEMENTS**

[In Canadian dollars, unless otherwise noted]

September 30, 2008

**12. 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 period.

**13. 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.

**14. SUBSEQUENT EVENT**

Subsequent to the period end, the Company announced plans to raise up to \$1.2 million in a non-brokered private placement. The Company will offer up to 16 million units at a price of \$0.075 per unit, with each unit consisting of one common share and one-half of one non-transferable common share purchase warrants. Each full share purchase warrant will entitle the holder to acquire one common share at a price of \$0.12 for a period of 18 months from the closing date of the offering.