

# **STROUD RESOURCES LTD.**

FORM 51-102FI

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2008

November 27, 2008

## **1. Date**

This Management Discussion and Analysis (“MD&A”) for the three and nine months ended September 30, 2008 is dated November 27, 2008 and should be read in conjunction with the Company’s interim consolidated financial statements for the three and nine months ended September 30, 2008, and the annual consolidated financial statements for the year ended December 31, 2007 and related MD&A. All financial information is prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and is expressed in Canadian dollars

## **2. Overview**

Stroud Resources Ltd. (the “Company” or “Stroud”) is a junior resource company involved in the acquisition, exploration and development of mineral properties. Stroud has focused its exploration activities on the Santo Domingo epithermal silver-gold project in central Mexico and its Hislop gold property in northern Ontario.

Due to the lack of availability of drill rigs in Mexico, caused by high demand from the mining industry, Stroud purchased its own drill rig to ensure that drilling could be carried out on an ongoing basis. The rig, pumps, assorted drill rods and equipment were acquired at a cost of approximately \$675,000. The drill rig, a high performance Model A5 Diamond drill, gives Stroud the versatility to drill in the challenging conditions at Santo Domingo.

The Company hired its own drillers and commenced drilling on the property utilizing its own drill in October 2007. A total of 6 holes were drilled in 2007 on the Compania Minera property, and 11 holes of 2,250 metres have been drilled to the end of September. These drill holes have demonstrated that wide zones of good grade silver and gold mineralization are present on the property. Stroud has been drilling the Rayas zone and a portion of the Guadalupe zone at the 1,000 metre elevation. Stroud typically drills sections at 50 metre intervals along the strike of the mineralized zone. Each section is usually made up of three to four holes drilled at minus 6 degrees to minus 85 degrees in order to test the continuity of the mineralization downdip. Approximately 500 metres

of strike length of the Rayas has been tested to date and the mineralization appears to be continuous. Lead and zinc values are higher in the southern portion of the Rayas zone although the zone appears to get wider along the strike to the north. Good consistent silver and gold values have also been encountered in the Guadalupe zone. Subject to available financing, the drill program is planned to continue through the rest of 2008.

Stroud acquired an option on the Santa Cruz silver-gold property in Mexico in 2007. The Company can acquire a 100% interest in the 4,800 hectare property by making cash payments to the optioners of US\$145,000 (of which US \$70,000 has been paid to date) and by issuing 145,000 shares (of which 35,000 shares have been issued to date) over a three year period. Numerous adits are present on the property. Prior silver production on the property was reported to be 70,000 ounces per month in the late 1800's. The Santa Cruz property has at least five sets of veins. These veins have never been drilled and the existing workings have penetrated only part way along the vein system. Sampling by Stroud's geologists demonstrated that these veins contain good grades of silver and gold.

The Company incurred a net loss of \$229,059 and \$913,240, respectively, for the three and nine-month periods ended September 30, 2008 compared to net loss of \$215,817 and a net loss of \$495,593 in the corresponding periods of 2007. In the first nine months of 2008, the Company recognized a future tax expense of \$337,771.

### **3. Results of Operations**

Revenue from oil and gas operations has increased by 35% to \$77,874 for the three months ended September 30, 2008 compared to \$57,545 for the corresponding period in 2007, largely due to higher prices. Stock based compensation expense for the three months ended September 30, 2008, increased by \$78,405 with the granting of new stock options during the previous quarter. Business promotion increased in the third quarter as the Company initiated marketing activities together with a recently appointed outside investor relations firm. The net loss was \$229,059 for the three months ended September 30, 2008.

Revenue from oil and gas operations has increased by 13% to \$199,589 for the nine-month period ended September 30, 2008 compared to \$176,115 in

2007. Business promotion expense increased 3% for the nine month period ended September 30, 2008 from the corresponding period in 2007. Licenses and fees were higher due to more capital transactions in 2008. Stock-based compensation expense increased with the granting of additional stock options during the period.

A description of the Company's mineral properties can be found in Note 5 to its December 31, 2007 consolidated financial statements which have been filed on SEDAR and are also available at [www.stroudresourcesltd.com](http://www.stroudresourcesltd.com).

### **Nature of Business**

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 recoverability of the carrying values of these interests is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development thereof and the future profitable production therefrom or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

### **Mining Industry**

The exploration for and development of mineral deposits involves significant risk, which even a combination of careful evaluation, experience and knowledge may not eliminate. While the discovery of a mineral deposit may result in substantial rewards, few properties that are explored are ultimately developed into producing mines. Major expenses may be required to locate and establish mineral reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that the exploration programs planned by the Company will result in a profitable commercial mining operation. Whether a mineral deposit will be commercially viable

depends on a number of factors, some of which are: the particular attributes of the deposit, such as size, grade and proximity to infrastructure; metal prices; and government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, permitting, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted but the combination of these factors may result in the Company not receiving an adequate return on investment.

### **Forward-Looking Statements**

This management's discussion and analysis may contain statements that are "Forward-looking Statements". These include statements about the Company's expectations, beliefs, plans, objectives and assumptions about future events or performance. These statements are often, but not always, made through the use of words or phrases such as "will likely result", "are expected to", "will continue". "anticipate", "believes", "estimate", "intend", "plan", "would", and "outlook" or statements to the effect that actions, events or results "will", "may", "should" or "would" be taken, occur or be achieved. Statements and estimates concerning mineral resources may also be deemed to be forward-looking statements in that they involve estimates, based on certain assumptions, regarding the mineralization that would be encountered if and when a mineral deposit were to be developed and mined. Forward-looking statements are not historical facts, and are subject to a number of risks and uncertainties beyond the Company's control. Accordingly, the Company's actual results could differ materially from those suggested by these forward-looking statements for various reasons discussed throughout this analysis. Forward-looking statements are made on the basis of the beliefs, opinions and estimates of the Company's management on the date the statements are made and the Company does not undertake any obligation to update forward-looking statements if the circumstances or management's beliefs, opinions or estimates should change. Readers should not place undue reliance on forward-looking statements.

#### 4. Summary of Quarterly Results

The following table sets forth, for the quarter indicated, information relating to the Company's revenue, net loss and loss per common share as prepared under generally accepted accounting principles in Canada.

	<b>Revenues</b>	<b>Net Loss</b>	<b>Basic and Diluted Net Loss / Share</b>
December 31, 2006	<b>37,132</b>	(473,514)	(0.0054)
March 31, 2007	<b>58,190</b>	179,191	0.0009
June 30, 2007	<b>60,380</b>	(120,697)	(0.0010)
September 30, 2007	<b>57,545</b>	(215,817)	(0.0018)
December 31, 2007	<b>46,543</b>	(68,907)	(0.0006)
March 31, 2008	<b>50,198</b>	(197,760)	(0.0014)
June 30, 2008	<b>71,517</b>	(486,421)	(0.0038)
September 30, 2008	<b>77,874</b>	(229,059)	(0.0018)

Revenue generated from the oil and gas properties fluctuated from quarter to quarter, affected by seasonal demand and price, as well as production levels. Changes in net losses reflect primarily the recognition of future income tax liabilities.

For further annual and quarterly financial information, please refer to the Company's financial statements that have been filed on SEDAR.

#### 5. Liquidity

Working capital at September 30, 2008 was approximately \$97,316.

On February 19, 2008, the Company completed a private placement of 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 of one common share purchase warrant. Management determined the warrants to have a value of \$0.028 and accordingly, \$134,000 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 entitles the holder to acquire one common share at an exercise price of \$0.15 until February 19, 2010. The Company paid finders' fees of \$4,040 in cash and issued 38,480 broker warrants exercisable at \$0.15 for a 12-month period.

During the nine-month period, the Company reduced the exercise price of 11,666,667 warrants expiring on May 4, 2008 from \$0.30 to \$0.15. Gross proceeds of \$24,927 were received for the exercise of 166,182 warrants, and the balance of 11,500,485 warrants expired unexercised.

## **6. Capital Resources**

Additional funds are required for the Company to finance its desired exploration program for fiscal 2008 and 2009. The Company recently announced efforts to raise up to \$1.2 million in a non-brokered private placement of units, to be priced at \$0.075 per unit with each unit consisting of one common share and one-half of one non-transferable common share purchase warrant. Each full share purchase warrant would 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. The Company is also currently considering various other alternatives to raise the required funds.

## **7. Off-Balance Sheet Arrangements**

As of the date of this filing, the Company does not have any off-balance sheet arrangements that have, or reasonably likely to have, a current or future effect upon the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## **8. Transactions with Related Parties**

During the nine-month period ended September 30, 2008, the Company paid to the President of the Company \$63,750 in salary of which \$15,936 has been deferred and capitalized within mineral properties, as they directly relate to the further development of the sites. The Company incurred legal fees of \$43,503 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.

## **9. Proposed Transactions**

On August 7, 2008 the Company announced that it had adopted a shareholder rights plan (the "Plan") similar to those adopted by many other Canadian corporations. The Plan was adopted to address the board's concerns that current legislation does not provide sufficient time for the board and shareholders of the Company to properly evaluate an unsolicited bid for control or to pursue alternatives with a view to maximizing shareholder value. The Plan seeks to ensure that all shareholders of the Company have an equal opportunity to participate in the benefits of a takeover bid. The Plan was effective immediately but is subject to ratification by shareholders at a meeting to be held within 6 months of adoption.

The Company has not entered into any other significant transaction, nor is it currently reviewing any such transaction, which requires board approval, shareholder approval or regulatory approval other than the proposed private placement described under the heading "6. Capital Resources" above and as otherwise discussed within this MD&A.

## **10. Critical Accounting Estimates**

The Company's significant accounting policies are presented in Note 2 of the interim consolidated financial statements for the period ended September 30, 2008.

## 11. Changes in Accounting Policies

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.
- 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 September 30, 2008 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).

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.

## **12. Financial Instruments and Other Instruments**

The Company is not involved in any hedging program, nor is it party to any financial instruments that may have an impact on its financial position.

## **13. Other MD&A Disclosure**

Additional information relating to the Company, including its financial statements, and analysis for each period therein, where required, is available on SEDAR at [www.sedar.com](http://www.sedar.com), and on the Company's website at [www.stroudresourcesltd.com](http://www.stroudresourcesltd.com).

### **Mineral Properties and Deferred Costs**

In the three months ended September 30, 2008, the Company spent \$226,475 in mineral exploration, about half the amount spent in the preceding three months. Exploration expenditures focused on the Santo Domingo project. The drilling was carried out on the Rayas Vein Structure on Section 5479 north and Section 5631 north. The drilling extended the known mineralization to the North..

During the current nine month period ended September 30, 2008, Stroud spent \$1,096,395 on mineral exploration, compared to \$1,424,321 in the same period of 2007. In 2008, the focus was primarily on the Santo Domingo project whereas in 2007, an exploration program was also completed on the Company's Hislop project.

	Year Ending December 31, 2007 \$	Year Ending December 31, 2006 \$	Year Ending December 31, 2005 \$
<b>Hislop Property</b>	1,402,009	583,988	274,773
<b>Santo Domingo Property</b>	8,024,038	7,230,177	3,612,577
<b>Santa Cruz Property</b>	46,853		
<b>Oil and Gas Properties (net)</b>	174,614	143,279	83,501
	<b>9,647,514</b>	<b>7,957,444</b>	<b>3,970,851</b>

### **Hislop Property**

During 2007, the Company completed an exploration program in the Hislop region that further quantified, and extended known zones of mineralization. Previous drill programs have extended the known strike length of the mineralization to 650 metres. The latest 25-hole, 8,000 metre drilling program discovered new gold zones and a number of deep mineralized intersections on the Hislop property (greater than 400 metres of depth). A recalculation of the resources is required using data from the current drilling program and historical data. While it is uncertain that future exploration will result in additional resources being discovered, the continuity of the gold zones located on the Hislop property indicates that it is likely that a number of these gold zones will continue at depth.

### **Santo Domingo Property**

Geological mapping, sampling of adits and outcrops was carried out over the first three months of 2007 on the Santo Domingo project. The Company purchased its own drill rig to ensure that drilling could be carried out on an ongoing basis at the property. The rig, pumps, assorted drill rods and equipment were acquired at a cost of approximately

\$675,000. The drill rig, a high performance Model A5 Diamond drill, gives Stroud the versatility to drill in the challenging conditions at Santo Domingo. The Company drilled one hole of 192 metres during the three months ended September 30, 2008 .A total of 11 holes and 2,250 metres were drilled to the end of September 2008.

### **Santa Cruz Project**

Subject to financing, the Company plans to carry out exploration work on the property consisting of geological mapping of the property and where possible, mapping and sampling of the adits, followed by diamond drilling, if the exploration results continue to be positive.

### **Oil and Gas Properties**

The Company holds an approximately 3.75% interest in six oil and gas producing wells in Alberta. The properties are 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.

### **Disclosure of Outstanding Share Data as at November 27, 2008**

	<b>Number or Principal Amount Outstanding</b>	<b>Maximum Number of Common Shares Issuable, if Convertible, Exercisable or Exchangeable</b>
Common Shares	<b>137,154,134</b>	<b>N/A</b>
Stock Options	<b>7,725,000</b>	<b>7,725,000</b>
Warrants outstanding	<b>8,359,980</b>	<b>8,359,980</b>
Maximum common shares outstanding		<b>153,239,114</b>

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. On June 16, 2008, the Company granted options to acquire 200,000 common shares to an investor relations consultant under Stroud's stock option plan. 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 as to one-quarter on each of the 3, 6, 9 and 12-month anniversaries of the date of grant.

#### **14. Prior Period Adjustment**

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. Accordingly, the comparative numbers have been changed to reflect this presentation.

#### **15. Subsequent Event**

On November 25, 2008, the Company announced plans to raise up to \$1.2 million in a non-brokered private placement as described under "6. Capital Resources" above.

#### **16. Approvals**

The Directors of the Company have approved the disclosure contained in this MD&A and a copy will be provided to anyone who requests it.