

**STROUD RESOURCES LTD.**

FORM 51-102FI

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2006

May 4, 2007

## **1. Date**

This Management Discussion and Analysis (“MD&A”) for the financial year ended December 31, 2006 is dated May 4, 2007 and should be read in conjunction with the Company’s consolidated financial statements. 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.

On August 8, 2006, the Company completed its purchase of the remaining 50% interest in the Santo-Domingo property from Amerix Precious Metals Corporation [“Amerix”], and attained 100% ownership. The purchase price for the 50% interest was \$1.8 million in cash, and a royalty payable to Amerix, equal to 5% of the net proceeds from the sale of minerals from the project, to a maximum of \$1M. The purchase allows management to consolidate ownership in a project it is intimately familiar with and one which management believes possesses tremendous potential.

At the end of 2004, the Company completed a Qualifying Report, compliant with National Instrument 43-101, for its Hislop Gold property in northern Ontario. The report concludes that the Hislop project contains indicated resources of approximately 102,750 ounces of gold and total inferred resources of approximately 69,700 ounces of gold. The Company initiated a \$1M infill-drilling program in November 2006 in order to add resources and upgrade the resources to reserve categories. The Company issued flow-through common shares in the last quarter of the year in order to fund the drilling program.

The Company declared a net loss of \$912,421 for the year compared to a net loss of \$574,123 in the prior year. The majority of the increase was due to recognition of stock-based compensation expense for options issued

during the year. Increased promotion activities also contributed to higher business promotion expenses. Future income tax liabilities were provided for in respect of expenditures on the Santo Domingo property in Mexico.

### 3. Selected Annual Information

The following table sets out selected financial information of the Company for the past three years ended December 31, 2006, 2005 and 2004. The following summary of selected financial information is derived from, should be read in conjunction with, and is qualified in its entirety by reference to the Company's financial statements, including the notes thereto, which can be viewed at [www.sedar.com](http://www.sedar.com).

	Year Ending December 31, 2006 \$	Year Ending December 31, 2005 \$	Year Ending December 31, 2004 \$
<b>Revenue</b>	189,490	228,524	125,419
<b>Net Loss</b>	(912,421)	(574,123)	(381,421)
<b>Net Loss per Share</b>	(0.0085)	(0.0063)	(0.005)
<b>Working Capital</b>	2,229,604	877,705	2,353,053
<b>Mineral Properties and Deferred Costs</b>	7,814,165	3,887,350	2,692,738
<b>Total Assets</b>	10,834,488	5,234,421	5,168,870
<b>Current Liabilities</b>	587,111	300,193	134,597
<b>Shareholders' Equity</b>	8,789,028	4,460,653	5,034,273

The Company's working capital has increased to \$2,229,604 from \$877,705 in 2005. The increase was primarily due to new financing during 2006. Total Assets as well as Shareholders' Equity have increased correspondingly.

#### **4. Results of Operations**

Revenue from oil and gas operations has decreased by 17% to \$189,490 for the year compared to \$228,524 in 2005. The decrease is largely due to declining production of natural gas and gas condensates. The Company spent \$83,778 during the year to develop additional wells for production. These expenditures have been capitalized and will be amortized over the estimated useful lives of the property. Two additional wells were brought into production subsequent to the end of the year.

Interest income of \$ 40,568 was earned on term deposits maintained by the Company, which has reduced the net loss for the year.

During the year, the Company issued stock options to directors and employees for 1,850,000 shares. The fair market value of the stock options was computed to be \$ 308,500 of which \$ 261,649 has been charged to stock-based compensation expense for the year. The Company had recorded stock-based compensation expense of \$ 59,566 during 2005, for previously issued stock options.

A description of the Company's mineral properties can be found in Note 4 to its 2006 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.

## 5. 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 principles in Canada.

	<b>Revenues</b>	<b>Net Loss</b>	<b>Basic and Diluted Net Loss / Share</b>
March 31, 2005	<b>43,414</b>	(80,378)	(0.0009)
June 30, 2005	<b>53,953</b>	(83,390)	(0.0009)
September 30, 2005	<b>54,978</b>	(23,749)	(0.0003)
December 31, 2005	<b>76,179</b>	(386,606)	(0.0041)
March 31, 2006	<b>63,799</b>	(43,337)	(0.0005)
June 30, 2006	<b>46,055</b>	(251,066)	(0.0022)
September 30, 2006	<b>42,504</b>	(144,504)	(0.0016)
December 31, 2006	<b>37,132</b>	(473,514)	(0.0054)

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 stock based compensation expense and 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.

## **6. Fourth Quarter**

Revenue from oil and gas has decreased by 12.6% from the previous quarter, largely due to decreasing production levels. The Company spent \$74,035 during the fourth quarter to develop two additional wells, which were brought into production subsequent to the end of the year. Stock-based compensation expense of \$ 172,915 and future income tax liabilities of \$324,877 were recognized in the quarter.

## **7. Liquidity**

Working capital at December 31, 2006 was approximately \$2,229,604.

On May 4, 2006, the Company completed a private placement of 23.33 million units at a price of \$0.18 per unit raising gross proceeds of \$4.2 million. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire one common share at a price of \$0.30 until May 4, 2008, subject to accelerated expiry in certain events.

Proceeds from this private placement allowed the Company to complete its previously announced acquisition of the remaining 50% interest in the Santo Domingo property held by Amerix. Additional funds were used to fund a drilling program into summer 2007 to further develop the Santo Domingo project, and also to fund general corporate expenses.

The Company issued 4,110,046 flow-through common shares for net proceeds of \$925,159 in the last quarter of the year. Included in accounts payable is \$238,802 representing the difference between the flow-through share issuance price and the market price of the shares at the date of

issuance. The proceeds are funding the drilling program at the Company's Hislop gold project in Ontario.

## **8. Capital resources**

The Company has sufficient capital to meet its estimated exploration programs and general and administrative expenses for fiscal 2007. The Company may choose to raise additional funds should the directors deem it to be advisable.

No option payments are due on the Company's mineral properties during fiscal 2007.

## **9. 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.

## **10. Transactions with Related Parties**

During the year ended December 31, 2006, the Company paid to the President of the Company \$85,000 in salary of which \$42,500 has been deferred and capitalized within mineral properties as they directly relate to the further development of the sites. The Company paid legal fees of \$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.

On September 29, 2006, the Company gave an interest-free loan amounting to \$150,000 to the President of the Company related to his exercising of stock options. This amount was repaid prior to the end of the year.

## 11. Proposed Transactions

The Company has not entered into any significant transaction, nor is it currently reviewing any such transaction, which requires board approval, shareholder approval or regulatory approval that has not been discussed within this MD&A.

## 12. Critical Accounting Estimates

The Company's significant accounting policies are presented in Note 2 of the financial statements for the year ended December 31, 2006.

On August 8, 2006, the Company purchased the remaining 50% interest in Compania Minera from Amerix. The following table sets out the allocation of the purchase price to the fair market value of the assets.

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>

## 13. Changes in Accounting Policies

The Company has not changed any of its other accounting policies for the year ended December 31, 2006, nor does it expect that any recent new accounting pronouncements will have any material impact on the financial condition or results of operations of the Corporation.

#### 14. 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

#### 15. Other MD&A Disclosure

Additional information relating to the Company, including its annual and 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 website at [www.stroudresourcesltd.com](http://www.stroudresourcesltd.com).

#### Mineral Properties and Deferred Costs

	Year Ended December 31, 2006 \$	Year Ending December 31, 2005 \$	Year Ending December 31, 2004 \$
Hislop Property	583,988	274,773	203,878
Santo Domingo Property	7,230,177	3,612,577	2,343,248
Oil and Gas Properties (net)	143,279	83,501	82,612
	7,959,444	3,970,851	2,629,738

#### Hislop Property

The Company has a 100% interest in properties located in Hislop, Ontario. During the year, the Company initiated an exploration program in the Hislop region in order to further advance the properties. The drilling program should be completed by the summer of 2007.

### **Santo Domingo Property**

On August 8, 2006, the Company purchased the remaining 50% interest in Compañía Minera for \$1,823,000. In addition to the 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. The purchase gives the company 100% ownership of the Santo Domingo property.

### **Oil and Gas Properties**

The Company holds approximately 3.75% interest in four oil and gas producing wells in Alberta. The properties are operated by Talisman Energy Inc. The Company's proportionate share of the revenue from these properties, net of operating expenses, is received from the operator on a monthly basis. During the year, the Company spent \$83,778 [2005 - \$24,889] in developing two additional wells that were brought into production subsequent to the end of the year

### **Disclosure of Outstanding Share Data as at December 31, 2006**

	<b>Number or Principal Amount Outstanding</b>	<b>Maximum Number of Common Shares Issuable, if Convertible, Exercisable or Exchangeable</b>
Common Shares	121,072,352	N/A
Stock Options	3,475,000	3,475,000
Warrants outstanding	13,373,332	13,373,332
Maximum common shares outstanding		137,920,684

## **16. Disclosure Controls**

The Company's Chief Executive Officer, who also acts as the Company's Chief Financial Officer, is responsible for establishing and maintaining the Company's disclosure controls and procedures. Due to the fact that the Company only has one executive officer and no employees, the Chief Executive Officer is aware of all material information affecting the Company.

The Chief Executive Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006, has concluded that the Corporation's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would have been known to him.

## **17. Accounting for Foreign Exploration Expenses**

During the year, the Company assessed the accounting for its foreign exploration expenditures and determined that a future tax liability was required to be recorded for certain current and prior expenditures. Accordingly, the prior year financial statements have been restated to reflect an increase in future income tax liabilities of \$473,575, an increase in the net loss for 2005 of \$355,412 [\$0.004 per share] and an increase in the deficit as of January 1, 2005 of \$118,163.

## **18. Approval**

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.