

STROUD RESOURCES LTD.

SRD:TSX-V

Closing Price (August 31): \$0.07

52-Week Range: \$0.115-\$0.03

Shares O/S: 151.21 million

Market Cap: \$10.58 million

Recommendation: Speculative Buy (No Change)

12-Month Target Price: \$0.20



RESOURCE VALUATION UPDATE

As detailed on pages 5 through 11 in our Valuation section, we have derived an intrinsic value for Stroud Resources Ltd. (“Stroud” or the “Company”) that ranges between \$0.17 and \$0.27 per share.

Despite the termination of discussions with Laurion Mineral Exploration with regards to the Company’s Leckie Lake property, we still expect Stroud to come to an agreement with a Third Party on either, or both, of its 100%-owned Ontario gold properties: Leckie Lake and Hislop (see descriptive information, page 3, and map, page 4). This will allow management to focus on its Mexican silver-gold properties. Key is Santo Domingo, which has a NI 43-101 Technical Report that provided a resource estimate of 15.05 million oz, silver-equivalent, of Measured and Indicated Resources, and 10.68 million oz, silver-equivalent, of Inferred Resources. Management believes there is potential to double this resource. If so, the shares are substantially undervalued at current levels.



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THE COMPANY

Stroud Resources Ltd. is a Canadian mineral exploration and development company with properties in two mining-friendly jurisdictions: northern Ontario (gold), and Mexico (silver/gold). Stroud also has an interest (3.75%) in six natural gas and natural gas condensate wells in Alberta, which provide the company with cash flow to go towards operating expenses.

The Company owns a 100% interest in the Santo Domingo epi-thermal silver-gold project in central Mexico, and has an option to acquire a 100% interest in the Santa Cruz silver project, also in Mexico. Stroud's assets also include 100% interests in the following Ontario properties; (1) the Hislop gold property, near Timmins; and (2) the Leckie gold property near Temagami (close to North Bay).

STRATEGY

Mining

Like so many junior mining exploration companies, Stroud requires continual financing. The Company is considering two strategies: (1) Return to the capital markets for fresh funds; and/or (2) Find a suitable joint-venture partner to provide funds in return for an ownership interest.

Oil & Gas

Stroud intends to stand pat for now with respect to its oil & gas activities.

TARGET PRICE

- We have derived the following intrinsic values for Stroud using various valuation methodologies, as set out fully in our Valuation section beginning on page 5.
- Peer Comparison - Market Cap/Resource: \$0.16 per share
- Peer Comparison - Property Valuation: \$0.16 per share
- Per Attributable Resource Ounce Valuation: \$0.25 per share
- Oil & Gas Cash Flow Multiple Valuation: \$0.01 per share

From these intrinsic value calculations, we have chosen a 12-month Target Price for the shares of Stroud Resources Ltd. of \$0.20.



OPERATIONS

Set out below is a brief overview of the Company's activities. Further information on these projects is presented in Appendix 1 of our March 2, 2010 *Initiating Report* on Stroud, available at the following link: http://www.eresearch.ca/report/SDR_030210-I.pdf

A. MINING INTERESTS

<u>Projects</u>	<u>Interest</u>	<u>Location</u>	<u>Deposit Type</u>	<u>Resources</u>	<u>NI 43-101</u>
Santo Domingo	100%	Mexico	Gold/Silver	Measured and Indicated: 4.35 Mt averaging 0.42 g/t gold and 89 g/t silver, or an estimated 58,670 ounces of gold and 12.4 million ounces of silver; Silver-equivalent resources = 15.05 million oz Inferred: 9.1 million oz of silver and 36,817 oz of gold; Silver-equivalent resources = 10.68 million oz	Yes
Santa Cruz	Option to earn 100%	Mexico	Silver	-----	No
Hislop	100%	Ontario	Gold	Indicated: 483,500 tonnes at 6.61 g/t gold: 102,760 oz. Inferred: 367,700 tonnes @ 5.90 g/t gold: 69,754 oz.	Yes
Leckie Lake	100% *	Ontario	Gold	Historical Estimates: Indicated: 349,000 tonnes @ 0.203 oz/t: 70,644 oz. Inferred: 57,237 tonnes @ 0.173 oz/t: 9,902 oz.	No

B. OIL & GAS INTERESTS

<u>Projects</u>	<u>Interest</u>	<u>Location</u>	<u>Commodity</u>	<u>Revenue</u>
Rimbey/ Niton/ Pembina area	3.75% W.I. in six producing natural gas and gas condensate wells	Alberta	Natural Gas	Share of revenue (net of operating expenses)

Map 1: Stroud Operations in Canada and Mexico



Map 2: Stroud Mexican Properties





VALUATION

We provide the following valuation methods to determine an appropriate value for Stroud's shares:

1. Market Capitalization Per Silver Equivalency Resource Valuation;
2. Mining Property Ratio Valuation;
3. Per Attributable Resource Ounce Valuation; and
4. Oil & Gas Cash Flow Multiple.

(1) Market Capitalization Per Silver Equivalency Resource Methodology

In this valuation method, we compare the market capitalization of Stroud to the silver companies in our comparison group, shown in Table 1 below.

Table 1: Market Capitalization and Resources Data

<u>Company</u>	<u>Symbol</u>	<u>Share Price</u>	<u>Shares O/S</u>	<u>Market Cap</u>	<u>Silver Resources (Ag+Eq Oz)</u>	<u>Market Cap Per Silver Eq</u>	<u>Premium Relative to Stroud</u>
Endeavour Silver Corp.	EDR-T	\$3.53	63,072,408	\$222,645,600	76,300,000	\$2.92	8.66x
Esperanza Silver Corp.	EPZ-V	\$1.37	52,847,021	\$72,400,419	29,568,000	\$2.45	7.27x
Great Panther Silver Ltd.	GPR-T	\$0.75	114,037,712	\$85,437,054	40,000,000	\$2.14	6.34x
Kimber Resources Inc.	KBR-T	\$0.79	68,010,586	\$53,633,148	58,738,700	\$0.91	2.71x
MAG Silver Corp.	MAG-T	\$6.77	54,538,395	\$369,224,934	189,000,000	\$1.95	5.80x
SilverCrest Mines Inc.	SVL-V	\$0.97	60,183,679	\$58,317,985	63,138,500	\$0.92	2.74x
Silvermex Resources Ltd.	SMR-V	\$0.34	86,698,406	\$29,451,449	47,548,000	\$0.62	1.84x
Source Exploration Corp	SOP-V	\$0.13	26,181,248	\$3,283,128	<u>20,280,000</u>	<u>\$0.16</u>	<u>0.48x</u>
<Average>					65,571,650	\$1.51	4.48x
Stroud Resources Ltd.	SDR-V	\$0.06	151,207,534	\$8,664,192	25,727,395	\$0.34	1.00x

- The share price is the 50-day average for each company.
- The silver resources for Great Panther Silver currently are approximately 16.5 million ounces. However, since only a small part of the company's projects have been subjected to NI 43-101 resource estimates, the company expects to be able to raise this to at least 40 million ounces, and using the lower actual number significantly distorts the comparison.
- Except for Source Exploration, the market cap per silver equivalency ounce for Stroud is well below that of the comparable companies. Stroud comes in at \$0.34 compared to an average for the comparable group of \$1.51, even with the low Source number.
- The average of the premiums over Stroud is calculated to be 4.48x. Thus, in comparison to the other silver companies, Stroud's stock appears undervalued.
- Should Stroud be successful in obtaining financing or a joint-venture partner, in either case improving its likelihood of advancing its properties, its market cap per silver equivalency ounce should increase markedly.



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(a) Sensitivity Analysis

The following table takes different market cap silver equivalency ounce values for Stroud over the next 12 months.

Stroud Resources Ltd.

Market Cap Per Silver Eq	Market Cap	Per Share
\$0.34	\$8,830,520	\$0.06
\$0.50	\$12,863,698	\$0.09
\$1.00	\$25,727,395	\$0.17
\$1.50	\$38,591,093	\$0.26
\$2.00	\$51,454,790	\$0.34

Source: eResearch

- Our analysis shows Stroud's stock price ranging from \$0.09 per share at \$0.50 per market cap silver equivalency ounce to \$0.34 at \$2.00 per market cap silver equivalency ounce.
- At the peer average of \$1.51, the intrinsic value per share would be \$0.26.
- We think it reasonable for Stroud to approach a level similar to that of SilverCrest, which has a value of \$0.92 market cap silver equivalency ounce; this would give Stroud's stock an intrinsic value of \$0.16.
- Higher per share values for Stroud would be expected at milestones such as:
 - (1) Completion of at least a further 25 holes; and
 - (2) Drill bit success resulting in a doubling of the resources to around 50 million silver equivalent ounces.



(2) Mining Property Ratio Valuation Method

(a) Methodology

This method determines an appropriate valuation for the shares of Stroud based on:

- Current and expected market value of the Company over the next 12 months;
- Book value of the mineral properties of the Company compared to those of its peers;
- Expected capital expenditures (\$2 million) for the Company over the next 12 months; and
- Expected number of shares (20 million) to be issued to finance capital expenditures.

The companies we have chosen to compare to Stroud are the following:

Endeavour Silver Corp. (EDR - TSX); Endeavour is a small-cap silver mining company focused on the growth of its silver production, reserves and resources in Mexico. Since start-up in 2004, Endeavour has posted five consecutive years of growing silver production and resources.

Esperanza Silver Corp. (EPZ - TSX-V); Esperanza is a gold and silver company focused on advancing the development of its two principal properties - the 100%-owned Cerro Jumil gold project in Morelos State, Mexico, and the San Luis gold and silver joint venture in Peru. The company also holds an extensive portfolio of exploration properties in Mexico and Peru.

Great Panther Silver Limited (GPR - TSX); Great Panther is a silver producer operating in Mexico. The company has two operating mines (100%) - Topia (silver-lead-zinc) in the Topia Mining District in west-central Durango State, and Guanajuato (silver-gold) in the State of Guanajuato. The company is also the operator of the San Antonio gold-copper project in Guadalupe y Calvo Mining District in southwest Chihuahua.

Kimber Resources Inc. (KBR -TSX); Kimber is an advanced gold-silver explorer focused on Mexico. The company owns mineral concessions covering in excess of 39,000 hectares in the prospective Sierra Madre gold-silver belt, including the Monterde property, where three deposits with gold-silver mineral resources have already been defined.

MAG Silver Corp. (MAG - TSX); MAG is focused on district-scale projects located within the Mexican Silver Belt. The company and its partner, Fresnillo plc, are delineating a new silver vein discovery on the Juancipio property in Zacatecas State. At the 100%-owned Cinco de Mayo property, MAG has identified a silver, lead and zinc discovery, as well as a moly-gold discovery.

SilverCrest Mines Inc. (SVL - TSX-V); SilverCrest focuses on the exploration and development of precious metals, and has a portfolio of gold and silver deposits and high-grade exploration properties located in Mexico and El Salvador. The Company's goal is to acquire and develop substantial mineral resources and, ultimately, to operate multiple low-cost, high-grade precious metals mines.

Silvermex Resources Ltd. (SMR - TSX-V); Silvermex is a junior resource company engaged in the acquisition, exploration and development of silver properties in Mexico. The company has three material properties for purposes of NI 43-101: Penasco Quemado in Sonora; La Frazada in Nayarit, and San Marcial in Sinaloa. Silvermex's focus is on its properties in Sinaloa.



Source Exploration Corp. (SOP - TSX-V): Source is a Canadian mineral exploration company whose focus is on the evaluation, acquisition and development of economic silver deposits in Mexico. The company is carrying out an aggressive exploration program on the prolific past-producing San Acacio silver mine in Zacatecas, and evaluating other potential silver properties in the Zacatecas area for acquisition.

Table 2: Corporate Comparison

(CS\$1 = US\$1.0447)	Stroud Resources SDR: TSX-V	Endeavour Silver EDR: TSX	Esperanza Silver EPZ: TSX-V	Great Panther Silver GPR: TSX	Kimber Resources KBR: TSX
Financial Statement Date:	March-10	June-10	June-10	June-10	March-10
Corporate:					
Share Price (50-day Average)	C\$ 0.06	C\$ 3.53	C\$ 1.37	C\$ 0.75	C\$ 0.79
52-Week High-Low	\$0.115 - \$0.03	\$4.57 - \$1.94	\$1.95 - \$0.75	\$1.25 - \$0.52	\$1.83 - \$0.55
Shares O/S	151,207,534	63,072,408	52,847,021	114,037,712	68,010,586
Market Cap	C\$ 8,664,192	C\$ 222,645,600	C\$ 72,400,419	C\$ 85,437,054	C\$ 53,633,148
Mineral Properties:					
Book Value (Cost)	C\$ 11,220,959	C\$ 113,719,680	C\$ 20,774,775	C\$ 23,126,595	C\$ 47,095,913
Market Value	C\$ 8,043,350	C\$ 185,063,520	C\$ 69,643,074	C\$ 71,101,125	C\$ 50,593,187
Difference	-C\$ 3,177,609	C\$ 71,343,840	C\$ 48,868,299	C\$ 47,974,530	C\$ 3,497,274
Property Ratio	0.72	1.63	3.35	3.07	1.07
		MAG Silver MAG: TSX	SilverCrest Mines SVL: TSX-V	Silvermex Resources SMR: TSX-V	Source Exploration SOP: TSX-V
Financial Statement Date:		June-10	June-10	April-10	March-10
Corporate:					
Share Price (50-day Average)		C\$ 6.77	C\$ 0.97	C\$ 0.34	C\$ 0.13
52-Week High-Low		\$8.26 - \$4.85	\$1.20 - \$0.49	\$0.61 - \$0.21	\$0.40 - \$0.10
Shares O/S		54,538,395	60,183,679	86,698,406	26,181,248
Market Cap		C\$ 369,224,934	C\$ 58,317,985	C\$ 29,451,449	C\$ 3,283,128
Mineral Properties:					
Book Value (Cost)		C\$ 91,311,799	C\$ 22,830,963	C\$ 8,946,023	C\$ 2,397,757
Market Value		C\$ 344,641,814	C\$ 39,901,847	C\$ 26,778,772	C\$ 2,616,912
Difference		C\$ 253,330,015	C\$ 17,070,884	C\$ 17,832,749	C\$ 219,155
Property Ratio		3.77	1.75	2.99	1.09
Adjusted Book Value (Cost) (1)	C\$ 11,284,959				
Average Ratio (Peers)	2.34				
Selected Ratio	2.34				
Common Equity (Per Statements)	C\$ 9,504,618				
Adjusted Common Equity (Selected Ratio) (2)	C\$ 24,690,463				
Equity Per Share (Per Statements)	C\$ 0.06				
Adjusted Equity Per Share (Selected Ratio) (3)	C\$ 0.16				

Note 1: Adjusted Book Value is adjusted for expected capital expenditures of \$64,000 over the next 12 months.

Note 2: Shareholders' Equity is adjusted for additional equity (estimate) issued to finance capital expenditures over the next 12 months.

Note 3: Adjusted Equity Per Share is calculated on shares O/S at March 31, 2010, plus estimated 800,000 new shares to be issued within 12 months.

Source: eResearch



(b) Analysis

The Property Valuation approach is based upon an analysis of the Property Ratio, which measures the premium the market currently places on a company's mineral properties. All else being equal, a higher premium indicates the market is anticipating greater future value from the assets in the ground, while a lower premium may represent an undervalued asset. Our analysis utilizes the latest available financial statements for the respective companies.

In the table above, we have estimated the value of Stroud's mineral property portfolio 12 months forward by adding the anticipated capital expenditures for the forecast period to the existing mineral property value. Then we apply, to the Adjusted Book Value of the mineral property, the selected Mineral Property Ratio, as determined by analyzing and comparing the relative merits of the peer companies with the subject company.

The Property Ratio for the peer group is an average of 2.34x, while the Property Ratio of Stroud is 0.72x.

Shown below is a table indicating the intrinsic value over the next 12 months for Stroud at Property Ratio levels ranging between 1.50x and 3.77x, which is the highest ratio shown by one of the peer companies (MAG Silver).

At the peer average of 2.34x, Stroud's intrinsic value would be \$0.16.

Stroud Resources	Property Ratio	Intrinsic Value
Current Book Value	1.00x	C\$ 0.06
Current Property Ratio	0.72x	C\$ 0.04
Property Ratio: Next 12 Months	1.50x	C\$ 0.10
Property Ratio: Next 12 Months	2.00x	C\$ 0.14
Property Ratio: Next 12 Months	2.34x	C\$ 0.16
Property Ratio: Next 12 Months	3.00x	C\$ 0.21
Property Ratio: Next 12 Months	3.50x	C\$ 0.25
Property Ratio: Next 12 Months	3.77x	C\$ 0.27

With lower stock prices across the board, all of the companies' Property Ratios are lower than in our Initiating Report. Once investor favour returns to the junior mining exploration sector, the Property Ratios would be expected to move higher. A Property Ratio will also move higher for any particular company that has success with the drill bit.

From the above, we consider an intrinsic value range for Stroud would be determined by a Property Ratio ranging between 2.00x and 3.00x, or \$0.14 - \$0.21 per share.

We are choosing the 2.34x Property Ratio as an appropriate target for Stroud and, on this basis, the intrinsic value would be \$0.16 per share.



(3) Per Attributable Resource Ounce Valuation Methodology

Under this method, we compute an intrinsic value for Stroud by calculating the value of the silver and the gold in the ground, unmined. For silver, we have used prices ranging from US\$0.36/oz to US\$1.80/oz and, for gold, prices ranging from US\$24/oz to US\$120/oz for Measured and Indicated, and from US\$8.00 to US\$40.00/oz for Inferred resources. Inferred were taken at 1/3 of Measured and Indicated, and the gold-silver ratio was taken at 65-to-1. The results are shown in the following table:

Table 3: Matrix of Values Per Attributable Resource Ounce

A. Silver

Per Attributable Silver					
Resource Ounce (in-the-ground) US\$	\$0.36	\$0.72	\$1.08	\$1.44	\$1.80
Market Cap (C\$ @C\$1=US\$1.0639)					
Using 21,555,513 Resource Ounces	\$7,314,155	\$14,628,310	\$21,942,465	\$29,256,620	\$36,570,776
Value Per Share					
Using 151,207,534 Shares	\$0.05	\$0.10	\$0.15	\$0.19	\$0.24

B. Gold

Per Attributable Gold					
Market Cap (C\$ @C\$1=US\$1.0639)					
<u>1. Measured and Indicated</u>					
Resource Ounce (in-the-ground) US\$	<u>\$24.00</u>	<u>\$48.00</u>	<u>\$72.00</u>	<u>\$96.00</u>	<u>\$120.00</u>
Using 58,670 Oz (Santo Domingo)	\$1,323,508	\$2,647,016	\$3,970,524	\$5,294,031	\$6,617,539
Using 102,760 Oz (Hislop)	\$2,318,113	\$4,636,225	\$6,954,338	\$9,272,450	\$11,590,563
Using 70,644 Oz (Leckie)	<u>\$1,593,623</u>	<u>\$3,187,247</u>	<u>\$4,780,870</u>	<u>\$6,374,494</u>	<u>\$7,968,117</u>
Totals	\$5,235,244	\$10,470,488	\$15,705,732	\$20,940,976	\$26,176,220
<u>2. Inferred</u>					
Resource Ounce (in-the-ground) US\$	<u>\$8.00</u>	<u>\$16.00</u>	<u>\$24.00</u>	<u>\$32.00</u>	<u>\$40.00</u>
Using 36,817 Oz (Santo Domingo)	\$276,846	\$553,691	\$830,537	\$1,107,382	\$1,384,228
Using 69,754 Oz (Hislop)	\$524,515	\$1,049,031	\$1,573,546	\$2,098,062	\$2,622,577
Using 9,902 Oz (Leckie)	<u>\$74,458</u>	<u>\$148,916</u>	<u>\$223,374</u>	<u>\$297,833</u>	<u>\$372,291</u>
Totals	\$875,819	\$1,751,638	\$2,627,457	\$3,503,277	\$4,379,096
Grand Totals	\$6,111,063	\$12,222,126	\$18,333,189	\$24,444,252	\$30,555,315
Value Per Share					
Using 151,207,534 Shares	\$0.03	\$0.07	\$0.10	\$0.14	\$0.17

As shown above, using the mid-point of the matrix, the imputed value of Stroud's mineral assets equates to \$0.15 per share for silver and \$0.10 per share for gold.

Together, this implies an intrinsic value for Stroud of \$0.25 per share.



(4) Oil & Gas Cash Flow Multiple Method

Oil & gas operations are valued on multiples of cash flow. For a fledgling oil & gas producer, normal industry multiples typically range between 5.0x and 9.0x. Because the cash flow for Stroud is small (our estimate for 2010 is \$110,000), applying a cash flow multiple in the range indicated provides only \$0.01 per share of intrinsic value to the Company. This is to be added to the mining component intrinsic value to get the total intrinsic value for the Company.

COMMENT: *Stroud's oil & gas interests may not contribute meaningful intrinsic value, but they do provide valuable cash flow which can be used to offset some of the firm's operating expenses.*

(5) Conclusion

- Our Market Capitalization Per Silver Equivalency Resource Valuation yields an intrinsic value of \$0.16 per share for Stroud;
- Our Property Ratio Methodology shows an intrinsic value of \$0.16 per share;
- Our Per Attributable Resource Ounce Methodology provides an intrinsic value of \$0.25 per share;
- Our Oil & Gas Cash Flow Multiple Valuation provides an intrinsic value of \$0.01 per share.
- The above provides an intrinsic value range of \$0.17 to \$0.26 per share.

From all of the above, we are choosing a 12-month Target Price for Stroud Resources Ltd. of \$0.20 per share.

COMMENT: *Our intrinsic values are based on a number of internal factors including commodity prices and the Company's ability to finance, which are beyond our control. However, we believe that our valuations closely reflect the fundamentals of the Company and the market at the time of this report.*

Stroud's stock price could significantly outperform our intrinsic values should the following be accomplished:

- (1) The Company raises necessary exploration funds;*
- (2) It has success with the drill bit and significantly increases its resource estimate; and*
- (3) It secures a suitable joint-venture partner(s).*



RECOMMENDATION

We stated in our March 2, 2010 *Initiating Report* that we considered Stroud to be an undiscovered stock with the retail investor. There are, however, three influential institutional shareholders of Stroud, namely Sprott, Dundee, and Pinetree, which recognize the inherent potential poised within this Company. If management can unlock that potential, the shares could easily surpass our 12-month Target Price of \$0.20.

We continue to recommend Stroud as a Speculative Buy for risk-tolerant investors.

RATINGS HISTORY

<u>Date</u>	<u>Report Type</u>	<u>Recommendation</u>	<u>Stock Price</u>	<u>Target Price</u>
March 2, 2010	Initiating	Speculative Buy	\$0.07	\$0.28
March 30, 2010	Perspective	No Change	\$0.08	No Change
August 31, 2010	Update	No Change	\$0.07	Lowered to \$0.20

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