

Consolidated Financial Statements of

**SHELTERED OAK RESOURCES CORP.**  
(formerly Lucrum Capital Corp.)

December 31, 2008 and 2007

Consolidated Financial Statements of

**SHELTERED OAK RESOURCES CORP.**  
(Formerly Lucrum Capital Corp.)

For the Years Ended December 31, 2008 and 2007

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# Schwartz Levitsky Feldman llp

CHARTERED ACCOUNTANTS  
LICENSED PUBLIC ACCOUNTANTS  
TORONTO • MONTREAL



## AUDITORS' REPORT

To the Shareholders of  
Sheltered Oak Resources Corp.  
(Formerly Lucrum Capital Corp.)

We have audited the consolidated balance sheets of Sheltered Oak Resources Corp (formerly Lucrum Capital Corp.) (the "Company") as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Schwartz Levitsky Feldman llp".

Toronto, Ontario, Canada  
February 19, 2009

Chartered Accountants  
Licensed Public Accountants

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# SHELTERED OAK RESOURCES CORP.

(formerly Lucrum Capital Corp.)

Consolidated Balance Sheets

December 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
Current:		
Cash	\$ 508,307	\$ 335,517
Prepays and sundry receivable	87,575	21,403
	595,882	356,920
Mineral properties and related expenditures (note 4)	1,462,942	446,469
Deposit on drilling contract	62,920	-
	\$ 2,121,744	\$ 803,389

## Liabilities and Shareholders' Equity

Current:		
Accounts payable and accrued liabilities	\$ 482,401	\$ 58,871
Shareholders' equity:		
Share capital (note 5)	2,022,463	1,015,078
Warrants (note 5)	445,946	260,850
Contributed surplus (note 5)	253,637	116,000
Deficit	(1,082,703)	(647,410)
	1,639,343	744,518
	\$ 2,121,744	\$ 803,389

Going concern (note 1b)

See accompanying notes to consolidated financial statements.

**Approved on Behalf of the Board:**

"Robert Hanson"  
 \_\_\_\_\_ Director  
**Robert Hanson**

"Ken Hite"  
 \_\_\_\_\_ Director  
**Ken Hight**

**SHELTERED OAK RESOURCES CORP.**  
**(formerly Lucrum Capital Corp.)**

Consolidated Statements of Operations and Deficit

Years ended December 31, 2008 and 2007

	2008	2007
<b>Expenses:</b>		
Office and general (note 5c)	\$ 388,221	\$ 292,410
Consulting fees (note 6)	180,000	355,000
	<u>568,221</u>	<u>647,410</u>
Net loss before income taxes	(568,221)	(647,410)
Recovery of income taxes (note 8b)	132,928	-
Net loss and comprehensive loss for the year	(435,293)	(647,410)
Deficit, beginning of year	(647,410)	-
Deficit, end of year	<u>\$(1,082,703)</u>	<u>\$(647,410)</u>
<b>Loss per common share:</b>		
Basic and diluted	\$(0.03)	\$(0.06)
<b>Weighted average number of common shares outstanding:</b>		
Basic and diluted	12,876,561	10,135,408

See accompanying notes to consolidated financial statements.

# SHELTERED OAK RESOURCES CORP.

## (formerly Lucrum Capital Corp.)

### Consolidated Statements of Cash Flow

Years ended December 31, 2008 and 2007

	2008	2007
<b>Cash flows from (used in) operating activities:</b>		
Net loss	\$ (435,293)	\$(647,410)
Items not affecting cash:		
Future income tax recovery	(132,928)	-
Stock-based compensation	137,637	116,000
	(430,584)	(531,410)
<b>Changes in non-cash balances related to operations:</b>		
Prepays and sundry receivable	(33,761)	(21,403)
Accounts payable and accrued liabilities	406,869	58,870
	(57,476)	(493,943)
<b>Cash used in operating activities</b>		
<b>Cash flows from financing activities:</b>		
Proceeds from issue of shares and warrants (net of issuance costs)	1,307,459	964,235
	1,307,459	964,235
<b>Cash flows from financing activities</b>		
<b>Cash flows used in investing activities:</b>		
Expenditures for mineral properties and related exploration	(1,014,273)	(135,069)
Deposit on drilling contract	(62,920)	-
	(1,077,193)	(135,069)
<b>Cash flows used in investing activities</b>		
Increase in cash position	172,790	335,223
Cash, beginning of year	335,517	294
	\$ 508,307	\$ 335,517
<b>Cash, end of year</b>		
<b>Supplemental cash flow information:</b>		
Interest paid	\$ -	\$ -
Income taxes paid	-	-
Issuance of shares pursuant to acquisition of mineral properties	-	176,400
Issuance of warrants pursuant to acquisition of mineral properties	2,200	135,000

See accompanying notes to consolidated financial statements.

# **SHELTERED OAK RESOURCES CORP.**

## **(formerly Lucrum Capital Corp.)**

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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### **1. Basis of preparation:**

- (a) Sheltered Oak Resources Corp. ("Sheltered" or the "Company") is an exploration and development stage mineral resources company with a focus on gold properties in Canada. The Company is in the process of exploring mineral properties on which it has an option to earn an interest and has not as yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related expenditures is dependent upon: the selling price of gold at the time the Company intends to mine its properties; the existence of economically recoverable reserves; the ability of the Company to obtain the necessary financing to complete exploration and development; and future profitable production or proceeds from disposition of such properties.

These consolidated financial statements were prepared by management in accordance with Canadian general accepted accounting principles ("Canadian GAAP") and include the accounts of Sheltered (the legal parent) and Sheltered Oak Resources Inc. ("SOR") (the legal subsidiary). On consolidation, all material intercompany transactions and balances were eliminated.

Sheltered was incorporated March 1, 2007 under the laws of the Province of British Columbia. On August 28, 2008, Sheltered completed a transaction contemplated by its amalgamation agreement (the "Amalgamation Agreement") with SOR and Sheltered's wholly-owned subsidiary Lucrum Acquisition Corp. ("Subco") in respect of a "qualifying transaction" that was conducted in accordance with TSX Venture Exchange (the "Exchange") Policy 2.4 concerning Capital Pool Companies (see note 3). As a result of this transaction, control of Sheltered was passed to the former shareholders of SOR. This type of share transaction is referred to as a "reverse takeover". Under reverse takeover accounting, the post reverse acquisition comparative historical financial statements of the legal acquirer, Sheltered, are those of the legal acquiree SOR, which is considered to be the accounting acquirer.

The 2007 comparative consolidated financial statements are of the legal acquiree, SOR.

- (b) Going concern assumption:

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("Canadian GAAP") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, as described in the following paragraph. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate. These adjustments could be material.

# **SHELTERED OAK RESOURCES CORP.**

## **(formerly Lucrum Capital Corp.)**

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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### **1. Basis of preparation (continued):**

#### **(b) Going concern assumption (continued):**

As at December 31, 2008, the Company reported a loss after tax of approximately \$435,000, an accumulated deficit of \$1.1 million as at that date and has not generated cash flow from operations. The Company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, dependence on key individuals, ability to exercise option to earn an interest in the mineral property, successful exploration and development and the ability to secure adequate financing to meet the minimum capital required to successfully complete the planned expenditures and continue as a going concern. There is no assurance that these initiatives will be successful and as a result there is substantial doubt regarding the applicability of the going concern assumption.

### **2. Significant accounting policies:**

Management has prepared the consolidated financial statements of the Company in Canadian dollars and in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies are as follows:

#### **(a) Mineral properties and related expenditures:**

The cost of mineral properties and their related exploration and development costs are deferred until the properties are placed into production, sold or abandoned. These costs will be amortized over the estimated useful life of the properties following the commencement of production.

Cost includes both the cash consideration as well as the fair market value of any securities issued on the acquisition of interests in mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the company, are recorded in the accounts at such time as the payments are made. The proceeds from property options granted reduce the cost of the related property and any excess over cost is applied to income.

#### **(b) Stock-based compensation plans:**

The Company has a stock-based compensation plan. Any consideration received on the exercise of stock options or sale of stock is credited to share capital. The Company records compensation expense and credits contributed surplus for all stock options granted. Stock options granted during the year are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of these options is estimated using the Black-Scholes option pricing model.

# **SHELTERED OAK RESOURCES CORP.**

## **(formerly Lucrum Capital Corp.)**

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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### **2. Significant accounting policies (continued):**

(c) Use of estimates:

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(d) Foreign currency translation:

The functional currency of the Company and its subsidiary is considered to be the Canadian dollar for accounting purposes. Accordingly, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the year end. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at historical rates. All revenues and expenses denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the transaction dates. Gains or losses resulting from translation are included in the consolidated statement of operations and deficit.

(e) Loss per common share:

Basic loss per common share has been determined by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding during the year, excluding shares securing employee share purchase loans and shares in escrow. Diluted loss per common share is in accordance with the treasury stock method and is based on the weighted average number of common shares and dilutive common share equivalents outstanding. In order to determine diluted earnings (loss) per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to purchase common shares being included in the denominator of the diluted earnings (loss) per share calculation.

The diluted earnings (loss) per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. During the year ended December 31, 2008, there was no difference between basic and diluted loss per common share as the effect of outstanding stock options on basic loss per common share would have been anti-dilutive.

(f) Income taxes:

The Company follows the liability method of tax allocation in accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income (loss) in the year in which those temporary differences are expected to be recovered or settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

# **SHELTERED OAK RESOURCES CORP.**

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Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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### **2. Significant accounting policies (continued):**

#### **(g) Flow-through financing:**

The Company may issue securities referred to as flow-through shares, whereby the investor may claim the tax deductions arising from the expenditure of the proceeds. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective corporate tax rate) and share capital is reduced. Previously unrecognized tax assets may then offset or eliminate the liability recorded.

#### **(h) Asset retirement obligations:**

This section requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The estimate excludes the residual value of the related assets. The associated retirement costs are capitalized as part of the carrying amount of the long lived assets and amortized over the life of the asset. The amount of liability is subject to re-measurement at each reporting period. At December 31, 2008, there are no asset retirement obligations associated with any of the Company's properties.

#### **(i) Impairment of long-lived assets:**

The Company reviews long-lived assets of mineral properties and related expenditures for impairment at least once a year and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

When indicators of impairment exist, and the carrying value is greater than the net recoverable value, an impairment loss is recognized to the extent that the fair value is below the carrying value. Mineral properties are written off (i.e. the carrying amount reduced to nil) if the property's rights are allowed to lapse or if the property is or is intended to be abandoned.

#### **Changes in accounting policies:**

Effective January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3855 Financial Instruments – Recognition and Measurement (Section 3855) Section 3861 Financial Instruments – Disclosure and Presentation (Section 3861), Section 1530 Comprehensive Income (Section 1530) and Section 3251 Equity (Section 3251).

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Upon adoption, all existing and new financial assets and financial liabilities of an enterprise must be classified as either held for trading, held to maturity, or available for sale with each classification having a different accounting treatment after the initial recognition of the asset or liability. All financial assets and financial liabilities must be measured at fair value upon initial recognition.

# SHELTERED OAK RESOURCES CORP.

## (formerly Lucrum Capital Corp.)

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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### 2. Significant accounting policies (continued):

After initial recognition, the financial assets are measured according to the following guidelines. Financial assets that are classified as available for sale or held for trading must be measured at fair value. Any gain or loss on a financial asset held for trading is recorded in the financial statements of operations and comprehensive income (loss) in the period in which it occurs. Any gain or loss on a financial asset that is available for sale is recorded in other comprehensive income (loss) until the financial assets is derecognized at which point the cumulative gain or loss is recognized in net income (loss). Financial assets that are classified as held to maturity should be measured at amortized cost using the effective interest method.

After initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method.

The Company has elected to apply the following classifications to each of its significant categories of financial instruments:

<u>Asset/Liability</u>	<u>Category</u>	<u>Measurement</u>
Cash	Held for trading	Fair value
Sundry receivables	Held for trading	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

The standard also addresses the appropriate accounting for non-financial contracts with embedded derivatives. The Company does not have any contracts with embedded derivatives.

Section 1530 sets the standard for reporting and displaying of comprehensive income (loss). It does not address issues of recognition or measurement for comprehensive income (loss) or its components. The standard requires that comprehensive income (loss) and its individual components be presented in the Company's financial statements. The adoption of this policy did not have a material impact on the Company's financial results for the year.

Section 3251 establishes the standards for presentation of equity and changes in equity during the reporting period. The application of this standard did not materially change the statement of Shareholders' equity.

Effective January 1, 2008, the Company adopted applicable accounting standard changes issued by the Canadian Institute of Chartered Accountants (CICA) that affect reporting periods ending on or after December 31, 2008. The Company adopted changes are as follows: amendments to Handbook Section 1400 General Standards of Financial Statement Presentation, ("Section 1400"); new presentation and disclosure standards for: Handbook Section 1535, Capital Disclosures, ("Section 1535"), Handbook Section 3862, Financial Instruments – disclosures ("Section 3862") and Handbook Section 3863, Financial Instruments – Presentation ("Section 3863").

# **SHELTERED OAK RESOURCES CORP.**

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### **2. Significant accounting policies (continued):**

A fifth change, Handbook Section 3031, Inventories, ("Section 3031") replacing Handbook Section 3030 with the same title, has no effect because the Company does not have inventories.

The following are the impact of these changes:

(a) General standards of financial statements presentation (Section 1400):

The Company has adopted amendments to Section 1400, General Standards of Financial Statement Presentation, which include requirements to assess and disclose an entity's ability to continue as a going concern. The requirements are effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company monitors its ability to continue operating on an ongoing basis. The adoption of the changes to Section 1400 had no impact on the Company's financial statements.

(b) Capital disclosure (Section 1535):

This Section establishes standards for disclosing information about an entity's capital. It requires that a company disclose its objectives, policies, and procedures for managing its capital and quantitative information about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance (See Note 7 for the required disclosure).

(c) Financial instruments (Sections 3862 Disclosure and Section 3863 Presentation which replaced Section 3861):

The standards require entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (i) the significance of financial instruments to the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, as well as management's objectives, policies and procedures for managing such risks.

Entities will be required to disclose the measurement basis or bases used, and the criteria used to determine classifications for different types of financial instruments.

The Standards also require specific disclosures to be made, including the criteria for:

- (i) designating financial assets and liabilities as held for trading;
- (ii) designating financial assets as available-for-sale; and
- (iii) determining when impairment is recorded against the related financial asset or when an allowance account is used.

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other prices risks. (See Note 9 for the required disclosure).

# **SHELTERED OAK RESOURCES CORP.**

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Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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### **2. Significant accounting policies (continued):**

#### **Recent accounting pronouncements:**

CICA Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"), results in withdrawal of CICA 3450, Research and Developmental Costs, and amendments to Accounting Guideline (AcG) 11, Enterprises in the Development Stage and CICA 1000, Financial Statement Concepts. The standard intends to reduce the differences with International Financial Reporting Standards ("IFRS") in the accounting for intangible assets. Under current Canadian standards, more items are recognized as assets than under IFRS. The objectives of CICA 3064 are to reinforce the principle-based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition; and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets. The new standard takes effect for the fiscal years beginning on or after October 1, 2008, with early adoption encouraged. The Company is evaluating the effects of adopting this standard.

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five year transitional period. In February 2008, the AcSB announced that interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 must be prepared in accordance with IFRS. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the impact of the adoption of IFRS for the year ended December 31, 2011, the financial reporting impact of the transition of IFRS cannot be reasonably estimated at this time.

### **3. Acquisition and reverse take over transaction:**

- (a) Sheltered completed a qualifying transaction that was conducted in accordance with the Exchange Policy 2.4 concerning Capital Pool Companies. The qualifying transaction was completed by way of a "three corner" amalgamation among Sheltered and its wholly-owned subsidiary Lucrum Acquisition Corp. ("Subco") and SOR whereby Sheltered issued an aggregate of 10,135,808 common shares to the shareholders of SOR.

Pursuant to the agreement:

- (i) Each SOR share was exchanged for 3.7362 shares of Sheltered;
- (ii) Each SOR warrant was exchanged for 3.7362 warrants for the Sheltered;
- (iii) 400,000 share purchase options of SOR were cancelled upon closing of the qualifying transaction ("Transaction").

# SHELTERED OAK RESOURCES CORP.

## (formerly Lucrum Capital Corp.)

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

### 3. Acquisition and reverse take over transaction (continued):

The amalgamation transaction was completed on August 28, 2008. In accordance with this transaction, 10,135,808 common shares of Sheltered were issued to SOR shareholders, 3,846,143 warrants of Sheltered were issued to SOR warrant holders and up to 450,000 incentive stock options were granted to the new directors and officers of the Company; former shareholders of SOR held shares representing approximately 71% of the issued and outstanding shares of the resulting issuer on a non-diluted basis.

In addition, 1,956,360 of escrowed shares of Sheltered were transferred to new principals at a price of \$0.65 per escrowed share.

As a result of the Transaction described above, control of Sheltered was passed to the former shareholders of SOR upon the closing of the Transaction. This type of share exchange is referred to as a "reverse takeover". A reverse takeover transaction involving a non-public enterprise and a non-operating public company is a capital transaction in substance, rather than a business combination. That is, the transaction is equivalent to the issue of shares by the non-public operating enterprise for the net monetary assets of the non-operating public company, accompanied by a recapitalization of the non-public operating enterprise.

The cost of the acquisition should be based on the fair value of the consideration given, except where the fair value of the consideration given is not clearly evident. In such a case, the fair value of the net assets acquired is used.

The fair value of the net assets acquired, totaling \$117,456 has been allocated as follows:

Cash	\$101,706
Prepays and sundry receivables	7,411
Deferred acquisition costs	25,000
Accounts payable and accrued liabilities	(16,661)
	<hr/>
	\$117,456

Purchase consideration:	
Common shares issued	\$117,456

(b) Concurrent with the closing of the Transaction, the Company completed a private placement on August 28, 2008. The private placement consisted of:

- (i) a brokered portion of 1,225,000 flow-through shares of the Company at \$0.40 per share and 455,000 non-flow-through shares of the Company at \$0.40 per share; and
- (ii) a non brokered portion of 297,500 flow-through shares of the Company at \$0.40 per share and 522,500 non-flow-through shares of the Company at \$0.40 per share.

The total shares issued by the private placement were 2,500,000 shares for gross proceeds of \$1,000,000.

# SHELTERED OAK RESOURCES CORP.

## (formerly Lucrum Capital Corp.)

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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### 3. Acquisition and reverse take over transaction (continued):

- (c) In connection with the brokered portion, the Company paid to Canaccord Capital Corporation (the "Agent") a cash commission of \$53,760 and an administration fee of \$15,000, and reimbursed the Agent \$23,000 of legal and other expenses, and granted the Agent 134,400 non-flow-through common share purchase warrants, with each Agent's warrant exercisable into one non-flow-through share of the Company at a price of \$0.40 per share up until August 28, 2009. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 2%; expected volatility of 95%; expected life of one year. The value assigned to these warrants was \$26,880.

In connection with the non brokered portion, the Company paid to Deacon & Company Capital Markets Inc. (the "Finder") a cash commission of \$26,240 and granted to the Finder 65,600 non-flow-through common purchase warrants, with each Finder's warrant exercisable into one non-flow-through share of the Company at a price of \$0.40 per share until August 28, 2009. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 2%; expected volatility of 95%; expected life of one year. The value assigned to these warrants was \$13,120.

The total share issuance costs for above private placements were \$158,000.

### 4. Mineral properties and related expenditures:

The Company enters into exploration agreements with other companies pursuant to which it may earn interests in mineral properties by issuing common shares and/or making option payments and/or incurring expenditures in varying amounts by varying dates. Failure by the Company to meet such requirements can result in a reduction or loss of the Company's ownership interest or entitlements under the agreements.

On February 7, 2007, as amended and restated on April 19, 2007, and amended on August 3, 2007, December 1, 2007, March 28, 2008 and February 2, 2009 SOR entered into an option agreement with Sage Gold Inc. ("Sage") to acquire an undivided interest in three gold prospective exploration properties, (the "Sage Properties"), in the Ontario and Quebec areas. Under the option agreement, SOR has the sole and exclusive right to acquire an undivided 55% interest in the Kerrs Property, an undivided 100% interest in the Chibougamau Property, and an undivided 100% interest in the Malartic Property.

As part of the option agreement, Sage will be paid an exploration management fee of 10% of the exploration expenditures incurred on the properties during the term of the option which expires on December 31, 2010.

In order to maintain its interest under this agreement and its right to exercise the option, SOR shall:

- (a) pay or cause to be paid to Sage:
- (i) in the case of the Kerrs Property, an aggregate of \$200,000, to be paid as follows:
    - \$40,000 on March 6, 2007, which was paid;
    - \$60,000 on September 6, 2008, which was paid;
    - \$100,000 on September 6, 2009.

# SHELTERED OAK RESOURCES CORP.

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Years ended December 31, 2008 and 2007

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#### 4. Mineral properties and related expenditures (continued):

- (a) pay or cause to be paid to Sage (continued):
- (ii) in the case of the Chibougamau Property, an aggregate of \$105,000 to be paid as follows:
    - \$10,000 on March 6, 2007, which was paid;
    - \$15,000 on March 6, 2008, which was paid;
    - \$25,000 on September 6, 2008, which was paid;
    - \$55,000 on September 6, 2009.
  - (iii) in the case of the Malartic Property, an aggregate of \$55,000 to be paid as follows:
    - \$10,000 on March 6, 2007, which was paid;
    - \$15,000 on September 6, 2008, which was paid;
    - \$30,000 on September 6, 2009.
- (b) fund or shall cause to be funded exploration expenditures in the aggregate amount of:
- (i) in the case of the Kerrs Property, \$1,800,000 to be paid as follows:
    - a minimum of \$300,000 on or before June 30, 2008, which was met;
    - an additional minimum of \$500,000 on or before June 30, 2009; and
    - an additional minimum of \$1,000,000 on or before June 30, 2010.
  - (ii) in the case of the Chibougamau Property, \$265,000 to be paid as follows:
    - a minimum of \$40,000 on or before December 31, 2008 which was paid;
    - an additional minimum of \$75,000 on or before December 31, 2009; and
    - an additional minimum of \$150,000 on or before December 31, 2010.
  - (iii) in the case of the Malartic Property, \$150,000 to be paid as follows:
    - a minimum of \$15,000 on or before December 31, 2008 of which \$15,000 was paid;
    - an additional minimum of \$50,000 on or before December 31, 2009; and
    - an additional minimum of \$70,000 on or before December 31, 2010.
  - (iv) in the case of the Kidston claim forming part of the Kerrs property, \$125,000 to be paid as follows:
    - \$15,000 on or before August 1, 2007, which was paid;
    - a minimum of \$110,000 on or before June 30, 2011;

In addition to the above requirements, SOR issued, in fiscal 2007, 180,000 common shares for a total consideration of \$126,000 and issued 500,000 share purchase warrants exercisable at \$1.00 for a period of 3 years from the date of which the shares are listed for trading on a recognized exchange. SOR also paid to the Wahgoshig First Nation 72,000 common shares valued at \$50,400 for the rights to explore the Sage Properties. The Company also issued 10,000 share purchase warrants in fiscal 2008 to the Wahgoshig First Nation as additional consideration for rights to explore the Sage Properties. These warrants are exercisable at a \$1 per warrant for a period of one year expiring August 19, 2009. These common shares and share purchase warrants were exchanged for Sheltered common shares and share purchase warrants on August 28, 2008 at the qualifying transaction rate of 3.7362 Sheltered for one SOR, and exercise prices of the warrants were adjusted accordingly. The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 2%; expected volatility of 95%; expected life of one year. The value assigned to these warrants was \$2,200.

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#### 4. Mineral properties and related expenditures (continued):

The following is a detailed list of the Company's mineral properties:

	December 31, 2007	December 31, 2008	
	Net Book Value	Net Expenditures	Net Book Value
<b>Kerrs Property</b>			
Acquisition	\$285,436	\$ 62,200	\$ 347,636
Exploration expenditures	60,069	874,247	934,316
	345,505	936,447	1,281,952
<b>Chibougamau Property</b>			
Acquisition	50,482	40,000	90,482
Exploration expenditures	-	12,513	12,513
	50,482	52,513	102,995
<b>Malartic Property</b>			
Acquisition	50,482	15,000	65,482
Exploration expenditures	-	12,513	12,513
	50,482	27,513	77,995
<b>Total</b>	<b>\$446,469</b>	<b>\$1,016,473</b>	<b>\$1,462,942</b>

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## 5. Share capital:

(a) Share capital consists of the following:

	# of shares	Amount
Authorized:		
Unlimited number of common shares		
Issued and outstanding:		
Balance, December 31, 2006	293,863	\$ 294
Issuance of founders shares	912,102	912
Issued for cash pursuant to private placement offerings, net of warrants	855,857	431,248
Issued for cash pursuant to private placement offerings	358,857	225,237
Issuance of shares pursuant to acquisition of properties	180,000	126,000
Issued for cash pursuant to private placement offerings	164,200	147,229
Issued for cash pursuant to private placement offerings	60,500	33,758
Issuance of shares pursuant to the acquisition of exploration rights – Wahgoshig First Nation	72,000	50,400
Balance December 31, 2007 of SOR	2,897,379	1,015,078
Renunciation of flow-through expenditures	-	(132,928)
Cancellation of shares (i)	(252,509)	(252)
Issuance of SOR shares (ii)	68,000	68,000
Balance, August 28, 2008 of SOR	2,712,870	949,898
Balance, August 28, 2008 of Sheltered	4,500,000	234,688
Shares issued pursuant to private placement offerings (3b)	2,500,000	1,000,000
Share issuance costs (3c)	-	(158,000)
Shares issued from qualifying transaction (3a)	10,135,808	117,456
Share issuance costs relating to qualifying transaction	-	(314,810)
Capital stock of SOR eliminated on consolidation (3a)	(2,712,870)	-
Capital stock of Sheltered eliminated on consolidation (3a)	-	(234,688)
Shares issued pursuant to private placement offering - net (iii)	4,875,000	409,105
Shares issued pursuant to private placement offering – net (iii)	2,500,000	168,240
Share issuance cost	-	(149,426)
Balance, December 31, 2008	24,510,808	\$2,022,463

- (i) On August 7, 2008, 252,509 founders shares were cancelled as part of the reverse take over agreement.
- (ii) The Company issued 68,000 flow through shares for proceeds of \$68,000 to a director of the Company prior to the reverse take over transaction.

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### 5. Share capital (continued):

- (iii) The Company issued 4,875,000 flow-through units ("FT unit") at a price of \$0.10 per FT unit for aggregate proceeds of \$487,500 and 2,500,000 non flow-through units at a price of \$0.085 per unit for gross proceeds of \$212,500. Each FT unit is comprised of one common share and one-half of one transferable common purchase warrant (each whole warrant "B warrant"). Each non flow-through unit is comprised of one common share and one-half of one transferable common share purchase warrant (each whole warrant, "A warrant").

Each A warrant shall entitle its holder to acquire a common share at an exercise price of \$0.12 per share for a period of 12 months from the date of closing and at an exercise price of \$0.16 per share for a period of 24 months from the date of closing. Each whole B warrant shall entitle its holder to acquire a common share at an exercise price of \$0.14 per share for a period of 12 months expiring in December 2009 and at an exercise price of \$0.18 per share for a period of 24 months expiring in December 2010.

The Black-Scholes option pricing model was used to determine the fair value of the warrants using the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 2%; expected volatility of 95%; expected life of two years. The value assigned to these A warrants and B warrants were \$44,260 and \$78,395 respectively.

In the event that the common shares of the Company trade with a closing price on the TSX Venture Exchange of greater than \$0.20 per share for a period of 20 consecutive trading days at any time after four months and one day after the respective closing date, the Company may accelerate the expiry date of the A warrants and B warrants by giving notice to the holders thereof and in such case the A warrants and B warrants will expire on the 30<sup>th</sup> day after the date on which such notice is given by the Company.

In connection with the private placements, the Company paid finders' fees of \$24,000 to Limited Market Dealer Inc. ("LMD Inc."), \$25,566 to Deacon & Company Capital Markets Inc. ("Deacon & Company"); and \$2,634 to Canaccord Capital Corporation. The Company also issued non-transferable compensation options ("Compensation Options") entitling the holders to purchase 560,000 non-flow-through units of the Company expiring in December 2010. The Black-Scholes option pricing model was used to determine the fair value of the compensation options using the following weighted average assumptions: expected dividend yield of 0%; risk free interest rate of 2%; expected volatility of 95%; expected life of two years. The value assigned to these compensation options were \$20,241.

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## 5. Share capital (continued):

### (b) Warrants:

A summary of the status of the Company's warrants as at December 31, 2008 and 2007 and changes during the periods then ended is presented below:

	# of Warrants	Weighted Average Exercise Price	Assigned Value
Balance, December 31, 2006	-	-	-
Issued during the year	3,808,781	\$0.27	\$260,850
Balance, December 31, 2007	3,808,781	0.27	260,850
Issued during the year:			
Warrants issued under private placement offerings	3,687,499	0.13	122,655
Agents' warrants assumed and issued during the year	960,000	0.14	60,241
Warrants issued to Wahgoshig First Nations	37,362	0.27	2,200
Balance, December 31, 2008	8,493,642	\$0.20	\$445,946

The following table summarized the warrants outstanding as at December 31, 2008:

Number of Warrants	Exercise Price (\$)	Expiry Date	Warrant Value Using Black-Scholes Valuation (\$)
1,636,183	\$0.27	August 28, 2009	\$102,635
263,400	0.36	August 28, 2009	20,487
78,460	0.19	August 28, 2009	4,928
200,000	0.40	August 28, 2009	32,460
1,249,999	0.12	December 19, 2009 (i)	44,260
2,437,500	0.14	December 19, 2009 (ii)	78,395
560,000	0.12	December 19, 2010 (iii)	20,241
200,000	0.10	January 2, 2010	7,540
1,868,100	0.27	August 28, 2011	135,000
8,493,642			\$445,946

(i) \$0.16 per warrant expiring December 19, 2010.

(ii) \$0.18 per warrant expiring December 19, 2010.

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## 5. Share capital (continued):

### (b) Warrants (continued):

(iii) The Company issued (Note 5A(iii)) 560,000 compensation options. Each compensation option is exchangeable into 1 unit of the Company as follows:

- 200,000 at \$0.085 per unit expiring December 19, 2010;
- 352,000 at \$0.10 per unit expiring December 19, 2010;
- 8,000 at \$0.10 per unit expiring December 31, 2010;

Each unit comprises one common share and one half of one common share purchase warrant. Each warrant entitles the holder to acquire a common share at exercise prices as follows:

- 200,000 at \$0.12 per share expiring December 19, 2009, thereafter at an exercise price of \$0.16 expiring December 19, 2010;
- 352,000 at \$0.14 per share expiring December 19, 2009, thereafter at an exercise price of \$0.18 expiring December 19, 2010; and
- 8,000 at \$0.14 per share expiring December 31, 2009, or thereafter at an exercise price of \$0.18 expiring December 31, 2010.

### (c) Stock options:

The Company has a stock option plan under which directors, officers, employees, consultants and management company employees are periodically granted non transferable stock option to purchase common shares of the Company.

Under the plan, the exercise price for purchasing these shares cannot be less than the market price of the common shares of the last day on which the common shares traded prior to the date of the granted option. All options vest immediately under the plan.

During the year, 1,047,500 options (2007 – 400,000) were granted at an exercise price of \$0.20 per option; 450,000 options were granted at an exercise price of \$0.45 per option; and 400,000 options were cancelled.

A summary of the status of the Company's stock options outstanding as at December 31, 2008 and 2007, and changes during the years then ended is presented below:

	2008		2007	
	# of Options	Weighted Average Price	# of Options	Weighted Average Price
Outstanding, beginning of year	400,000	\$0.70	-	\$ -
Granted	1,497,500	0.27	400,000	0.70
Cancelled	(400,000)	0.70	-	-
Outstanding and exercisable, end of year	1,497,500	\$0.27	400,000	\$0.70

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## 5. Share capital (continued):

### (c) Stock options (continued):

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2008:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date
1,047,500 (ii)	1,047,500	\$0.20	October 28, 2011
450,000 (i)	450,000	\$0.45	August 28, 2013
<b>1,497,500</b>	<b>1,497,500</b>		

(i) and (ii) In accordance with CICA 3870, the fair value of stock options granted during the year was estimated at the date of grant using the Black-Scholes option pricing model. For the 450,000 options granted, the following assumptions were used: expected dividend yield of 0%; risk free interest rate of 3%; expected volatility of 95%; expected option life of five years. The fair value of the 450,000 options granted was \$90,000.

For the 1,047,500 options granted, the following assumptions were used in calculation of its fair value using Black-Scholes: expected dividend rate of 0%; expected volatility of 95%; expected option life two years; risk free interest rate of 2%. The fair value of the 1,047,500 options granted was \$47,637.

The Company used the Bank of Canada bank rate as the risk free interest rate.

For the year ended December 31, 2008, included in the consolidated statement of operations and deficit was stock-based compensation expense of \$137,637 (2007 \$116,000)

### (d) Contributed surplus:

Contributed surplus transactions for the respective years are as follows:

Balance, December 31, 2006	\$ -
Stock-based compensation	116,000
Balance, December 31, 2007	116,000
Stock-based compensation (note 5(c)(i & (ii))	137,637
<b>Balance, December 31, 2008</b>	<b>\$253,637</b>

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### 6. Related party transactions:

All related party transactions are in the normal course of business and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

The Company has a consulting agreement with RKH Limited (a company controlled by an officer and director of Sheltered) for \$20,000 per month to April 30, 2008, and \$12,500 thereafter per month. Included in consulting fees is \$180,000 for the year ended December 31, 2008 (2007 - \$240,000) relating to this agreement.

### 7. Management of capital:

The Company includes the following in its capital:

	2008	2007
Shareholders' equity comprised of		
Share capital	\$2,022,463	\$1,015,078
Warrants	445,946	260,850
Contributed surplus	253,637	116,000
Deficit	(1,082,703)	(647,410)
	<u>\$1,639,343</u>	<u>\$ 744,518</u>

The Company's objectives when managing capital are:

- To maintain the necessary financing to complete exploration and development of its properties;
- To realize proceeds from sale of one or more of its properties;
- Maximizing the income it receives from cash and cash equivalents without significantly increasing the principal's risk by placing investments with high credit quality issuers; and
- To maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

- raising capital through equity financings;
- reviewing and reducing capital spending on mineral properties when necessary.

The Company is not subject to any capital requirements imposed by a regulator. To date, the Company has not declared any cash dividends to its shareholders. The Company's management is responsible for the management of capital and reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at December 31, 2008.

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### 8. Income taxes:

- (a) Income tax recovery attributed to loss before income taxes differs from the amounts computed by applying the combined Federal and Provincial tax rate of approximately 34.2% (2007 – 36.12%) to pre-tax loss as a result of the following:

	2008	2007
Loss before income taxes	\$(435,293)	\$(647,410)
Computed "expected" income tax recovery	\$(148,870)	\$(233,844)
Non-deductible stock-based compensation	47,072	41,900
Share issuance costs	(41,724)	(8,000)
Tax assets recognized on flow through renunciation	(132,928)	-
Non capital loss not utilized	143,522	199,944
Recovery of income taxes	\$(132,928)	\$ -

- (b) Significant components of recovery of income taxes are as follows:

	2008	2007
Current income tax expense	\$ -	\$ -
Future income tax recovery	132,928	-
Recovery of income taxes	\$132,928	\$ -

- (c) The tax effects of temporary differences that give rise to significant portion of the future tax assets and future tax liabilities as at December 31 are presented below:

	2008	2007
Future tax assets (liabilities)		
Share issuance costs	\$ 182,216	\$ 32,463
Non-capital loss carried forward	383,232	226,656
Mineral properties	(136,800)	(144,800)
	428,648	114,319
Valuation allowance	(428,648)	(114,319)
Future tax assets (liabilities)	\$ -	\$ -

The Company has non-capital losses of approximately \$1.2 million (2007 - \$600,000) which may be carried forward and applied to taxable income in future years. These losses if not utilized will expire in stages through to 2029 subject to certain restrictions and the Company also has mineral property expenditures of approximately \$1 Million dollars available to reduce taxable income in future years that have an unlimited life. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these consolidated financial statements and have been offset by a valuation allowance.

# **SHELTERED OAK RESOURCES CORP.**

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### **9. Financial instruments:**

- (a) **Liquidity risk:** Liquidity risk is the risk that the Company will have sufficient cash resources to meet its financial obligations as they come due. The Company has cash and cash equivalents of approximately \$508,000 invested in the bank. The funds are available as needed to fund the Company's ongoing expenditures. The Company is continuously raising capital in an effort to ensure it has the liquid funds for its exploration programs and working capital.
- (b) **Market risk:** Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity and commodity prices. The Company is not exposed to market risk since it does not invest its excess cash in risky financial instruments.
- (c) **Interest rate risk:** Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. In the normal course of business, the Company is not exposed to interest rate fluctuations since all of its cash and cash equivalents are invested in bank accounts.
- (d) **Currency risk:** Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company is not exposed to currency fluctuations as it presently holds all its funds in Canadian dollars and only has Canadian suppliers.
- (e) **Credit risk:** Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The Company has its cash and cash equivalents deposited with highly rated financial institutions. Other credit risk is limited to GST receivables in the ordinary course of business. The Company believes that its credit risks are minimal.
- (f) **Fair value:**

The Company has determined the fair value of its financial instruments as follows:

- (i) The carrying values of cash and cash equivalents, prepaids and sundry receivables, accounts payable and accrued liabilities, approximate their fair values due to the short-term nature of these instruments.
- (ii) Mineral properties and related exploration expenditures are carried at amounts in accordance with the Company's accounting policies.

### **10. Subsequent events:**

- (a) Subsequent to December 31, 2008, the Company granted 800,000 stock options to directors and officers at an exercise price of \$0.10 per common share. These stock options will expire on January 7, 2012.

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### **10. Subsequent events (continued):**

- (b) Subsequent to December 31, 2008, the Company issued under a private placement offering 5,500,000 units of the Company at a price of \$0.085 per unit for aggregate proceeds of \$467,500. Each unit consists of one common share and one-half common share purchase warrant exercisable into one common share of the Company at \$0.12 per share for one year and at \$0.16 per share for two years.

In connection with this financing, the Company paid a finders fee of \$33,400 and issued 392,944 non-transferable units of the Company under the same terms and conditions above.

- (c) Subsequent to December 31, 2008, the Company has executed an amendment and extension to the option agreement between Sage Gold Inc., Jocelyne Kidston and Michael Dymont relating to the Kidston claim on the Kerrs Property. The term of the Kidston option agreement has been extended to September 6, 2009. The consideration for maintaining the Kidston option agreement in full force was to issue 125,000 common shares of the Company.

### **11. Commitments:**

Pursuant to the terms of the flow-through share agreements, the Company is in the process of complying with its flow-through contractual obligations with subscribers with respect to the Income Tax Act (Canada). As at December 31, 2008, the Company is committed to incurring approximately \$500,000 in qualifying exploration expenditures in Canada ("CEE") by December 31, 2009 arising from the flow-through offerings. It is expected that the Company may institute the look-back rule as defined by the Income Tax Act (Canada) which will require the Company to spend the funds within 12 months from the effective date of renunciation.