

**SHELTERED OAK RESOURCES CORP.**  
**MANAGEMENT DISCUSSION & ANALYSIS**  
**SECOND QUARTER ENDED JUNE 30, 2009**

**Prepared as of August 20, 2009**

**INTRODUCTION**

This management discussion and analysis (“MD&A”) of results and operations and financial condition of Sheltered Oak Resources Corp. (“Sheltered” or “the Company”) describes the operating and financial results of the Company for the second quarter ended June 30, 2009. The MD&A supplements, but does not form part of, the consolidated financial statements of the Company and should be read in conjunction with Sheltered’s audited consolidated financial statements and related notes for fiscal years 2008 and 2007. The Company prepares and files its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”), presented in Canadian dollars. Sheltered is listed on the TSX Venture Exchange and as such, the following MD&A is prepared in accordance with requirements for venture issuers.

On August 28, 2008, Sheltered’s qualifying transaction (the “Qualifying Transaction”) was completed by way of a “three cornered” amalgamation among the Company, Sheltered Oak Resources Inc. (“SOR”) and a wholly-owned subsidiary of the Company whereby the Company issued an aggregate of 10,135,808 common shares to the shareholders of SOR and SOR amalgamated with Lucrum Acquisition Corp. to form “Sheltered Oak Resources Inc.”. The Company’s name was changed from “Lucrum Capital Corp.” to “Sheltered Oak Resources Corp.” on December 17, 2008.

As a result of the Qualifying Transaction, 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 issuance 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, totalling \$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	<u>(16,661)</u>
	<hr/>
	\$117,456

Purchase consideration:

Common shares issued	<u>\$117,456</u>
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.Accordingly, the accounting of the share exchange is identical to that resulting from a reverse acquisition, except no goodwill is recorded. Under reverse takeover accounting, the post reverse acquisition comparative historical financial statements of the legal acquirer are those of the legal acquiree which is considered to be the accounting acquirer. Various other documents including the Filing Statement in respect of the Qualifying Transaction , dated August 18, 2008 (the “Filing Statement”), the consolidated financial statements for the three month period ended September 30, 2008 and other documents are all available on SEDAR at [www.sedar.com](http://www.sedar.com) under Sheltered. Additionally, the Filing Statement includes the audited annual financial statements for the year ended December 31, 2007 for SOR which should be read in conjunction with this discussion.

Sheltered has one wholly-owned subsidiary, Sheltered Oak Resources Inc. which carries on all of the activities and operations of the Company.

## **OVERVIEW**

Sheltered is a junior mineral exploration company which, through its 100% owned subsidiary SOR, has an option to acquire a 55% interest in the Kerrs Gold property which consists of 43 unpatented mining claims and 12 leasehold interests located in the Matheson area of Ontario. These properties are optioned from Sage Gold Inc. (“Sage”) pursuant to an option agreement dated February 7, 2007 as amended and restated on April 19, 2007, and as amended on August 3, 2007, December 1, 2007, March 28, 2008 and February 2, 2009. Further details about the Property and Option Agreement can be found in the Company’s Filing Statement dated August 18, 2008 and filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **FORWARD LOOKING INFORMATION**

Certain statements contained in this management’s discussion and analysis may contain forward-looking information.

Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “estimate”, “expect”, “goal”, “intend”, “may”, “plan” and “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information disclosed herein includes:

- timing and commencement of drilling and other planned exploration;
- future financings; and
- the ability to exercise its option to earn an interest in the Sage properties (see “Interests in Mineral properties”)
- expectations to report NI 43-101 compliant mineral resources.

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by any forward-looking information. Factors that could cause actual results to differ materially from any forward-looking information include, but are not limited to:

- inability to complete future financings to finance exploration;
- unsuccessful exploration results;
- changes in costs of drilling and other planned exploration;
- maintenance of mining claims and leasehold interests by Sage.; and
- the speculative nature of resource exploration.

Readers are cautioned not to place undue reliance on forward-looking information, which speak only as of the date the statements were made, and readers are also advised to consider such forward-looking information while considering the risks set forth under the heading “Risk Factors” in the Filing Statement. The Company is under no obligation to publicly update or otherwise revise any forward-looking information, whether as a result of new information, future events or other such factors which affect this information, except as required by law.

## **INTERESTS IN MINERAL PROPERTIES**

Sheltered, through its 100% owned subsidiary SOR, has an option to acquire a 55% interest in the Kerrs Gold property which consist of 43 unpatented mining claims and 12 leasehold interests located in the Matheson area of Ontario.

A copy of the NI 43-101 Technical Report is available at [www.sedar.com](http://www.sedar.com) under the filings for Sheltered. The Phase 3 diamond drilling was completed in December 2008. Results to date have been reported in press releases dated November 20, 2008 and February 18, 2009 and can be found on [www.sedar.com](http://www.sedar.com). To date, five drill holes (K-08-17 through 21) have been completed totalling 2508 metres.

Sheltered has completed a helicopter-supported airborne magnetic survey covering the entire property at 100 m line spacing. The Company is evaluating the results of this survey and awaiting results from an orientation MMI geochemical survey completed last fall. Further information will be made available when received by the Company.

Sheltered is currently planning a comprehensive Phase 4 drilling program designed to systematically delineate and evaluate the Kerrs pyritic, green carbonate quartz vein systems. In-fill drilling is targeted to tighten up the drill hole intersection density to 100m x 100m focusing on higher grade vein systems between section 1100N and 1600N involving nine holes. A reconnaissance drilling program is also planned to test for the extension of the Kerrs Gold system out to section 2000N. A parallel-trending series of magnetic lows on the eastern property boundary warrants an MMI soil survey followed by test drilling. The MMI soil survey field crew was mobilized on June 28<sup>th</sup>.

The Phase 3 surface diamond drilling program involving geological core logging, sampling and assaying tasks was supervised by Peter Hubacheck, P.Geo. #1059 (APGO) on behalf of Hubacheck Consulting Geologists (HCG), affiliated with W.A. Hubacheck Consultants Ltd. Peter Hubacheck is a qualified person as defined by NI-43-101 and has reviewed and authorized the geotechnical material in this MD&A. Mr. Hubacheck is a Director of the Company.

Sheltered and Sage Gold Inc. (“Sage”) jointly announced in July that unpatented mining claim 1140877 (the “Claim”) covering approximately 240 hectares of the Kerrs Gold Property, one of the 43 unpatented mining claims for which Sheltered has an option to acquire a 55% interest from Sage, automatically forfeited on June 26, 2009. The area covered by the Claim is where most of the recent exploratory drilling has been done on the Kerrs Gold Property. The downdip extension from the reported drilling results on this Claim extends to Sage’s adjacent claim to the south which is also under option to Sheltered. The Company expects to continue with its summer drill program of approximately 4,000 metres on targeting the downdip extension of the Kerrs gold system and drill testing coincident soil geochemistry and structural targets on Kerrs Gold Property claims adjoining to the southeast,

The Claim automatically forfeited due to an administrative error which resulted from a failure to apply assessment work credits for work which had already been completed on the Claim. An application for Relief from Forfeiture was made to the Ministry of Northern Development and Mines (the “MNDM”) on July 1, 2009. On July 2, 2009, the MNDM issued an order (the “Withdrawal Order”) withdrawing the area covered by the Claim from staking while it considered the application. There is a mandatory 31 day review period before any requested relief can be granted by the MNDM.

Prior to the issuance of the Withdrawal Order, two arms-length individuals staked the area covered by the Claim. One of them filed an application to have his claim recorded with the MNDM in its Kirkland Lake office following the Withdrawal Order; however it has not been recorded. Sage and Sheltered are currently assessing the accuracy of the claims staked. At the same time, and out of an abundance of caution, Sage and Sheltered have had discussions with these individuals with a view to settling this manner in the event that the relief from forfeiture is not granted by the MNDM and the staked claims are recorded.

Sage and Sheltered are actively pursuing a positive resolution to this situation and are making every effort to return the Claim to Sage's ownership.

The Company has incurred, from inception, acquisition costs and exploration costs totalling \$1,374,056 relating to the Kerrs gold property, as detailed in the Interim Consolidated Statements of Mineral Properties to the consolidated financial statements as at June 30, 2009 (\$480,708 to June 30, 2008). In order to maintain its interest in the property, Sheltered is obligated to pay Sage a total of \$100,000 by September 6, 2009, and fund a total of \$1,000,000 of exploration expenditures on the Kerrs Property by June 30, 2010, of which \$270,000 has already been incurred. The Company decided that no further expenditures were planned for either the Chibougamau or the Malartic properties, and accordingly the properties, with a value of \$180,990, were written off.

## **FINANCINGS**

On April 29, 2009 the Company issued 125,000 common shares of Sheltered (valued at \$12,500) in accordance with the February 2, 2009 amended option agreement between Sage Gold Inc., Jocelyne Kidston and Michael Dymant relating to the Kidston claim on the Kerrs Property.

On May 12, 2009 the Company issued 58,823 common shares of Sheltered upon the exercise of 58,823 warrants, for net proceeds of \$7,059.

On July 23, 2009 the Company completed a non-brokered private placement of (i) 818,000 units of the Company at a price of \$0.11 per unit and (ii) 4,209,271 flow-through units of the Company also at a price of \$0.11 per unit, for aggregate proceeds of \$553,000. Each unit is comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share in the capital of the Company at an exercise price of \$0.17 per share until July 23, 2010. The units are subject to a hold period expiring November 24, 2009. In connection with the private placement, the Company paid a finder's fee of \$38,860 and issued Compensation Options entitling the holders to purchase 386,821 units of the Company. The Compensation Options are exercisable into one unit on terms similar to each unit, with an expiry date of July 23, 2010

## **STOCK OPTIONS**

On May 1, 2009 the Company awarded 150,000 incentive stock options to a consultant of the Company. The options, which vest 50% after six months and 50% after one year after grant, are exercisable at \$0.20 per common share and expire on May 1, 2012.

## RESULTS OF OPERATIONS

### *Three months ended June 30, 2009*

Sheltered's operations in the second quarter of fiscal 2009 were focused on exploration, and the Company did not generate any operating revenue. Net loss for the quarter was \$393,038 compared to a net loss of \$102,666 for the corresponding quarter in the prior year, with the increased loss being primarily due to higher general and administrative expenses, and a write-off of exploration property costs in the current year's quarter.

General and administrative expenses increased to \$212,048 in the current year's quarter from \$102,666 in the second quarter of the prior year. The increase was primarily due to higher professional fees (\$77,156 in 2009; \$46,671 in 2008) relating primarily to increased legal expenditures upon becoming a public company, together with additional expenditures related to the expanded management group, higher costs for stock based compensation related to the expensing of stock option benefits (\$29,287 in 2009; \$nil in 2008), increased costs for shareholder information related to being a public entity (\$22,525 in 2009; \$nil in 2008) and higher costs incurred in investor relations programs (\$21,549 in 2009; \$nil in 2008). During the second quarter in 2009 the Company decided that no further exploration work was to be performed on the Chibougamau and Malartic properties, and a non-cash write-off of \$180,990 was accordingly incurred.

### *Summary of Quarterly Results*

The following tables set out financial performance highlights for the last six quarters and were prepared in accordance with Canadian GAAP

	<b>Second Quarter</b> June 30, 2009	<b>First Quarter</b> Mar.31, 2009
	\$	\$
Net revenues	-	-
Expenses	212,048	149,475
Net income (loss) (including interest income)	(393,038)	(149,475)
Net income (loss) per share	(0.01)	(0.01)
Cash flow from (used in) operations	(198,224)	(556,198)
Cash, end of period	115,440	356,702
Total assets	1,674,729	2,006,042

	<b>Fourth Quarter</b> Dec. 31, 2008	<b>Third Quarter</b> Sept. 30, 2008	<b>Second Quarter</b> June 30, 2008	<b>First Quarter</b> Mar. 31, 2008
	\$	\$	\$	\$
Net revenues	-	-	-	-
Expenses	165,930	205,643	102,666	93,982
Net income (loss) (including interest income)	(165,930)	(205,643)	(102,666)	38,946
Net income (loss) per share	(0.01)	(0.02)	(0.04)	0.02
Cash flow from (used in) operations	219,037	(38,888)	(24,573)	(213,052)
Cash, end of period	508,307	266,119	33,838	107,465
Total assets	2,121,744	1,423,557	799,645	725,536

The Company did not prepare interim financial statements for fiscal 2007.

***Six months ended June 30, 2009***

Sheltered's operations in the first six months of fiscal 2009 were focused on exploration, and the Company did not generate any operating revenue. Net loss for the period was \$542,513 compared to a net loss of \$63,720 for the corresponding period in the prior year, with the increased loss being primarily due to higher general and administrative expenses, in addition to a property write-off, in the current year's period, and a future income tax recovery in the prior year's period.

General and administrative expenses increased to \$361,523 in the current year's period from \$196,648 in the first six months of the prior year. The increase was primarily due to higher professional fees (\$138,607 in 2009; \$65,225 in 2008) relating primarily to increased legal expenditures upon becoming a public company, together with additional expenditures related to the expanded management group, higher costs for stock based compensation related to the expensing of stock option benefits (\$47,172 in 2009; \$nil in 2008), increased costs for shareholder information related to being a public entity (\$29,596 in 2009; \$nil in 2008) and higher costs incurred in investor relations programs (\$21,549 in 2009; \$nil in 2008). In the 2009 period the Company decided that no further exploration work was to be performed on the Chibougamau and Malartic properties, and a non-cash write-off of \$180,990 was accordingly incurred. No write-offs were recorded in the corresponding period in the prior year. The future income tax recovery in the prior year of \$132,928 relates to the tax asset recognized on the flow through renunciation from the prior year.

***Summary of Quarterly Results***

The following tables set out financial performance highlights for the six month periods ended June 30, 2009 and 2008 and were prepared in accordance with Canadian GAAP

	<b>Six Months to June 30, 2009</b>	<b>Six Months to June 30, 2008</b>
	\$	\$
Net revenues	-	-
Expenses	361,523	196,648
Net income (loss) (including interest income)	(542,513)	(63,720)
Net income (loss) per share	(0.02)	(0.02)
Cash flow from (used in) operations	(754,422)	(237,625)
Cash, end of period	115,440	33,838
Total assets	1,674,729	799,645

## **LIQUIDITY AND CAPITAL RESOURCES**

As at June 30, 2009 the Company had cash of \$115,440 and working capital of \$160,685. The working capital amount at the end of the second quarter of 2009 is not sufficient to support the Company's operating expenses and projected exploration budget for the balance of the calendar year. The consolidated financial statements as at June 30, 2009 have been prepared using 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. The consolidated financial statements do not reflect the adjustments to the carrying value of the 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. See Note 1 (b) to the consolidated financial statements.

Sheltered currently does not have any credit facilities with financial institutions, and does not anticipate that it will generate revenue from its activities in fiscal 2009; therefore it will rely on its ability to obtain equity financing for growth. The Company raised \$1,307,459 (net of costs) in equity financing in fiscal 2008, and a further \$441,159 (net of costs) in the first half of fiscal 2009. Management anticipates that it will be able to raise sufficient capital to further explore and develop its properties in the future. However the Company cannot provide any assurance that financing will be available, and on terms and conditions that would be acceptable to the Company. In the event the Company is unable to raise sufficient capital to finance the non-exploration segment of the business, primarily the administrative costs, the Company's strategy would be to pare back related expenses to match the related capital raised. In order to maintain its interest in the Kerrs property, Sheltered is obligated to pay Sage a total of \$100,000 by September 6, 2009, and fund \$1,000,000 (\$ 270,000 funded to date) of exploration expenditures on the Kerrs Property by June 30, 2010. If the Company is unable to meet its cash obligations to

Sage or fund the required level of exploration expenditures within the time frames noted in the Option Agreement, the Company may forfeit its option with no recourse.

Refer to "Risk Management".

### **OUTSTANDING SHARE CAPITAL**

As of the date hereof the Company has 35,221,902 common shares outstanding, 14,478,221 warrants and 2,694,250 stock options.

### **OFF- BALANCE SHEET ARRANGEMENTS**

Sheltered has no off-balance sheet arrangements in place.

### **TRANSACTIONS WITH RELATED PARTIES**

During the second quarter ended June 30, 2009 the Company paid consulting fees to RKH Limited in the amount of \$43,500 (\$45,000 in second quarter of fiscal 2008) pursuant to a written consulting agreement for the provision of the services that included those of Robert K. Hanson. Robert K. Hanson was an officer and director of SOR prior to the amalgamation and is currently CEO, Secretary and a Director of Sheltered. Robert Hanson is an officer, director and shareholder of RKH Limited, as well as a shareholder of the Company.

The Company also paid consulting fees in the amount of \$25,000 in the second quarter of 2009 (\$nil in second quarter of 2008) to Richbert Agencies S.A. pursuant to a written agreement for the provision of the services that include those of J.J. Elkin. Mr. Elkin is currently President and a Director of Sheltered as well as a shareholder of the Company.

The Company also paid professional fees of \$11,203 in the second quarter of 2009 (\$nil in first quarter of 2008) to a company controlled by the Chief Financial Officer of Sheltered.

During the second quarter ended June 30, 2009 the Company paid geological consulting fees of \$33,155 (\$50,607 in second quarter of 2008) to a company where the President thereof is a director of Sheltered.

### **SUBSEQUENT EVENTS**

On July 4, 2009, 72,000 stock options exercisable at \$0.45 and expiring August 28, 2013 and 81,250 stock options exercisable at \$0.20 and expiring October 28, 2011 were cancelled.

See Financings.

### **COMMITMENT**

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 June 30, 2009, the Company is committed to incurring

approximately \$404,000 in qualifying exploration expenditures in Canada by December 31, 2009 arising from the flow-through offerings.

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada.

### **(a) Use of estimates**

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are made in the period in which they become known.

Critical accounting estimates represent estimates that are highly uncertain and for which changes in those estimates could materially impact the financial statements. The following accounting estimates are critical: the measurement of deferred income tax assets and liabilities and assessment of the need to record valuation allowances against those assets; valuation of options; and capitalized mining costs.

Costs relating to the acquisition, exploration and development of non-producing resource properties are capitalized until such time as either economically recoverable reserves are established or the properties are sold or abandoned. Based on the results at the conclusion of each phase of an exploration program, management re-evaluates properties that are not suitable as prospects to determine if future exploration is warranted, and that carrying values are appropriate. If the estimated fair value of a property is deemed to be less than that of the carrying value of the property, a provision for impairment is recorded based on the discounted estimated future cash flows. Fair value has been defined by the Company as the estimated future cash flows, on an undiscounted basis. The decision to capitalize exploration expenditures and the timing of the recognition that capitalized exploration is unlikely to have future economic benefits can materially affect the reported earnings of the Corporation.

### **(b) Mineral properties**

All direct costs associated with exploration properties are capitalized as incurred. If a property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off.

The amounts capitalized at any time represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of particular properties.

The recoverability of amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the property and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

**(c) Stock-based compensation**

The Company has a stock option plan to provide incentive for the directors, officers, employees, consultants and service providers of the Company. The maximum number of shares which may be set aside for issuance under the plan is 10% of the outstanding common shares. The fair value of any stock options granted to eligible parties is recorded as an expense or capitalized to mineral properties over the vesting period with a corresponding increase recorded to contributed surplus. The fair value of the stock-based compensation is determined using the Black-Scholes option pricing model and management's assumptions. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

**(d) Income taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not likely.

**(e) Flow-Through Shares**

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. 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 tax rate) thereby reducing share capital.

If a Company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

**(f) 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 end of the quarter. 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.

**(g) Capital Management**

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 3 to the consolidated financial statements as at June 30, 2009.

**(h) Financial Instruments**

Handbook Sections 3862 and 3863 place emphasis on disclosures about the nature and extent of risks arising from financial statements and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook sections in Note 4 to the consolidated financial statements as at June 30, 2009.

**(i) Going Concern**

In June 2007 the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The Company has included disclosures recommended by the new Handbook sections in Note 1 to the consolidated financial statements as at June 30, 2009

**NEW ACCOUNTING POLICIES**

**(a) Goodwill and Intangible Assets**

Effective October 1, 2008, the Company adopted Section 3064 – Goodwill and Intangible Assets which replaced the Canadian Institute of Chartered Accountants' ("CICA") Handbook sections 3062 and 3450, EIC 27 and part of Accounting Guideline 11. Under previous Canadian standards, more items were recognized as assets than under International Financial Reporting Standards ("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 portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets intends to reduce the differences with IFRS in the accounting for intangible assets. 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 adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at June 30, 2009.

**(b) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities**

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities", which applies to interim and annual

financial statements for periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's unaudited interim consolidated financial statements as at and for the six months ended June 30, 2009.

### **(c) Mining Exploration Costs**

On March 27, 2009, the Emerging Issues Committee of the CICA approved an abstract EIC-174, "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long-lived assets in general. The Company has applied this new abstract for the six months ended June 30, 2009 and, once the Company decided during the current quarter that no further expenditures were to be incurred relating to the Chibougamau and the Malartic properties, a non-cash write-off of \$180,990 was recorded in the financial statements for the second quarter of 2009.

### **FUTURE ACCOUNTING CHANGES**

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will be required to have prepared, in time for its first quarter of fiscal 2012 filing, comparative financial statements in accordance with IFRS for the three months ended March 31, 2010. While the Company has begun assessing the impact of the adoption of IFRS on its consolidated financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, "Consolidated and Separate Financial Statements". The Company is in the process of evaluating the requirements of the new standards.

### **ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS**

In accordance with Section 5.3 of NI 51-102, as the Company has not had any revenue from operations in either of the past two years, Sheltered has disclosed, in the Interim Consolidated Statements of Mineral Properties to its consolidated financial statements as at June 30, 2009, the capitalized exploration expenditures incurred by property, as follows:

	2008	2009	2009
	Net Book Value	Net Expenditures	Net Book Value
<b>Kerrs Property</b>			
Acquisition	\$ 347,636	\$ 12,500	\$ 360,136
Exploration expenditures	934,316	79,604	1,013,920
	1,281,952	92,104	1,374,056
<b>Chibougamau Property</b>			
Acquisition	90,482	(90,482)	-
Exploration expenditures	12,513	(12,513)	-
	102,995	(102,995)	-
<b>Malartic Property</b>			
Acquisition	65,482	(65,482)	-
Exploration expenditures	12,513	(12,513)	-
	77,995	(77,995)	-
<b>Total</b>	<b>\$ 1,462,942</b>	<b>\$ (88,886)</b>	<b>\$ 1,374,056</b>

## RISK MANAGEMENT

Due to the nature of the Company's business and present stage of exploration and development of the Sage Property, Sheltered may be subject to significant risks.

The Company does not have a history of business or mining operations, revenue generation or production history.

Sheltered has limited financial resources, no operations and no revenues. If the Company's drilling program on the Kerrs Property is successful, additional funds will be required for the purposes of further exploration and development on the Kerrs Property and for additional cash payments to Sage. There can be no assurance that Sheltered will be able to obtain adequate financing in the future or that such financing will be available on favourable terms or at all. It is likely such additional capital will be raised through the issuance of additional equity which will result in dilution to the Company's shareholders. Failure to obtain such additional financing on a timely basis could cause Sheltered to forfeit its option to acquire an interest in the Sage Property.

The only interest the Company has in a mineral property is an option to acquire an interest in the Sage Property pursuant to the Option Agreement. In order to exercise its option under the Option Agreement, Sheltered is required to make specified expenditures on the Sage Property and cash payments to Sage. The Company will need to raise further funds to make these payments.

Resource exploration, development and operations are highly speculative, characterized by a number of significant risks, which even a combination of careful evaluation, experience and knowledge may not eliminate including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in quantity and quality to return a profit from production. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. Substantial expenditures are required to establish mineral resources and mineral reserves through drilling, to develop metallurgical processes to extract the metal from mineral resources and, in the case of new properties, to develop the mining and processing facilities and infrastructure at any site chosen for mining. No assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on a timely basis. 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 which are highly cyclical; and government regulations. The exact effect of these factors cannot accurately be predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

Sheltered will be subject to a number of operational risks and may not be adequately insured for various risks. The Company's business is subject to a number of risks and hazards, including environmental pollution, accidents or spills, industrial and transportation accidents, worker health and safety which may involve radioactive or hazardous materials; labour disputes; catastrophic accidents; fires; blockades or other acts of social activism; changes in the regulatory environment; impact of non-compliance with laws and regulations; natural phenomena, such as inclement weather conditions; and encountering unusual or unexpected geological conditions. There is no assurance that the foregoing risks and hazards will not result in damage to the Sage Properties, personal injury or death, environmental damage, costs, monetary losses, potential legal liability, adverse governmental action, any and all of which could have an adverse impact on Sheltered's results of operations and financial condition.

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. Although the Company has obtained a title opinion in respect of Sage's title to the Kerrs Property, Sheltered cannot give an assurance that title to such property will not be challenged or impugned. If the Company is able to exercise its option to acquire an interest in the Sage Property, it can never be certain that it will have or can obtain valid title to the Sage Property or that any rights to explore and exploit the Sage Property will not be revoked, or significantly altered to its detriment, challenged or impugned by third parties. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that Sage or Sheltered, as the case may be, does not have title to the Kerrs Property could cause the Company to lose any rights to explore, develop and mine any minerals on that property, without compensation for its prior expenditures relating to such property.

The success of Sheltered is currently largely dependent upon on the performance of its directors and officers. The loss of the services of these persons will have a material adverse effect on the Company's business and prospects. There is no assurance that Sheltered can maintain the service of its directors and officers or other qualified personnel required to operate the business. Failure to do so could have a material adverse affect on the Company and its prospects.

The management of Sheltered may lack all necessary technical training and experience to successfully develop and operate a mine. Without adequate training or experience in these areas, management may not be fully aware of many of the specific requirements related to working within the mining industry and their decisions and choices may not take into account all available and necessary engineering or managerial approaches that experienced mine operating companies commonly use to successfully develop a mine. Consequently, the Company's operations, earnings and ultimate financial success could suffer irreparable harm due to these factors.

Sheltered has all permits and licences necessary to carry on its current exploration activities on the Kerrs Property. A substantial number of additional permits and licenses may be required should the Company proceed beyond exploration; such licenses and permits may be difficult to obtain and may be subject to changes in regulations and in various operational circumstances. It is uncertain whether Sheltered will be able to obtain all such licenses and permits.

The economics of mineral exploration is affected by many factors beyond the Company's control including commodity prices, the cost of operations, variations in the grade of minerals explored and fluctuations in the market price of minerals. Depending on the price of minerals, it may be determined that it is impractical to continue the mineral exploration operation. Mineral prices are prone to fluctuations and the marketability of minerals is affected by government regulation relating to price, royalties, allowable production and the importing and exporting of minerals, the effect of which cannot be accurately predicted. There is no assurance that a profitable market will exist for the sale of any minerals found on the Sage Property.

The current or future operations of Sheltered require permits from various governmental authorities, and such operations are and will be governed by laws and regulations governing exploration, development, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, site safety and other matters. Companies engaged in the exploration and development of mineral properties generally experience increased costs and delays in development and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the facilities and conduct of exploration and development operations will be obtainable on reasonable terms or that such laws and regulation would not have an adverse effect on any exploration and development project which Sheltered might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in exploration and development operations may be required to compensate those suffering loss or damage by reason of the exploration and development activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or

regulations. Amendments to current laws, regulation and permits governing operations and activities of mineral companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or exploration and development costs or require abandonment or delays in the development of new properties.

Exploration, development and production operations on mineral properties involve numerous risks, including unexpected or unusual geological operating conditions, rock bursts, cave-ins, fires, floods, earthquakes and other environmental occurrences. It is not always possible to obtain insurance against all such risks and Sheltered may decide not to insure against certain risks as a result of high premiums or other reasons. Should such liabilities arise, they could have an adverse impact on the Company's results of operations and financial condition and could cause a decline in the value of Sheltered's Shares. The Company does not maintain insurance against environmental risks.

Significant and increasing competition exists for mineral opportunities in Ontario or elsewhere. There are a number of large established mining companies and mineral exploration companies with substantial capabilities and greater financial and technical resources than Sheltered. The Company may be unable to maintain its interest in the Kerrs Property or to acquire additional attractive mineral properties on terms it considers acceptable. The mineral industry in general is an intensely competitive industry in which operators compete for the acquisition of mineral claims as well as the recruitment and retention of qualified employees.

Directors of the Company may, from time to time, serve as directors of, or participate in ventures with other companies involved in natural resource development. As a result, there may be situations that involve a conflict of interest. Each director will attempt not only to avoid dealing with such other companies in situations where conflicts might arise but will also disclose all such conflicts in accordance with the *Business Corporations Act* (British Columbia) and the *Business Corporations Act* (Ontario), as applicable, and will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

Additional information about the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) under the filings for Sheltered Oak Resources Corp.