



KERNOW

RESOURCES & DEVELOPMENTS LTD.

2007 ANNUAL REPORT

KERNOW RESOURCES & DEVELOPMENTS LTD.

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ANNUAL REPORT

May 9, 2008

Last year was a very busy year for Kernow. Two of the more significant events of the year occurred in May 2007 when Kernow was awarded an Experimental Mining Licence for the Jales Gralheira Gold-Silver Property and awarded an Exploration Licence for the Alto Sobrido Gold-Antimony Project. Kernow also entered into an option agreement with Global Minerals Ltd. whereby Global can earn an initial 50% interest in the Alto Sobrido Property.

During the period Kernow completed further drilling at the Boticas Property in northern Portugal. The results from the program continued to confirm the tenor of the gold grades reported by COGEMA (Compagnie Générale des Matières Nucléaires of France) from a previous 16 drill hole program and from Kernow's drilling completed in 2006. In addition, a surface mapping and sampling program was undertaken in the Limarinho Pit and the results of this program are also seen as being positive.

Drilling was also completed on the Alandroal and Barrancos Properties in Southern Portugal. Unfortunately, results were not sufficiently encouraging and, in October 2007, Kernow relinquished its option on the Barrancos Property and in May 2008 relinquished its option on the Alandroal Property.

In May of 2007, Kernow was awarded an Experimental Mining Licence for the Jales Gralheira Gold-Silver Property. Assessment of the property is ongoing with a Resource Estimate having been completed by Wardell Armstrong International Ltd. and metallurgical testing of mineralised material from the underground adit underway. During the year, St Elias Mines Ltd. informed Kernow that it will not proceed with the second option to earn a 75% interest in the project. Kernow currently has a 49% interest in the project and St. Elias has a 51% interest.

In the fall of 2007, Kernow conducted surface and underground sampling on the Alto Sobrido Property. The sampling confirmed the presence of both high grade gold and antimony values recorded by previous explorers.

Kernow is continuing to focus its property acquisition, exploration and development efforts in the Iberian Peninsula. Portugal is a European Union country with stable politics, a skilled labour force and excellent infrastructure. This infrastructure includes some of Europe's newest highways, abundant power and existing rail and port facilities. All of Kernow's properties in Portugal are located close to power and water supplies and can easily be accessed by existing roads.

Kernow also welcomed Mr. Jerry Bulman to the Board of Directors in September 2007.

Kernow will need further funding to complete the envisaged exploration programs for 2008 and any new concessions it may acquire. Kernow maintains a web site www.kernowresources.com. Investors and shareholders are encouraged to visit the site.

Alan F. Matthews
President & Chief Executive Officer

EXPLORATION ACTIVITIES

This report briefly describes the activities of Kernow Resources & Developments Ltd. for the year ended December 31, 2007 and the four-month period ended April 30, 2008.

PORTUGAL

BOTICAS GOLD PROPERTY

During the year, Kernow entered into discussions with the appropriate Portuguese authorities responsible for the archaeological issues relative to the area being explored. These discussions resulted in Kernow being able to proceed with exploration of the Limarinho Deposit situated in the centre of the Boticas Concession. A four hole drill program totalling 700 metres was completed in March of 2008. The results from the program confirmed the continuity of the mineralised vein swarm that can now be traced for approximately 250 metres along strike. The tenor of the gold grades encountered by Kernow in prior drilling (December 2006) and those reported by COGEMA (Compagnie Générale des Matières Nucléaires of France) from a previous 16 drill hole program provide sufficient encouragement for Kernow to plan further drilling at Limarinho.

Kernow also undertook a surface mapping and sampling program in the Limarinho Pit and the results of this program are also seen as being positive.

Kernow's geological interpretation currently indicates that there were at least two mineralising events associated with the deposit. The quartz vein swarms encountered in Holes KL 4, KL 6 and in several COGEMA holes appear to strike along a N80°E trend. The gold mineralisation in this trend returned values in Hole KL 4 as 2.92 grams per tonne (g/t) gold along a core length of 20.4 metres and 1.05 g/t gold along a core length of 11.82 metres in Hole KL 6 (see news releases dated 17 March and 18 April, 2008). In addition narrow veins of higher grade are seen to strike at N40°E across the deposit. In holes KL 4 and KL6, values of 22.0 g/t gold over 0.9 metres and 12.88 g/t gold over 0.48 metres respectively. (See news releases dated 17 March and 18 April, 2008).

Recent mapping has shown the Limarinho Pit to cover an area of 9.6 hectares (ha) (approximately 23 acres). To the east of Limarinho, a further working currently being investigated covers an area of 6.2 ha (approximately 15 acres). To the south, the Poço das Freitas working covers a similar area as does the Botocas working some 2,500 metres to the north.

ALTO SOBRIDO GOLD-ANTIMONY PROJECT

In May 2007, Kernow was awarded an Exploration licence covering 16.0 square kilometres located some 18 kilometres east of the city of Porto in Northern Portugal. The Alto Sobrido Concession covers several past small past producing antimony mines. Surface, underground and drill hole sampling has returned both high grade values for gold and antimony. Results from the campaign were published in a News Release dated 14, November 2007 and included assays from an underground stope where sampling at the Ribeiro da Serra Prospect returned assays of 32.00 g/t gold and 15.99% antimony across a width of 0.40 metres.

In June 2007, Kernow entered into an agreement with Global Minerals Ltd. whereby Global can acquire, firstly, a 50% interest in the property and secondly, if that part of the Option has been exercised and Kernow elects not to form a 50-50 joint venture at that time, a further 10% in the property. To earn a

50% interest Global must complete a work program, and issue shares and cash to Kernow. The details of the option are contained in a News Release published on June 7, 2007.

JALES GRALHEIRA GOLD-SILVER PROPERTY (49%)

Kernow holds this property through a Joint Venture with St. Elias Mines Ltd. Kernow owns 49% and St. Elias owns 51%. In May of 2007, Kernow was granted, on behalf of the Joint Venture, an Experimental Mining Licence by the Portuguese Government. The Licence which lasts for a period of three years, grants the right to undertake underground tunnelling, trial stopping, surface drilling and underground drilling at the property.

In the latter part of 2007, Kernow commissioned Wardell Armstrong International Ltd. produce “**A Report on the Mineral Assets of the Gralheira Gold-Silver property, Portugal**”. The report contained an estimate of the gold and silver resources identified at the Gralheira Gold-Silver Project in Portugal.

A summary of the Gralheira Mineral Resource for gold and silver as at December 2007 are given in the following tables:

Gold Resource Summary									
Classification	2.0 g/t cut-off			3.0 g/t cut-off			6.0 g/t cut-off		
	Tonnes	Gold		Tonnes	Gold		Tonnes	Gold	
	Kt	g/t	ounces		g/t	ounces		g/t	ounces
Measured	51	4.51	7,351	30	5.92	5,768	13	7.95	3,235
Indicated	953	4.12	126,066	569	5.24	95,825	129	9.07	37,776
Measured & Indicated	1,003	4.14	133,417	599	5.27	101,593	142	8.97	41,010
Inferred	2,088	3.49	233,981	975	4.72	147,786	159	8.84	45,310

The deposit also contains an appreciable silver resource outlined in the following table:

Silver Resource Summary				
Classification	3.0 g/t cut-off			
	Tonnes	Silver		
	Kt	g/t	ounces	
Measured	30	29.8	29,067	
Indicated	569	22.8	417,500	
Measured & Indicated	599	23.18	446,567	
Inferred	975	15.00	483,621	

Complete particulars of the resource estimate are contained in Kernow’s news release dated January 18, 2008. The report and press release have been filed on SEDAR (www.sedar.com).

In addition, Kernow has undertaken sampling of the exposed vein structure in the existing adit and has sent the sample for metallurgical testing. The metallurgical work was specifically directed at determining if a portion of the gold contained in the deposit is recoverable by gravity methods. The work was undertaken by SGS Lakefield Research Europe in their facility at Wheal Jane, Cornwall, England. The results of the test work show that between 26% and 31% of the gold in the sample submitted was recovered by gravity. Further metallurgical work is planned to determine the floatation characteristics of the mineralised material contained from other parts of the deposit not accessible by underground means.

Kernow hopes that it and its joint venture partner will be able to generate sufficient data to enable further advanced development of the deposit.

ALANDROAL GOLD AND COPPER PROPERTY

This property is one of two that were under option from Rio Narcea Gold Mines Ltd. Kernow had the right to earn an initial 60% in the property by expending €350,000 (approximately C\$ 560,000) and issuing 150,000 common shares over a three year period. Kernow also had the option to acquire 100% of the property by issuing shares and completing a feasibility study.

A four hole drilling program at the Almagreira Gold Project on the property was completed at the end of May 2007. The results of the campaign were not encouraging and Kernow has decided not to continue with the Option to acquire the property.

BARRANCOS GOLD AND COPPER PROPERTY

This property was the second of two under option from Rio Narcea Gold Mines Ltd. During the year Kernow completed a five hole program on the Lirio and Mina Mercés Showing which was completed in August 2007.

Each of the holes intersected gold mineralisation and copper mineralisation. However, at both the Mercés and Lirio, the geological setting was not considered to hold sufficient potential to host a deposit of sufficient size to warrant further exploration and the property was returned to Rio Narcea in October of 2007.

CANADA

SACHEM BAY PROPERTY, LABRADOR

Kernow believes the property has merit and it is being maintained in good standing.

ORVILLIERS AND JOUTEL PROPERTIES, QUÉBEC

These two properties are located in the Casa Berardi and Joutel Gold Camps of Québec. Kernow did not undertake any work on these properties in 2007. Kernow intends to hold them and seek a joint venture partner to continue their development.

UNITED STATES OF AMERICA

SHAWNEE PROJECT and the DYKE HOT SPRINGS PROJECTS, HUMBOLDT COUNTY, NEVADA

Kernow did not undertake any work on these claims in 2007. Kernow intends to hold the properties and seek a joint venture partner to continue their development.

The foregoing disclosure of the results of Kernow's exploration programs have been reviewed, verified (including sampling, analytical and test data) and compiled by Kernow's President, Alan F. Matthews, C. Eng. (a 'qualified person' for the purpose of National Instrument 43-101, *Standards of Disclosure for Mineral Projects*). He prepared or supervised the preparation of the information that forms the basis for the written disclosure.

KERNOW RESOURCES & DEVELOPMENTS LTD

FORM 51-102F1

MANAGEMENT'S DISCUSSION & ANALYSIS

YEAR ENDED DECEMBER 31, 2007

The following discussion and analysis, prepared as of April 10, 2008, should be read together with the audited consolidated financial statements for the year ended December 31, 2007 and related notes attached thereto (the "Financial Statements"), which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Description of Business

The Company is a natural resource company engaged in acquisition, exploration, and development of mineral properties. It currently holds two properties in Northern Portugal (Jales and Boticas) and another property in North Western Portugal (Alto Sobrido). In addition, it is earning an initial 60% interest in one property (Alandroal) in Southern Portugal from Rio Narcea Gold Mines Ltd. ("Rio Narcea"). The Jales, Alto Sobrido and Alandroal properties are subject to Option Agreements. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol KRD.

Performance Summary

The following is a summary of significant events and transactions that occurred during the year ended December 31, 2007:

1. Granted stock options to directors, officers and consultants to purchase 175,000 common shares at \$0.225 per share until February 5, 2012 and 300,000 common shares at \$0.28 per share until 16 May, 2012.
2. Issued 253,500 common shares for gross proceeds of \$28,850 pursuant to the exercise of stock options.
3. Released provisional assay results from the three-hole diamond drilling program on the Boticas Property. The diamond drill holes were completed for a total of 376 meters. Further surface sampling results were released on February 1, 2007.
4. Commenced drilling on the Almagreira Project on the Alandroal concession on the Ossa Morena Zone of southern Portugal. The drill program comprised of 600 meters of core drilling and of four holes, two of which will be drilled on Almagreira South and two on Almagreira North. The work was undertaken as part of the option agreement with Rio Narcea, whereby the Company has a right to acquire an initial 60% interest with a further right to acquire the remaining 40% interest in the Alandroal and Barrancos properties in southern Portugal. Drill results were released on July 13, 2007.
5. Completed a 3,240,000 unit private placement at \$0.25 per unit for gross proceeds of \$810,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.40 per share for a period of two years. The Company paid a 5% finder's fee in respect of some of the subscriptions by issuing 37,000 shares as a deemed issue price of \$0.25 per share.

6. On April 27, 2007, the Company was informed by its joint venture partner, St. Elias Mines Ltd. (“St. Elias”), that it had decided not to proceed with the second option to acquire an additional 24% interest and therefore retain a 51% interest in the Jales/Gralheira gold property.
7. On May 25, 2007, the Company was awarded an Experimental Mining License for the Jales Gralheira gold property from the Direcção-Geral de Geologia e Energia (“DGGE”), a division of the Portuguese Ministry of Economy and Innovation.
8. Also on May 25, 2007, the Company entered into an exploration contract with DGGE for the Alto Sobrido Property, located 16 kilometres to the east of the coastal city of Porto in the north west of Portugal.
9. On June 7, 2007, the Company signed a Letter of Intent with Global Minerals Ltd. (“Global”) that will grant Global an option to earn a 50% interest in the Alto Sobrido gold/antimony property located in Portugal. Regulatory approval was received on July 27, 2007.
10. Commenced drilling on the Lirio Project on the Barrancos Concession located in the Ossa Morena Zone of Southern Portugal. The work was undertaken as part of the option agreement with Rio Narcea, whereby the Company had the right to acquire an initial 60% interest with a further right to acquire the remaining 40% interest in the Alandroal and Barrancos Properties in Southern Portugal. Assay results were released on August 9, 2007.
11. Held its Annual General Meeting on June 26, 2007 in Vancouver, British Columbia, Canada. All proposed resolutions were passed.
12. Appointed Mr. Jerry Bulman to the Board of Directors effective September 1, 2007.
13. Released the assay results from the drilling program at the Mina Mercês Project on the Barrancos Concession which is located approximately 1.25 kilometres north of the Lirio Project.
14. Retained the services of First Canadian Capital Corp. (“First Canadian”) to provide strategic marketing and corporate communications. The Company will pay First Canadian \$6,000 per month for a 12 month initial term and granted First Canadian a stock option to purchase 200,000 shares exercisable at \$0.25 exercisable until October 4, 2009. The agreement was terminated on April 10, 2008.
15. Announced the results of a surface and underground sampling campaign at the Alto Sobrido Property.
16. Issued 25,000 common shares on October 22, 2007 pursuant to an option agreement with Rio Narcea on the Alandroal Property in Southern Portugal.
17. Issued notice to Rio Narcea that it would not proceed with the option to acquire the Barrancos Property. As a result, total costs of \$177,101 were written-off to operations.
18. Granted 200,000 stock options exercisable at \$0.18 until November 21, 2012.

Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the Financial Statements.

	Year Ended December 31		
	2007	2006	2005
Total revenues	\$ 51,549	\$ 65,253	\$ 102,292
Net income (loss) before extraordinary items	(419,491)	(178,154)	5,909
Net income (loss)	(419,491)	(178,154)	5,909
Basic and diluted earnings (loss) per share	(0.01)	(0.02)	0.01
Total assets	1,454,867	854,112	435,865
Total long-term liabilities	-	-	-
Cash dividends	-	-	-

Summary of Quarterly Results

	For the Quarters Ended			
	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Total assets	\$ 1,454,867	\$ 1,692,607	\$ 1,631,405	\$ 823,239
Mineral properties	492,784	542,661	459,830	234,093
Working capital	724,270	936,567	902,405	457,377
Shareholders' equity	1,250,789	1,522,969	1,446,796	694,550
Interest revenues	2,223	12,528	7,587	6,092
Net income (loss)	(246,569)	67,673	(181,917)	(58,678)
Earnings (loss) per share	(0.01)	0.01	(0.01)	(0.01)

	For the Quarters Ended			
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Total assets	\$ 854,112	\$ 355,365	\$ 377,429	\$ 409,023
Mineral properties and deferred costs	140,767	108,757	121,421	103,161
Working capital (deficiency)	581,835	147,302	154,870	201,987
Shareholders' equity	725,682	284,524	303,283	332,140
Revenues	2,726	26,378	9,385	26,764
Net Income (loss)	(122,019)	(18,759)	(47,607)	10,231
Earnings (loss) per share	(0.01)	(0.01)	(0.01)	0.01

Significant changes in key financial data from 2006 to 2007 can be attributed to a write-off of various mineral properties to nominal carrying values, revenues generated from interest income, sale of various short term investments, earning an operator's fee for managing the Jales and Alto Sobrido Projects in Portugal and the completion of private placements in December 2006 and April 2007.

During the current year, the Company earned interest revenue from cash held in banks, securities held as short-term investments and by charging an 8% operators' fee to its joint venture partner, St. Elias, to manage the Jales global property and Global, to manage the Alto Sobrido Property, both of which are in Portugal. Revenues from operator fees during the current period were \$8,749 compared to \$27,086 during the previous comparative period. During the

current period, the Company realized net gains of \$14,370 on the sale of marketable securities. The net gain during the previous comparative period was \$34,375.

During the current year, the Company notified Rio Narcea that it would not proceed with its option to earn an interest in the Barrancos Property. As a result, total mineral property costs of \$177,101 have been written-off to operations.

The Company's accounting policy is to record its mineral properties at cost. Exploration and development expenditures relating to mineral properties are deferred until either the properties are brought into production, at which time they are amortized on a unit of production basis, or until the properties are sold or abandoned, at which time the deferred costs are written off.

The Company has not paid any dividends on its common shares. The Company does not have any intention at present of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

Results of Operations

The Company incurred a net loss of \$419,491 during the year ended December 31, 2007 compared to a net loss of \$178,154 during the previous comparative year. Some of the significant expenses are as follows:

Accounting, legal and audit fees of \$102,680 (2006 - \$82,095) have risen because of an increase in the Company's activities requiring greater accounting and audit preparation. In addition, legal fees were incurred during the completion of the private placement during the year.

Advertising and promotion costs of \$36,036 (2006 - \$3,168) relate to costs maintaining a Company website, attendance at the March 2007 Prospectors and Developers Association conference and the advertisement in trade magazines to increase investor awareness on the Company's various projects. Fees were also paid to First Canadian for the provision of Investor relations services.

Consulting fees of \$57,376 (2006 - \$7,500) have increased because the Company retained the services of various consultants to assist the Company in many areas of public company management.

Filing, listing and transfer agent fees of \$19,233 (2006 - \$14,525) relate to various regulatory filings required to file the private placement and maintain public company status on the TSX-V.

Management fees of \$35,639 (2006 - \$49,350) have decreased because the President allocated less time to the administration and management of the Company.

Property investigation costs of \$7,365 (2006 - \$1,571) relate to expenses incurred that are not specifically related to any of the Company's existing properties.

Travel and related costs of \$35,414 (2006 - \$21,110) have increased because the Company's management have travelled to and from Portugal on a more frequent basis.

During the year ended December 31, 2007, the Company recorded a non-cash charge of \$104,097 (2006 - \$Nil) for stock-based compensation relating to the granting of stock options to purchase 875,000 shares.

The Company received a recovery of €9,800 (\$14,969) from the Government of Portugal relating to Value Added Tax (VAT) paid in prior years.

The Company recorded a net gain of \$14,370 (2006 - \$34,375) on the disposal of marketable securities and \$21,000 (2006 - \$Nil) unrealized loss on marketable securities that it held as at December 31, 2007.

During the year ended December 31, 2007, the Company earned \$8,749 (2006 - \$27,086) as an operator fee and recovered \$64,648 (2006 - \$261,283) pursuant to various Technical Services Contracts.

The Company received \$140,000 (\$25,000 in cash as right of first refusal, \$25,000 in cash as an option payment and 300,000 common shares valued at \$90,000) from Global pursuant to a mineral property option agreement on the Alto Sobrido Property.

During the year ended December 31, 2007, the Company wrote-off \$177,101 (2006 - \$44,228) in mineral property costs. The majority of these costs were related to the Barrancos Property in southern Portugal.

Jales Property, Portugal

In October 2001, the Company entered into an agreement to acquire a 100% interest in the Jales gold property from Target Europe Corp. As consideration, the Company issued 800,000 common shares at a value of \$73,430 and will issue a further 750,000 common shares upon the property reaching commercial production. There is a 3% royalty payable to the Government of Portugal on all minerals produced from the property. The Jales Property then consisted of an exploration license granted by the Government of Portugal. This license expired June 16, 2006.

In May 2007, the Company was awarded an Experimental Mining License for the Jales Gralheira gold property from the DGGE, a division of the Portuguese Ministry of Economy and Innovation. The Experimental License is for a period of three years. Under the terms of the contract, work must start on the property within six months. Work has commenced within the required time period. A performance deposit in the amount of €50,000 has been posted and a minimum of €750,000 must be expended on the property over the three year life of the license.

During 2002, the Company entered into an option agreement with St. Elias, a company related by a common director at the time, whereby St. Elias can earn a 51% interest in the property in exchange for cash payments totaling \$50,000 (received), incurring cumulative exploration expenditures of \$1,500,000 (completed) on the property and issuing a total of 500,000 common shares (received) at a value of \$106,000 to the Company over a three year period. St. Elias earned a 51% interest in the property and elected in 2005 to earn a further 24% interest in exchange for additional cash payments totalling \$100,000 (\$25,000 received), incurring additional exploration expenditures of \$2,500,000 and issuing an additional 1,000,000 common shares over a three year period.

In April 2007, St. Elias informed the Company that it had decided not to proceed with the second option and therefore remains at a 51% interest in the property.

In May 2007, the Company was awarded an Experimental Mining License for the Jales Gralheira gold property from the DGGE, a division of the Portuguese Ministry of Economy and Innovation.

As of June 1, 2007 all exploration and maintenance costs associated with the property have been paid by the Company. Of these costs, 51% are reimbursed by St. Elias and 49% are paid by the Company.

The Company entered into a Technical Services Contract with St. Elias whereby St. Elias reimburses the Company, as operator, for exploration costs incurred on a *pro rata* basis (51% as to St. Elias and 49% as to the Company). In addition St. Elias pays the Company an 8% operator fee based on 100% of the exploration costs incurred on the property. During the year ended December 31, 2007, the Company recovered \$36,702 (2006 - \$261,283) in exploration costs. The Company also earned \$6,986 (2006 - \$27,086) as an operator fee.

Poco das Freitas Property (Boticas), Portugal

During the year ended December 31, 2004, the Company entered into a contract of exploration with the Government of Portugal to explore the Poco das Freitas Property located in northeast Portugal. The contract is initially for two years and was renewed for a further two years expiring in October 2008. The Company completed its commitment to incur €45,000 (\$73,300) of exploration work on the property in the first two years and a further €45,000 of exploration work by October 2008 (completed). The Company has informed the Government of Portugal

that the required expenditures were not met due to circumstances beyond the Company's control. The Government of Portugal has accepted the Company's submission and has renewed the License until October 2008.

In addition to the 3% royalty payable to the Government of Portugal, the Company must pay an additional €50,000 (\$81,400) per year for five years in the event of production.

On June 23, 2006, the Company published a news release detailing the activities it has undertaken at Boticas and also provided an update regarding the Plano Director Municipal ("PDM"). This is a development plan revised every 10 years and may be considered equivalent to a "Zoning Plan". Currently the PDM for the Municipality of Boticas, within which the majority of the Company's Exploration Concession is located, is under review and revision.

Input into the definition of the Land Use is sought by the Municipality from all interested parties and governmental organizations. The Company has been informed that the area which contains the Limarinho and Poco das Freitas deposits contains sites of possible archaeological interest which may reduce access to and development of both deposits.

In early 2007, following positive discussions with the Municipality of Boticas, the Company completed a three hole drill program at the Limarinho Deposit. Additional prospecting and assessment work will be undertaken in areas outside of the known Poco das Freitas and Limarinho area.

The Company is currently in discussion with the appropriate Portuguese authorities regarding the ongoing development of the property and has received permission to continue with its exploration activities.

Alandroal and Barrancos Properties, Portugal

During the year ended December 31, 2006, the Company entered into option agreements with Rio Narcea to acquire an initial 60% interest with the right to earn the remaining 40% in the Alandroal and Barrancos Properties in southern Portugal.

i) Alandroal Property

The Company can acquire an initial 60% interest in consideration of incurring exploration expenditures of not less than € 350,000 (C\$495,000) and issuing an aggregate of 150,000 shares over a three year period. In addition, the Company can elect to earn a further 15% in the Alandroal Property in consideration of solely funding a Bankable Feasibility Study and issuing 1,000,000 million shares. Further to this the Company has the right to acquire the remaining 25% undivided interest in the Alandroal Property by the issuance of 3.0 million common shares.

During the year ended December 31, 2007, the Company notified Rio Narcea that it had completed the first year work commitment for the Alandroal Property.

ii) Barrancos Property

The Company could acquire an initial 60% interest in consideration of incurring exploration expenditures of not less than €525,000 (C\$750,000) and issuing an aggregate of 250,000 (75,000 issued at a value of \$13,625) common shares over a four year period. In addition, the Company could elect to earn a further 15% in the Barrancos Property in consideration of solely funding a Bankable Feasibility Study and issuing 1,000,000 million shares. Further to this the Company had the right to acquire the remaining 25% undivided interest in the Barrancos Property by the issuance of 3.0 million common shares.

During the year ended December 31, 2007, the Company notified Rio Narcea that it would not proceed with its option to earn an interest in the Barrancos Property. As a result, total costs of \$177,101 have been written-off to operations.

Alto Sobrido Property, Portugal

In May 2007, the Company entered into an exploration contract with the DGGE for Alto Sobrido Property, located 16 kilometres to the east of the coastal city of Porto in the north east of Portugal. The exploration contract covers an area of approximately 16.4 square kilometres. The exploration contract is for a period of two years and can be renewed for a further three periods of one year each by reducing the area of the license by 50% at each annual renewal. Under the terms of the contract, work must start in the property within three months. Work has commenced within the required time period. A performance deposit in the amount of €7,000 has been posted and a minimum of €25,000 must be expended on the property during the first year and thereafter a minimum of €30,000 must be expended each year over the life of the license.

In June 2007, the Company signed a Letter of Intent with Global that will grant Global an option to earn a 50% interest in the Alto Sobrido Property.

The option grants Global the right to acquire a 50% interest in the property and, if that part of the option has been exercised and the Company elects not to form a 50-50 joint venture at that time, a further 10% in the property. To earn a 50% interest, Global must complete the following:

- i) issue 50,000 shares and make a cash payment of \$25,000 to the Company on or before July 24, 2007 (received);
- ii) complete a first year work program of €100,000;
- iii) issue 100,000 shares (received) and a cash payment of \$50,000 to the Company on or before May 25, 2008;
- iv) complete a second year work program of €150,000; and
- v) issue 150,000 shares (received) and a cash payment of \$75,000 to the Company on or before May 25, 2009.

If Global earns the 50% interest, the Company can elect whether to participate in a 50-50 joint venture for the further exploration of the property. If not, Global can proceed to earn a further 10% in the property by completing further exploration work totalling €750,000 and making further cash and share payments to the Company of \$250,000 and 600,000 shares on or before May 25, 2011.

The Company is the operator of the property and will remain so long as the Company owns at least a 25% interest in the property.

During the year ended December 31, 2007, the Company received \$140,000 (\$25,000 in cash as a right of first refusal, \$25,000 in cash as an option payment and 300,000 common shares valued at \$90,000) from Global pursuant to a mineral property option agreement on the Alto Sobrido Property. These payments are in excess of costs incurred on the property and have been recorded in the results of operations.

The Company will also entered into a Technical Services Contract with Global whereby Global will reimburse the Company, as operator, for exploration costs incurred plus an 8% operator fee based on exploration costs incurred on the property. During the year ended December 31, 2007, the Company recovered \$27,946, in exploration costs and earned \$1,764 as an operator fee.

Liquidity and Capital Resources

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options. The Company continues to seek capital through various means including the issuance of equity and debt.

The Financial Statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

	2007	2006
Working capital	\$ 724,270	\$ 581,835
Deficit	(3,195,157)	(2,775,666)

Net cash used in operating activities for the year ended December 31, 2007 was \$228,601 compared to \$114,648 during the previous comparative year. The cash used in operating activities for the current period consists primarily of the operating loss and a change in non-cash working capital.

Net cash used in investing activities for the year ended December 31, 2007 was \$355,933 compared to \$45,318 in the previous comparative year. Net cash used during the current year consisted of exploration expenditures of \$531,049, recoveries on exploration expenditures of \$107,087, acquisition of deposits (bond guarantees) of \$30,655, acquisition of marketable securities and investments of \$421,766 and proceeds from the sale of marketable securities and investments of \$421,766.

During the current year, financing activities provided net cash of \$825,751 from the exercise of 235,500 stock options and the completion of a 3,240,000 unit private placement. Financing activities provided net cash of \$588,177 during the previous comparative year.

There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

The Company's revenues, if any, are expected to be in large part derived from the mining and sale of gold and silver, base metals or interests related thereto. The economics of developing and producing gold properties are affected by many factors including the cost of operations, variations in the grade of ore mined and the price of gold. Depending on the price of gold and silver, the Company may determine that it is impractical to continue commercial production. The price of gold and silver have fluctuated widely in recent years. Gold and silver prices are affected by many factors beyond the Company's control including anticipated changes in international investment patterns and monetary systems, economic growth rates, political developments, extent of sales of reserves by governments and shifts in the private supply of and demand for gold and silver. The supply of gold and silver consists of a combination of new mine production and existing stocks held by governments, producers, financial institutions and consumers. If the market price for gold or silver falls below the Company's full production costs and remains at such levels for any sustained period of time, the Company would experience losses and may decide to discontinue operations or other development of a project or mining at one or more of its properties.

The Company has sufficient funds to meet its property maintenance payments for 2007 and cover anticipated administrative expenses throughout the 2007 year. It will continue to focus exploration and development efforts in the Portugal and maintain its landholdings in Nevada and Canada.

Related Party Transactions

Included in accounts payable at December 31, 2007 is \$12,566 (December 31, 2006 - \$20,000) due to a director and to an officer of the Company.

The Company entered into the following transactions with related parties during the year ended December 31, 2007:

- a) Paid or accrued management fees of \$35,639 (2006 - \$49,350) to Alan Matthews, an officer and director of the Company.

- b) Paid or accrued accounting fees of \$6,200 (2006 - \$4,620) to Linda Matthews, an officer of the Company.
- c) Paid or accrued technical and professional fees of \$54,376 (2006 - \$27,922) to Alan Matthews, which were charged to the mineral properties in Portugal.
- d) Paid or accrued administration fees of \$1,420 (2006 - \$Nil) to Linda Matthews, which have been charged to mineral properties in Portugal.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties

Financial Instruments

The Company's financial instruments consist of cash, receivables, marketable securities, deposits and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

At December 31, 2007, approximately 68% (December 31, 2006 – 53%) of the Company's accounts payable and accrued liabilities are denominated in Euros. The Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Contingencies and Commitments

The Company has provided letters of guarantee to the Government of Portugal for its exploration contracts on the mineral properties in Portugal totalling \$49,777 (€34,500) (December 31, 2006 - \$18,452 (€12,000)) (Note 6).

The Company entered into a consulting agreement effective September 1, 2006 with Alan Matthews, the President of the Company, for management services, expiring September 1, 2008. The Company agreed to pay \$10,000 per month and to pay a severance of \$240,000 in the event of a change of control of the Company, and 200% of any compensation due over the remaining term of the contract in the event of termination other than due to a change of control or for other than just cause. The Company also agreed to grant stock options to purchase not less than 1,000,000 shares to the President. The agreement may be extended for a further two years. The President has agreed to waive the balance of \$29,278 of unpaid monthly fees for the current fiscal year.

Additional Disclosure for Venture Issuers without Significant Revenue

Please refer to Note 6 in the Financial Statements for description of the capitalized exploration and development costs presented on a property-by-property basis.

Outstanding Share Data

The following table summarizes the outstanding share capital as of the date of this Management's Discussion & Analysis:

	Number of shares issued or issuable
Common shares	18,418,059
Stock options	1,225,000
Warrants	4,862,285

Changes in Internal Controls

There has been no change in the Company's internal control over financial reporting during the review period that has materially affected, or that is reasonably likely to materially affect, the Company's internal control over financial reporting.

Change in Accounting Policy

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet either at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of these new standards, the Company has classified its marketable securities as held-for-trading. Receivables and deposits are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost. There was no effect on the financial statements as at January 1, 2007 as a result of adopting these policies.

Recent accounting standards

Assessing going concern

The AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

Financial instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) 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, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation*, and Section 3865, *Hedges*. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation*, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Capital disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Goodwill and intangible assets

CICA Handbook Section 3062 replaces the current standard for goodwill and intangible assets and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

The Company will adopt these requirements commencing in the interim period ending March 31, 2008 and is currently considering the impact this will have on the Company's future financial statements.

Business Risks

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

- Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent

industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.

- Financial risks include commodity prices, interest rates and the Canadian / United States / Euro exchange rate, all of which are beyond the Company's control.
- Regulatory risks include the possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the company must meet in order to maintain its exchange listing.

Outlook

The Company's primary focus for the foreseeable future will be on advancing the mineral properties in Portugal and on reviewing its financial position to finance new business ventures in the mineral resource industry.

Additional Information

Additional information related to the Company is available for view on SEDAR at www.sedar.com and at www.kernowresources.com.

Subsequent events

Subsequent to December 31, 2007, the Company:

1. Announced on January 14, 2008, the commencement of a 600 meter, four drill hole diamond drilling program on the Company's 100% owned Boticas gold property located in Northern Portugal.
2. Announced on January 18, 2008 that the Company had received an estimate of the gold and silver resources identified at the Gralheira gold-silver project in Portugal owned by the Company (49% interest) and its joint venture partner, St. Elias (51% interest). The estimate is contained in a report entitled "A Report of the Mineral Assets of the Gralheira Gold-Silver property, Portugal" prepared by Wardell Armstrong International Ltd. (WAI) of Cornwall, U.K. The full report is available for view on www.sedar.com.
3. On February 25, 2008, the Company provided an update on the progress of drilling at the 100% owned Boticas gold property. The first three holes of the program have been completed. They are KL4 (206 meters), KL5 (71.45 meters) and KL5A (104.6 meters). Holes KL5 and KL5A are in the same location. KL5A was drilled as KL5 did not reach target depth due to ground conditions. Hole KL5A was completed to the required depth. Core from the holes has been split, logged and sent to OMAC Labs. Ltd. in Ireland, for assay.
4. Received Notice on March 10, 2008 from the TSX Venture Exchange that it has consented to the reduction in the exercise price of the following warrants: Number of Warrants: 3.24 million, Expiry date of warrants: April 20, 2009, Original exercise price of warrants: \$0.40, New exercise price of warrants: \$0.25.
5. Received Notice on March 11, 2008 from the TSX Venture Exchange that it has consented to the reduction in the exercise price of the following warrants: Number of Warrants: 1,622,285 million, Expiry date of warrants: December 5, 2008, Original exercise price of warrants: \$0.35, New exercise price of warrants: \$0.25.
6. Announced, on March 17, 2008, the results of the first hole completed at the Boticas Property during the 2008 drill campaign. The hole contained mineralisation that returned 2.91 g/t (grams per tonne) gold over 20.40 meters from 20.7 meters to 41.1 meters. Within this interval an area with a higher density of quartz veining returned 3.87 g/t gold over 7.75 meters (23.7 meters to 31.45 meters). In addition, deeper within the hole, several areas of gold mineralisation were intersected that contain narrow quartz veins in less altered granites

including 3.37 g/t gold over 9.05 meters from 145.00 meters to 154.05 meters (including 0.9 meters at 22.2 g/t gold).

Qualified Person

The data contained in this Management's Discussion & Analysis has been reviewed and verified by the Company's President, Alan F. Matthews, C.Eng., a "qualified person" for the purposes of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* of the Canadian securities administrators, and he has prepared or supervised the preparation of the information that forms the basis for the disclosure contained herein. The Company's quality assurance program and quality control measures are described in its news release dated 17 March 2008..

KERNOW RESOURCES & DEVELOPMENTS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007

AUDITORS' REPORT

To the Shareholders of
Kernow Resources & Developments Ltd.

We have audited the consolidated balance sheets of Kernow Resources & Developments Ltd. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

March 28, 2008



KERNOW RESOURCES & DEVELOPMENTS LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

	2007	2006
ASSETS		
Current		
Cash	\$ 817,220	\$ 576,003
Receivables	42,128	48,071
Prepaid expenses	-	1,877
Marketable securities (Note 4)	<u>69,000</u>	<u>84,314</u>
	928,348	710,265
Deposits (Note 5)	33,735	3,080
Mineral properties (Note 6)	<u>492,784</u>	<u>140,767</u>
	<u>\$ 1,454,867</u>	<u>\$ 854,112</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 204,078</u>	<u>\$ 128,430</u>
Shareholders' equity		
Capital stock (Note 7)	4,297,942	3,444,896
Contributed surplus (Note 7)	148,004	56,452
Deficit	<u>(3,195,157)</u>	<u>(2,775,666)</u>
	<u>1,250,789</u>	<u>725,682</u>
	<u>\$ 1,454,867</u>	<u>\$ 854,112</u>

Nature and continuance of operations (Note 1)

Contingencies and commitments (Note 13)

Subsequent events (Note 14)

On behalf of the Board:

 "A.F. Matthews"

Director

 "D. Burchill"

Director

The accompanying notes are an integral part of these consolidated financial statements.

KERNOW RESOURCES & DEVELOPMENTS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
YEARS ENDED DECEMBER 31

	2007	2006
EXPENSES		
Accounting, legal and audit	\$ 102,680	\$ 82,095
Advertising and promotion	36,036	5,048
Bank charges and interest	3,365	3,168
Consulting	57,376	7,500
Filing, listing and transfer agent fees	19,233	14,525
Foreign exchange (gain) loss	4,003	(3,025)
Management fees	35,639	49,350
Office and miscellaneous	19,494	12,134
Property investigation	7,365	1,571
Shareholder costs	2,509	3,079
Stock-based compensation (Note 7)	104,097	-
Travel and related	35,414	21,110
Website design and maintenance	<u>697</u>	<u>2,624</u>
Loss before other items	<u>(427,908)</u>	<u>(199,179)</u>
OTHER ITEMS		
Interest income	28,430	3,792
Gain on disposal of marketable securities	14,370	34,375
Operator fees (Note 6)	8,749	27,086
Option payments received (Note 6)	140,000	-
Recovery of costs	14,969	-
Unrealized loss on marketable securities	(21,000)	-
Write-off of mineral properties (Note 6)	<u>(177,101)</u>	<u>(44,228)</u>
	<u>8,417</u>	<u>21,025</u>
Loss and comprehensive loss for the year	(419,491)	(178,154)
Deficit, beginning of the year	<u>(2,775,666)</u>	<u>(2,597,512)</u>
Deficit, end of the year	<u>\$ (3,195,157)</u>	<u>\$ (2,775,666)</u>
Basic and diluted loss per share	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding	<u>17,301,758</u>	<u>11,689,698</u>

The accompanying notes are an integral part of these consolidated financial statements.

KERNOW RESOURCES & DEVELOPMENTS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (419,491)	\$ (178,154)
Items not affecting cash:		
Gain on disposal of marketable securities	(14,370)	(34,375)
Stock-based compensation	104,097	-
Option payments received in marketable securities	(90,000)	-
Unrealized loss on marketable securities	21,000	-
Write-off of mineral properties	177,101	44,228
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(36,496)	8,175
Decrease (increase) in prepaid expenses	1,877	(1,877)
Increase in accounts payable and accrued liabilities	<u>27,681</u>	<u>47,355</u>
Net cash used in operating activities	<u>(228,601)</u>	<u>(114,648)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	838,850	603,050
Share issue costs	<u>(13,099)</u>	<u>(14,873)</u>
Net cash provided by financing activities	<u>825,751</u>	<u>588,177</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property recoveries	107,087	330,861
Expenditures on mineral properties	(531,049)	(428,229)
Acquisition of marketable securities	(421,766)	(239,492)
Proceeds on sale of marketable securities	520,450	269,022
Deposits (paid) refunded	<u>(30,655)</u>	<u>22,520</u>
Net cash used in investing activities	<u>(355,933)</u>	<u>(45,318)</u>
Increase in cash during the year	241,217	428,211
Cash, beginning of the year	<u>576,003</u>	<u>147,792</u>
Cash, end of the year	<u>\$ 817,220</u>	<u>\$ 576,003</u>
Cash paid during the year for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the year for income taxes	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 9)

The accompanying notes are an integral part of these consolidated financial statements.

KERNOW RESOURCES & DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of the Province of British Columbia. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineable reserves of mineralization that are economically recoverable. To date, the Company has not generated significant revenues and is considered to be in the development stage.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

	2007	2006
Working capital	\$ 724,270	\$ 581,835
Deficit	(3,195,157)	(2,775,666)

2. CHANGE IN ACCOUNTING POLICIES

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet either at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

2. CHANGE IN ACCOUNTING POLICIES (cont'd...)

As a result of the adoption of these new standards, the Company has classified its cash and marketable securities as held-for-trading. Receivables and deposits are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost. There was no material effect on the financial statements as at January 1, 2007 as a result of adopting these policies.

Accounting changes

The Canadian Accounting Standards Board (“AcSB”) issued CICA Handbook Section 1506. The main features of this new standard are (a) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (b) changes in accounting policy are applied retrospectively unless doing so is impracticable (as defined in the section); (c) prior period errors are corrected retrospectively; and (d) new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. This new standard was effective for fiscal years beginning on or after January 1, 2007 and had no effect on the Company’s financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results may differ from those estimates.

Key areas where management has made complex or subjective judgements include: fair value of certain assets; accounting for amortization; asset impairment assessments; environmental and asset retirement obligations; stock-based compensation; income taxes and valuation allowances; and contingencies.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Foreign currency translation

The Company's foreign subsidiaries and activities are translated into Canadian dollars using the temporal method. Under this method, monetary items are translated at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the results of operations. Exchange gains or losses arising on translation of foreign currency items are included in the results of operations.

Marketable securities

Marketable securities are carried at fair market value with any changes being recorded in the statement of operations.

In prior years, marketable securities were carried at the lower of cost and net realizable value.

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable mineralization are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permitting to complete the development and future profitable production or proceeds from the disposition thereof.

Mineral property option agreements

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when payments are made or received. Option payments received in excess of costs deferred are included in the results of operations.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Asset retirement obligations (cont'd...)

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any significant asset retirement obligations.

Income taxes

Future income taxes are recorded using the asset and liability method whereby 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 bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated using the weighted average number of shares outstanding during the year.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation and contributed surplus over the vesting period of the related stock options.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Recent accounting standards

Assessing going concern

The AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

Financial instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) 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, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation*, and Section 3865, *Hedges*. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation*, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Capital disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

Goodwill and intangible assets

CICA Handbook Section 3062 replaces the current standard for goodwill and intangible assets and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

The Company will adopt these requirements commencing in the interim period ending March 31, 2008 and is currently considering the impact this will have on the Company's financial statements.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Recent account standards (cont'd...)

International Financial Reporting Standards

In addition to the above accounting pronouncements the Canadian Accounting Standards Board (“AcSB”) in 2006 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 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. MARKETABLE SECURITIES

	2007	2006
St. Elias Mines Ltd.	\$ -	\$ 26,750
Global Minerals Ltd.	69,000	-
Treasury bills	<u>-</u>	<u>57,564</u>
	<u>\$ 69,000</u>	<u>\$ 84,314</u>

As at December 31, 2007, the Company holds 300,000 common shares of Global Minerals Ltd., a public company listed on the TSX Venture Exchange, pursuant to its mineral property option agreement with the Company (Note 6).

5. DEPOSITS

The Company posted refundable term deposits totalling \$33,735 (€24,500) (2006 - \$3,080 (€2,000)) as security with the Millennium BCP (Banco Commercial Portugal) to support performance guarantees written by the bank to the Portuguese Government relating to the exploration of the mineral properties in Portugal (Note 13).

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6. MINERAL PROPERTIES

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

2007	Jales	Boticas	Alandroal	Barrancos	Alto Sobrido	Joutel, Orvilliers & Voisey's Bay	Shawnee & Dyke Hot Springs	Total
Balance, beginning of year	\$ -	\$ 128,406	\$ 6,178	\$ 6,178	\$ -	\$ 3	\$ 2	\$ 140,767
Additions:								
Administration	4,660	315	8,184	4,168	274	-	-	17,601
Assays	56	5,145	9,697	13,392	3,187	-	-	31,477
Claim fees and acquisition	4,893	15,140	48,324	21,947	5,844	-	-	96,148
Core storage	2,885	683	2,758	1,608	3,579	-	-	11,513
Drilling and sampling	-	529	79,494	44,067	-	-	-	124,090
Equipment rental	-	-	435	-	-	-	-	435
Field accommodations	427	165	3,824	6,127	255	-	-	10,798
Field supplies	5,443	360	3,415	4,089	748	-	-	14,055
Labour	13,623	2,614	18,301	10,564	531	-	-	45,633
Technical and professional	68,061	21,328	43,197	47,127	19,341	-	-	199,054
Travel and transport	3,537	2,178	18,363	17,834	1,050	-	-	42,962
	103,585	48,457	235,992	170,923	34,809	-	-	593,766
Recoveries	(36,702)	-	-	-	(27,946)	-	-	(64,648)
	66,883	48,457	235,992	170,923	6,863	-	-	529,118
Written-off during the year	-	-	-	(177,101)	-	-	-	(177,101)
Balance, end of year	\$ 66,883	\$ 176,863	\$ 242,170	\$ -	\$ 6,863	\$ 3	\$ 2	\$ 492,784

6. MINERAL PROPERTIES (cont'd...)

Jales, Portugal

In October 2001, the Company entered into an agreement to acquire a 100% interest in the Jales gold property from Target Europe Corp. As consideration, the Company issued 800,000 common shares at a value of \$73,430 and will issue a further 750,000 common shares upon the property reaching commercial production. There is a 3% royalty payable to the Government of Portugal on all minerals produced from the property. The Jales property consisted of an exploration license granted by the Government of Portugal.

During 2002, the Company entered into an option agreement with St. Elias Mines Ltd. ("St. Elias"), a company related by a common director at the time, whereby St. Elias can earn a 51% interest in the property in exchange for cash payments totalling \$50,000 (received), incurring cumulative exploration expenditures of \$1,500,000 (completed) on the property and issuing a total of 500,000 common shares (received) at a value of \$106,000 to the Company over a three year period. St. Elias has earned a 51% interest in the property and elected in 2005 to earn a further 24% interest in exchange for additional cash payments totalling \$100,000 (\$25,000 received), incurring additional exploration expenditures of \$2,500,000 and issuing an additional 1,000,000 common shares over a three year period.

In April 2007, St. Elias informed the Company that it had decided not to proceed with the second option and therefore retains a 51% interest in the Jales/Gralheira gold property.

In May 2007, the Company was awarded an experimental mining license, replacing the exploration license for the Jales property from the Direcção-Geral de Geologia e Energia ("DGGE"), a division of the Portuguese Ministry of Economy and Innovation. The experimental license is for a period of three years. A performance deposit in the amount of €50,000 has been posted and a minimum of €750,000 must be expended on the property over the three year life of the license.

The Company has a Technical Services Contract with St. Elias whereby St. Elias will reimburse the Company, as operator, for exploration costs incurred on a pro rata basis (51% as to St. Elias and 49% as to the Company). In addition, St. Elias will pay the Company an 8% operator fee based on 100% of the exploration costs incurred on the property. During the year ended December 31, 2007, the Company recovered \$36,702 (2006 - \$261,283) in exploration costs. During the year ended December 31, 2007 the Company also earned \$6,986 (2006 - \$27,086) as an operator fee.

Poco das Freitas Property (Boticas), Portugal

During the year ended December 31, 2004, the Company entered into a contract of exploration with the government of Portugal to explore the Poco das Freitas property located in northeast Portugal. The contract was initially for two years and was renewed for a further two years expiring in October 2008. The Company completed its commitment to incur €45,000 (approximately \$73,300) of exploration work on the property in the first two years and a further €45,000 of exploration work by October 2008 (completed).

In addition to the 3% royalty payable to the Government of Portugal, the Company must pay an additional €50,000 (approximately \$81,400) per year for 5 years in the event of production.

6. MINERAL PROPERTIES (cont'd...)

Alandroal and Barrancos Properties, Portugal

During the year ended December 31, 2006, the Company entered into option agreements with Rio Narcea Gold Mines Ltd. ("Rio Narcea") to acquire an initial 60% interest with the right to earn the remaining 40% in the Alandroal and Barrancos properties in Southern Portugal.

The terms of the option agreements are as follows:

i) Alandroal Property

The Company can earn a 60% interest by incurring exploration expenditures of €350,000 (approximately \$539,000) (\$242,170 incurred to date) and issuing an aggregate of 150,000 common shares (50,000 issued at a value of \$11,375) over a three year period. In addition, the Company can elect to earn a further 15% interest in the property by solely funding a bankable feasibility study and issuing 1,000,000 common shares. The Company has the right to acquire the remaining 25% undivided interest by issuing 3,000,000 common shares within 30 days of attaining commercial production.

ii) Barrancos Property

The Company can earn a 60% interest by incurring exploration expenditures of €25,000 (approximately \$808,000) and issuing an aggregate of 250,000 common shares (75,000 issued at a value of \$13,625) over a four year period. In addition, the Company can elect to earn a further 15% interest in the property by solely funding a bankable feasibility study and issuing 1,000,000 common shares. The Company has the right to acquire the remaining 25% undivided interest in the property by issuing 3,000,000 common shares within 30 days of attaining commercial production.

During the year ended December 31, 2007, the Company notified Rio Narcea that it would not proceed with its option to earn an interest in the Barrancos Property. As a result, total mineral property costs of \$177,101 have been written-off to operations.

Alto Sobrido, Portugal

In May 2007, the Company entered into an exploration contract with the DGGE for the Alto Sobrido property, in the north east of Portugal. The exploration contract is for a period of two years and can be renewed for a further three, one year periods each by reducing the area of the license by 50% at each annual renewal. A performance deposit in the amount of €7,000 has been posted and a minimum of €25,000 must be expended on the property during the first year and thereafter a minimum of €30,000 must be expended each year over the life of the license.

In June 2007, the Company signed a Letter of Intent with Global Minerals Ltd. ("Global") that will grant Global an option to earn a 50% interest in the Alto Sobrido property.

The option grants Global the right to acquire a 50% interest in the property by completing the following:

- i) issue 50,000 shares and make a cash payment of \$25,000 to the Company on or before July 24, 2007; (received)
- ii) complete a first year work program of €100,000;
- iii) issue 100,000 shares (received) and a cash payment of \$50,000 to the Company on or before May 25, 2008;

6. MINERAL PROPERTIES (cont'd...)

Alto Sobrido, Portugal (cont'd...)

- iv) complete a second year work program of €150,000; and
- v) issue 150,000 shares (received) and a cash payment of \$75,000 to the Company on or before May 25, 2009.

If Global earns the 50% interest, the Company can elect whether to participate in a 50-50 joint venture for the further exploration of the property. If not, Global can earn a further 10% in the property by completing further exploration work totalling €750,000 and making further cash and share payments to the Company of \$250,000 and 600,000 shares on or before May 25, 2011.

The Company is the operator of the property and will remain so as long as the Company owns at least a 25% interest in the property.

During the year ended December 31, 2007, the Company received \$140,000 (\$25,000 in cash as a right of first refusal, \$25,000 in cash as an option payment and 300,000 common shares valued at \$90,000) from Global. These payments are significantly in excess of costs incurred on the property and have been recorded in the results of operations.

The Company also entered into a Technical Services Contract with Global whereby Global will reimburse the Company, as operator, for exploration costs incurred plus an 8% operator fee based on exploration costs incurred on the property. During the year ended December 30, 2007, the Company recovered \$27,946 in exploration costs and earned \$1,764 as an operator fee.

Joutel, Quebec, Canada

The Company owns a 100% interest in certain mining claims in north-western Quebec. The claims are subject to a 1% net smelter returns royalty, to a maximum of \$2,000,000.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property and accordingly, all related costs were written-down to \$1.

Orvilliers, Quebec, Canada

The Company owns a 100% interest in certain claims in the Orvilliers Township in Quebec.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property and accordingly, all related costs were written-down to \$1.

Voisey's Bay – Claim I (Sachem Bay), Labrador, Canada

The Company owns a 100% interest in certain mining claims in Labrador, Canada.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property and accordingly, all related costs were written down to \$1.

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6. MINERAL PROPERTIES (cont'd...)

Shawnee, Nevada, U.S.A.

The Shawnee property consists of a 100% interest in certain mining claims in north central Nevada, U.S.A.

During the year ended December 31, 2006, management of the Company determined that it would not proceed for the time being with the development of the property and accordingly, all related costs were written-down to \$1.

Dyke Hot Springs, Nevada, U.S.A.

The Company owns a 100% interest in certain mining claims in north-western Nevada, U.S.A. The mining claims were renewed for a further year in August 2007.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property for the time being and accordingly, all related costs were written down to \$1.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance, December 31, 2005	11,282,989	\$ 2,846,469	\$ 56,452
Private placement	3,244,570	567,800	-
Exercise of warrants	235,000	35,250	-
Issued for mineral properties	50,000	10,250	-
Share issue costs	-	(14,873)	-
Balance, December 31, 2006	14,812,559	3,444,896	56,452
Private placement	3,240,000	810,000	-
Exercise of stock options	253,500	28,850	-
Finder's fees	37,000	9,250	-
Issued for mineral properties	75,000	14,750	-
Stock-based compensation	-	-	104,097
Contributed surplus on exercise of stock options	-	12,545	(12,545)
Share issue costs	-	(22,349)	-
Balance, December 31, 2007	18,418,059	\$ 4,297,942	\$ 148,004

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

During the year ended December 31, 2007, the Company issued the following common shares:

- i) Completed a 3,240,000 unit private placement at \$0.25 per unit for gross proceeds of \$810,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.40 per share until April 20, 2009. The Company paid a finder's fee in respect of some of the subscriptions by issuing 37,000 shares at a value of \$9,250.
- ii) 253,500 common shares for gross proceeds of \$28,850 pursuant to the exercise of stock options.
- iii) 75,000 common shares valued at \$14,750 pursuant to a mineral property option agreement with Rio Narcea for the Barrancos and Alandroal Properties (Note 6).

During the year ended December 31, 2006, the Company:

- i) Completed a 3,244,570 unit private placement at \$0.175 per unit for gross proceeds of \$567,800. Each unit consisted of one common share and one-half of a share purchase warrant exercisable at \$0.27 per share until December 5, 2007 and \$0.35 per share until December 5, 2008. If the closing trading price of the Company's shares is more that \$0.40 per share for 20 consecutive trading days the Company may give the warrant holders notice and accelerate the expiry date of the warrants to 30 days from such notice.
- ii) Issued 50,000 common shares valued at \$10,250 pursuant to a mineral property option agreement with Rio Narcea Gold Mines Ltd.

Stock options

The Company has established an incentive stock option plan whereby the Board of Directors may grant options to directors, officers, employees or consultants for up to 10% of the issued and outstanding capital stock of the Company. The exercise price of the options cannot be less than the greater of \$0.10 per share or the closing trading price of the Company's shares on the day before the grant. Any options granted will have a term up to 5 years with vesting provisions determined by the board of directors.

As at December 31, 2007, the stock options to purchase shares on the following terms are outstanding:

Number of Shares	Exercise Price	Expiry Date
200,000	\$ 0.25	October 4, 2009
350,000	0.13	June 17, 2010
175,000	0.22	February 5, 2012
300,000	0.28	May 16, 2012
200,000	0.18	November 21, 2012

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options (cont'd...)

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2005 and 2006	603,500	\$ 0.13
Exercised	(253,500)	0.11
Expired	-	
Granted	<u>875,000</u>	0.24
Balance, December 31, 2007	<u>1,225,000</u>	<u>\$ 0.21</u>
Number of options currently exercisable	<u>1,025,000</u>	<u>\$ 0.20</u>

Stock-based compensation

During the year ended December 31, 2007, the Company granted stock options to purchase 875,000 shares (2006 - Nil) to directors, officers and consultants. The estimated fair value of these options was \$114,097 (2006 - \$Nil) or \$0.13 (2006 - \$Nil) per option. The Company has recorded stock-based compensation of \$104,097 (2006 - \$Nil) relating to options that vested during the year.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2007	2006
Risk-free interest rate	4.07%	-
Expected life of options	4.31 years	-
Annualized volatility	77.40%	-
Dividend rate	0.00%	-

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Warrants

As at December 31, 2007, the following share purchase warrants are outstanding:

Number of Shares	Exercise Price	Expiry Date
1,622,285	\$ 0.35	December 5, 2008
3,240,000	0.40	April 20, 2009

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2005	300,000	\$ 0.15
Issued	1,622,285	0.27
Exercised	(235,000)	0.15
Expired	<u>(65,000)</u>	0.15
Outstanding, December 31, 2006	1,622,285	0.27
Issued	3,240,000	0.40
Exercised	-	-
Expired	<u>-</u>	-
Outstanding, December 31, 2007	4,862,285	\$ 0.38

8. RELATED PARTY TRANSACTIONS

Included in accounts payable at December 31, 2007 is \$12,566 (2006 - \$20,000) due to a director and to an officer of the Company.

The Company entered into the following transactions with related parties during the year ended December 31, 2007:

- a) Paid or accrued management fees of \$35,639 (2006 - \$49,350) to a director of the Company.
- b) Paid or accrued accounting fees of \$6,200 (2006 - \$4,620) to an officer of the Company.
- c) Paid or accrued technical and professional fees of \$54,376 (2006 - \$27,922) to a director which were charged to the Jales property.

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8. RELATED PARTY TRANSACTIONS (cont'd...)

- d) Paid or accrued administration fees of \$1,420 (2006 - \$Nil) to an officer which have been charged to the mineral properties in Portugal,

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2007 consisted of:

- a) Issuing 37,000 common shares as finder's fees valued at \$9,250 pursuant to a private placement.
b) Receiving marketable securities consisting of 300,000 common shares of Global Minerals Ltd. at a value of \$90,000 as an option payment on mineral properties.
c) Issuing 75,000 common shares valued at \$14,750 to Rio Narcea Gold Mines Ltd. pursuant to a mineral property option agreement.
d) Incurring mineral property costs \$108,060 through accounts payable.

Significant non-cash transactions for the year ended December 31, 2006 consisted of:

- a) Issuing of 50,000 common shares valued at \$10,250 pursuant to mineral property option agreements with Rio Narcea Gold Mines Ltd.
b) Recognizing mineral property cost recoveries of \$42,439 through receivables.
c) Incurring mineral property costs of \$60,093 through accounts payable.

10. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2007	2006
Income (loss) for the year	\$ (419,491)	\$ (178,154)
Expected income tax recovery (expense)	\$ 129,400	\$ 62,417
Difference in foreign tax rate	-	1,932
Non-deductible items	(86,900)	(4,686)
Recognized (unrecognized) benefit of non-capital losses	<u>(42,500)</u>	<u>(59,663)</u>
Net income tax recovery (expense)	<u>\$ -</u>	<u>\$ -</u>

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10. INCOME TAXES (cont'd...)

The significant components of the Company's future income tax assets are as follows:

	2007	2006
Future income tax assets:		
Non-capital and operating loss carryforwards	\$ 157,000	\$ 123,000
Resource properties and other assets	416,000	409,000
Other items	<u>7,330</u>	<u>3,850</u>
	580,330	535,850
Valuation allowance	<u>(580,330)</u>	<u>(535,850)</u>
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$574,000 available to offset against taxable income of future years. These losses, if not utilized, will expire through to 2027. Subject to certain restrictions, the Company also has approximately \$2,030,000 of resource expenditures and other assets available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital and operating losses and resource expenditures have been offset by a valuation allowance and have not been recognized in these consolidated financial statements.

11. SEGMENTED INFORMATION

The Company operates in one business segment, the exploration of mineral properties. Geographic information is as follows:

	2007	2006
Capital assets		
Canada	\$ 3	\$ 3
United States	2	2
Portugal	<u>492,779</u>	<u>140,762</u>
	\$ 492,784	\$ 140,767

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, marketable securities, deposits, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

At December 31, 2007, approximately 68% (2006 – 53%) of the Company's accounts payable and accrued liabilities and all of its deposits are denominated in Euros. The Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

13. CONTINGENCIES AND COMMITMENTS

The Company has provided letters of guarantee to the Government of Portugal for its exploration contracts on the mineral properties in Portugal totalling \$49,777 (€34,500) (2006 – \$18,452 (€12,000)) (Note 6).

The Company entered into a consulting agreement effective September 1, 2006 with its President for management services, expiring September 1, 2008. The Company agreed to pay \$10,000 per month and severance of \$240,000 in the event of a change of control of the Company, and 200% of any compensation due over the remaining term of the contract in the event of termination other than due to a change of control or for other than just cause. The Company also agreed to grant stock options to purchase not less than 1,000,000 shares to the President. The agreement may be extended for a further two years. The President has agreed to waive the balance of \$29,278 of unpaid monthly fees for the current fiscal year.

14. SUBSEQUENT EVENTS

Subsequent to December 31, 2007, the Company received regulatory approval to reduce the exercise price of 3,240,000 outstanding share purchase warrants from \$0.40 to \$0.25 and the exercise price of 1,622,285 share purchase warrants from \$0.35 to \$0.25.

**KERNOW
RESOURCES & DEVELOPMENTS LTD.
TSX Venture Exchange: KRD**

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