

**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
<b>ASSETS</b>		
<b>Current</b>		
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
<b>Deposits (Note 5)</b>	33,735	3,080
<b>Mineral properties (Note 6)</b>	<u>492,784</u>	<u>140,767</u>
	<u>\$ 1,454,867</u>	<u>\$ 854,112</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 204,078</u>	<u>\$ 128,430</u>
<b>Shareholders' equity</b>		
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
<b>EXPENSES</b>		
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>
<b>Loss before other items</b>	<u>(427,908)</u>	<u>(199,179)</u>
<b>OTHER ITEMS</b>		
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>
<b>Loss and comprehensive loss for the year</b>	(419,491)	(178,154)
<b>Deficit, beginning of the year</b>	<u>(2,775,666)</u>	<u>(2,597,512)</u>
<b>Deficit, end of the year</b>	<u>\$ (3,195,157)</u>	<u>\$ (2,775,666)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares outstanding</b>	<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
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
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>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
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>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
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>
<b>Increase in cash during the year</b>	241,217	428,211
<b>Cash, beginning of the year</b>	<u>576,003</u>	<u>147,792</u>
<b>Cash, end of the year</b>	<u>\$ 817,220</u>	<u>\$ 576,003</u>
<b>Cash paid during the year for interest</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Cash paid during the year for income taxes</b>	<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

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**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.

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

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**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.

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
NOTES TO THE CONSOLIDATED 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**

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	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>

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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).

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

**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.

<b>2007</b>	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**

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	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:

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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	(42,500)	(59,663)
Net income tax recovery (expense)	\$ -	\$ -

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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.