

**KERNOW RESOURCES & DEVELOPMENTS LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited –Prepared by Management)**

**THREE MONTH PERIOD ENDED  
MARCH 31, 2009**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended March 31, 2009

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited – Prepared by Management)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 187,198	\$ 298,196
Receivables	70,923	38,909
Marketable securities (Note 4)	<u>3,600</u>	<u>3,600</u>
	261,721	340,705
<b>Equipment</b> (Note 5)	1,751	-
<b>Deposits</b> (Note 6)	42,234	42,234
<b>Mineral properties</b> (Note 7)	<u>523,557</u>	<u>511,708</u>
	<u>\$ 829,263</u>	<u>\$ 894,647</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	\$ 127,349	\$ 146,959
<b>Promissory notes payable</b> (Note 8)	<u>75,000</u>	<u>75,000</u>
	<u>202,349</u>	<u>221,959</u>
<b>Shareholders' equity</b>		
Capital stock (Note 9)	4,303,942	4,297,942
Contributed surplus (Note 9)	176,542	153,376
Deficit	<u>(3,853,570)</u>	<u>(3,778,630)</u>
	<u>626,914</u>	<u>672,688</u>
	<u>\$ 829,263</u>	<u>\$ 894,647</u>

**Nature and continuance of operations** (Note 1)

**Contingencies and commitments** (Note 15)

**Subsequent events** (Note 16)

**On behalf of the Board:**

"Alan F. Matthews"

Director

"Donn Burchill"

Director

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

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited – Prepared by Management)

	Three Month Period Ended March 31, 2009	Three Month Period Ended March 31, 2008
<b>EXPENSES</b>		
Advertising and promotion	\$ 10,553	\$ 22,893
Bank charges and interest	813	970
Consulting	3,000	15,918
Depreciation	68	-
Filing, listing and transfer agent fees	10,080	6,617
Foreign exchange	(1,667)	16
Interest expense	6,000	-
Management fees	4,160	3,385
Office and miscellaneous	4,353	4,621
Professional fees	12,293	16,462
Property investigation	206	7,530
Shareholder costs	-	142
Stock-based compensation (Note 9)	23,166	2,682
Travel and related	4,303	8,290
	<u>(77,328)</u>	<u>(89,526)</u>
<b>Loss before other items</b>		
<b>OTHER ITEMS</b>		
Interest income	120	1,455
Operator fees (Note 7)	2,268	2,068
Unrealized gain (loss) on marketable securities	-	(13,500)
	<u>2,388</u>	<u>(9,977)</u>
<b>Net loss for the period</b>	(74,940)	(99,503)
<b>Deficit, beginning of period</b>	<u>(3,778,630)</u>	<u>(3,195,157)</u>
<b>Deficit, end of period</b>	<u>\$ (3,853,570)</u>	<u>\$ (3,294,660)</u>
<b>Basic and diluted income (loss) per share</b>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
<b>Weighted average basic number of shares outstanding</b>	<u>18,712,321</u>	<u>18,418,059</u>
<b>Weighted average diluted number of common shares outstanding</b>	<u>18,712,321</u>	<u>18,418,059</u>

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

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)

	Three Month Period Ended March 31, 2009	Three Month Period Ended March 31, 2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (74,940)	\$ (99,503)
Items not affecting cash:		
Depreciation	68	-
Interest, loan bonus	6,000	-
Stock-based compensation	23,166	2,682
Unrealized (gain) loss on marketable securities	-	13,500
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(3,663)	(36,392)
Increase in accounts payable and accrued liabilities	<u>(20,702)</u>	<u>29,067</u>
Net cash used in operating activities	<u>(70,071)</u>	<u>(90,646)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of equipment	(1,819)	-
Mineral property recoveries	-	21,502
Expenditures on mineral properties	(39,108)	(153,690)
Acquisition of marketable securities	<u>-</u>	<u>(99,849)</u>
Net cash used in investing activities	<u>(40,927)</u>	<u>(232,037)</u>
<b>Change in cash during the period</b>	(110,998)	(322,683)
<b>Cash, beginning of period</b>	<u>298,196</u>	<u>817,220</u>
<b>Cash, end of period</b>	\$ 187,198	\$ 494,537
<b>Cash paid during the period the interest</b>	\$ -	\$ -
<b>Cash paid during the period for income taxes</b>	\$ -	\$ -

**Supplemental disclosure with respect to cash flows** (Note 11)

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

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2009  
(Unaudited – Prepared by Management)

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**1. BASIS OF PRESENTATION**

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

These interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period consolidated statements should be read together with the Company's audited consolidated financial statements and the accompanying notes for the year ended December 31, 2008. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

**2. 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. To date, the Company has not generated significant revenues and is considered to be in the development stage.

The Company has not yet determined whether its mineral properties contain economically recoverable ore reserves. The recovery of the amounts comprising mineral properties and deferred exploration costs are dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete the exploration and development of those reserves and upon future profitable production or, alternatively, upon the Company's ability to dispose of its interest on an advantageous basis.

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. However, the Company has sustained substantial losses from operations since inception and has no current source of revenue. 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. Management is actively seeking to raise the necessary capital to meet its funding requirements and has undertaken available cost cutting measures.

These 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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	March 31, 2009	December 31, 2008
Working capital	\$ 134,372	\$ 193,746
Deficit	(3,851,813)	(3,778,630)

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### 3. SIGNIFICANT ACCOUNTING POLICIES

#### **Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at the following annual rate:

Computer equipment      30%

#### **Recent accounting standards**

##### *Business Combinations, Non-controlling Interest and Consolidated Financial Statements*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

##### *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.

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2009**  
(Unaudited – Prepared by Management)

**4. MARKETABLE SECURITIES**

	March 31, 2009	December 31, 2008
Global Minerals Ltd.	\$ 3,600	\$ 3,600

As at March 31, 2009, the Company holds 240,000 (December 31, 2008 – 240,000) 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. EQUIPMENT**

	March 31, 2009			December 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 1,819	\$ 68	\$ 1,751	\$ -	\$ -	\$ -

**6. DEPOSITS**

The Company posted refundable term deposits totalling \$98,257 (€57,000) (2008 - \$98,257 (€57,000)) 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 15). The Company has recovered partial deposits from parties in which it has entered into mineral property option agreements, resulting in net deposits of \$42,234 (€24,500).

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2009  
(Unaudited – Prepared by Management)

**7. 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>2009</b>	Jales	Boticas	Alto Sobrido	Joutel, Orvilliers & Voisey's Bay	Shawnee	Total
Balance, beginning of period	\$ 114,020	\$ 358,038	\$ 39,645	\$ 3	\$ 2	\$ 511,708
Additions:						
Administration	940	132	51	-	-	1,123
Assays	44	-	-	-	-	44
Core storage	590	123	-	-	-	713
Drilling and sampling	6,486	-	-	-	-	6,486
Field accommodations	214	-	-	-	-	214
Field supplies	217	-	-	-	-	217
Labour	3,999	-	-	-	-	3,999
Technical and professional	14,586	5,698	5,771	-	-	26,055
Travel and transport	1,275	-	74	-	-	1,349
	<u>28,351</u>	<u>5,953</u>	<u>5,896</u>	<u>-</u>	<u>-</u>	<u>40,200</u>
Recoveries	<u>(28,351)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,351)</u>
	<u>-</u>	<u>5,953</u>	<u>5,896</u>	<u>-</u>	<u>-</u>	<u>11,849</u>
Balance, end of period	\$ 114,020	\$ 363,991	\$ 45,541	\$ 3	\$ 2	\$ 523,557

**7. 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 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 three month period ended March 31, 2009, the Company recovered \$28,351 (2008 - \$19,486) in exploration costs. During the three month period ended March 31, 2009, the Company also earned \$2,268 (2008 - \$1,907) as an operator fee.

Subsequent to March 31, 2009, the Company announced that it will purchase St. Elias’s 51% interest in the Jales/Gralheira Property bringing its ownership of the Property to 100% by fulfillment of various conditions pursuant to the agreement.

**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.

7. **MINERAL PROPERTIES** (cont'd...)

**Poco das Freitas Property (Boticas), Portugal** (cont'd...)

During the 2008 fiscal year, the Company received notification from the DGGE, that the exploration contract for the Boticas property will be extended until October 2009. The Company has committed to expend €45,000 during the period of the extension.

**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 granted Global an option to earn a 50% interest in the Alto Sobrido property.

In July 2008 the Company terminated the letter of agreement with Global relative to the Alto Sobrido property.

During fiscal 2008, the Company applied for the exclusive right to explore any coal deposits discovered on the Alto Sobrido property. The Company is waiting for the final approval from the Portuguese government with regards to the coal exploration licence.

**Joutel, Quebec, Canada**

The Company holds 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. The Company has made application to the Government of Quebec to renew the 20 claims comprising the Joutel property for a further two years until January 2011.

During fiscal 2006, 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 holds a 100% interest in certain claims in the Orvilliers Township in Quebec. The Company has made application to the Government of Quebec to renew 7 claims at the Orvilliers property until February 2011.

During fiscal 2006, 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 holds a 100% interest in certain mining claims in Labrador, Canada.

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

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2009  
(Unaudited – Prepared by Management)

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**7. 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. The mining claims were renewed for a further year in August 2008.

During fiscal 2006, 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 a nominal amount.

**8. PROMISSORY NOTES PAYABLE**

The Company received \$75,000 by issuing \$50,000 and \$25,000 promissory notes to two directors of the Company. The promissory notes are unsecured, non-interest bearing and are due on December 4, 2010. On January 7, 2009, the lenders were issued 300,000 common shares, valued at \$6,000, as a loan bonus.

**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance, December 31, 2008	18,418,059	\$ 4,297,942	\$ 153,376
Loan bonus	300,000	6,000	-
Stock-based compensation	-	-	23,166
Balance, March 31, 2009	18,718,059	\$ 4,303,942	\$ 176,542

During the three month period ended March 31, 2009, the Company issued 300,000 common shares valued at \$6,000 as a loan bonus to the holders of the promissory notes issued during fiscal 2008 (Note 8).

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2009**  
(Unaudited – Prepared by Management)

**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**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 March 31, 2009, the stock options to purchase shares on the following terms are outstanding:

Number of Shares	Exercise Price	Expiry Date
150,000	\$ 0.10	November 1, 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
696,806	0.10	February 10, 2014

**Stock-based compensation**

During the three month period ended March 31, 2009, the Company granted stock options to purchase 696,806 shares (2008 - Nil) to directors, officers and consultants. The estimated fair value of these options was \$23,013 (2008 - \$Nil) or \$0.03 (2008 - \$Nil) per option. The Company has recorded stock-based compensation of \$23,166 (2008 - \$2,682) relating to options that vested during the period.

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

	March 31, 2009	March 31, 2008
Risk-free interest rate	2.09%	-
Expected life of options	5 years	-
Annualized volatility	139.50%	-
Dividend rate	0.00%	-

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2009  
(Unaudited – Prepared by Management)

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**9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Warrants**

As at March 31, 2009, the following share purchase warrants are outstanding:

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Number of Shares	Exercise Price	Expiry Date
3,240,000	\$ 0.25	April 20, 2009 (Subsequently expired)

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**10. RELATED PARTY TRANSACTIONS**

Included in accounts payable at March 31, 2009 is \$44,787 (December 31, 2008 - \$35,389) 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, 2008:

- a) Paid or accrued management fees of \$4,160 (2008 - \$3,385) to a director of the Company.
- b) Paid or accrued accounting fees of \$1,460 (2008 - \$1,320) to an officer of the Company.
- c) Paid or accrued technical and professional fees of \$20,799 (2008 - \$19,978) to a director which were charged to the mineral properties in Portugal.
- d) Issued 300,000 (2008 – Nil) common shares for a value of \$6,000 as a loan bonus to two directors who are holders of the promissory notes issued in fiscal 2008 (Note 7).

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2009  
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**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

Significant non-cash transactions for the three month period ended March 31, 2009 consisted of:

- a) Incurring mineral property costs of \$44,687 through accounts payable.
- b) Including mineral property recoveries of \$30,619 in receivables.
- c) Issuance of 300,000 common shares valued at \$6,000 representing a loan bonus to the lenders of the \$75,000 promissory note from fiscal 2008.

Significant non-cash transactions for the three month period ended March 31, 2008 consisted of:

- a) Incurring mineral property costs of \$134,342 through accounts payable.
- b) Including mineral property recoveries of \$38,620 in receivables.

Cash and cash equivalents consist of:

	March 31, 2009	December 31, 2008
Cash	\$ 77,387	\$ 188,316
Treasury bill	<u>109,811</u>	<u>109,880</u>
	<u>\$ 187,198</u>	<u>\$ 298,196</u>

**KERNOW RESOURCES & DEVELOPMENTS LTD.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2009  
(Unaudited – Prepared by Management)

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**12. SEGMENTED INFORMATION**

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

	March 31 2009	December 31 2008
Capital assets		
Canada	\$ 3	\$ 3
United States	2	2
Portugal	<u>523,552</u>	<u>511,703</u>
	<u>\$ 523,557</u>	<u>\$ 511,708</u>

**13. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, receivables, marketable securities, deposits, accounts payable and accrued liabilities and promissory notes payable. 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.

**Credit risk**

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are primarily held in large Canadian financial institutions. The Company does not have any asset-backed commercial paper. The Company's receivables consist mainly of GST receivable due from the Federal Government of Canada and a balance due from St. Elias relating to mineral property recoveries. Management believes that the credit risk concentration with respect to financial instruments included in receivables is minimal.

**Currency risk**

Cash held in foreign currencies other than the Canadian dollar is subject to currency risk. The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar.

At March 31, 2009, approximately 52% (December 31, 2008 – 50%) 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.

**Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest bearing financial obligations or assets.

**13. FINANCIAL INSTRUMENTS (cont'd...)**

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

**Price risk**

The Company is exposed to price risk with respect to commodity and equity prices. The ability of the Company to explore its mineral properties and the future profitability of the Company are directly related to the market price of gold and other precious metals. The Company monitors gold and other commodity prices to determine the appropriate course of action to be taken by the Company.

The Company's marketable securities are subject to fair value fluctuations ongoing from changes in the equity and commodity markets.

**14. CAPITAL MANAGEMENT**

The company defines capital that it manages as its shareholders' equity. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**15. 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 \$115,495 (€67,000) (December 31, 2008 - \$115,495 (€67,000)). The Company has posted certain deposits (Note 6) as security against the guarantees.

**15. CONTINGENCIES AND COMMITMENTS (cont'd...)**

The Company entered into a consulting agreement effective September 1, 2006 with its President for management services, expiring September 1, 2008. The agreement has been extended for a further two years expiring September 1, 2010. 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 Company in agreement with the President has agreed to accrue €7,000 and the President has agreed to waive the balance of \$5,040 of unpaid monthly fees for the three month period ended March 31, 2009.

**16. SUBSEQUENT EVENTS**

Subsequent to March 31, 2009, the Company:

1. Announced that it has applied to the Portuguese Ministry of Economy and Innovation for the rights to explore for Geothermal Resources located in the area of Chaves in Northern Portugal.

The application will be reviewed by the Ministry and the Direcção-Geral de Energia e Geologia (“DGEG”) and, if successful, the Company will be granted the right to explore for Geothermal Resources over an area of 200 square kilometres. The location was selected by the Company as it is known to host several hot springs and contains a deep seated regional fault running from the south west to the north east of the property. The fault known as the Regua Varim fault separates two granitic intrusions of Hercynian age to the east and west.

2. The Company has signed a Letter of Intent (LOI) with Green Bull Energy Inc. (“Green Bull”), a private company controlled by one of the Company’s directors, Mr. J.L. Bulman. The LOI grants Green Bull the right to enter into a Joint Venture with the Company to develop the area under application for Geothermal Resources after paying the first €100,000 of exploration expenditures on the property. The LOI envisages that after the rights to the property have been granted and after Green Bull has expended the monies, the companies will enter into a 50/50 JV to further develop the property. The LOI is subject to Exchange approval.
3. The Company announced that it will purchase St. Elias Mines Ltd’s (“St. Elias”) 51% interest in the Jales/Gralheira Property bringing its ownership of the Property to 100% by fulfillment of the following conditions:
  - a) The Company will forgive all the outstanding payments due by St. Elias (currently such payments are in the approximate amount of CDN\$61,200).
  - b) The Company will pay St. Elias the sum of CDN\$50,000 on receipt of satisfactory documentation quit claiming all rights to the property to the Company.
  - c) On Exchange approval, the Company will issue St. Elias 1,000,000 common shares.
  - d) On receipt of a Full Mining License from the Portuguese Authorities and Exchange approval, the Company will issue St. Elias a further 2,000,000 shares and pay to St. Elias a further CDN\$100,000.
  - e) The resale of such shares will be restricted to not more than 100,000 shares per month for 10 months after the expiry of the respective restricted resale periods imposed by applicable securities legislation and the TSX Venture Exchange.
  - f) The Company will seek permission from the Portuguese Mining Authorities to award St. Elias a 0.40% net smelter royalty on all metals produced from the property.