

KERNOW RESOURCES & DEVELOPMENTS LTD.

FORM 51-102F1

MANAGEMENT DISCUSSION AND ANALYSIS YEAR MONTH PERIOD ENDED DECEMBER 31, 2008

The following discussion and analysis, prepared as of March 27, 2009, should be read together with the audited consolidated financial statements for the year ended December 31, 2008 and related notes attached thereto, 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 three properties in Northern Portugal (Jales, Alto Sobrido and Boticas). The Jales property is subject to an Option Agreement. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol KRD.

Overall Performance

The Company incurred a net loss of \$583,473 (2007 - \$419,491) during the year ended December 31, 2008. The loss increased because of the write-off of mineral property and deferred exploration costs of \$223,349 compared to \$177,101 in fiscal 2007, an unrealized loss on marketable securities of \$47,400 compared to \$21,000 in fiscal 2007, a loss on disposal of marketable securities of \$10,500 compared to a gain of \$14,370 in fiscal 2007. During fiscal 2007 the Company received \$140,000 in option payments pursuant to various mineral property option agreements.

As at December 31, 2008, the Company had \$298,196 (2007 - \$817,220) in cash and cash equivalents and working capital was \$193,746 (2007 - \$724,270).

During the current year, the Company wrote-off all deferred costs associated with the Alandroal property.

During the current year, the Company received \$75,000 by issuing a \$50,000 and a \$25,000 promissory note to two directors of the Company. The promissory notes are unsecured, non-interest bearing and are due on December 4, 2010. Subsequent to December 31, 2008, the lenders were issued 300,000 common shares, valued at \$6,000, as a loan bonus.

Other Events and Transactions

The following is a summary of significant events and transactions that occurred during the year ended December 31, 2008:

1. Announced on January 14, 2008, the commencement of a 600 meter, 4 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 Mines Ltd. ("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 NI 43-101 Resource Estimate report is available for view on www.sedar.com.
3. On February 25, 2008 provided an update on the progress of drilling at the 100% owned Boticas gold property.

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: 3,240,000, 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 KL4 during the 2008 drill campaign. The hole contained mineralisation that returned 2.91 g/t (grams per tonne) gold over 20.40 metres from 20.7 metres to 41.1 metres. Within this interval an area with a higher density of quartz veining returned 3.87 g/t gold over 7.75 metres (23.7 metres to 31.45 metres). 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 metres from 145.00 metres to 154.05 metres (including 0.9 metres at 22.2 g/t gold).
7. On April 10, 2008, terminated its contract with First Canadian Capital Corp. ("First Canadian") to provide strategic marketing and corporate communication services. The 200,000 stock options that were to vest to First Canadian exercisable at \$0.25 until October 4, 2009 were cancelled on May 10, 2008.
8. Issued notice to Rio Narcea Gold Mines Ltd. ("Rio Narcea") that it would not proceed with the option to acquire the Alandroal property.
9. On April 18, 2008, the Company announced additional assay results on holes KL5, KL5A, KL6 and KL7 from the diamond drill program on the Boticas gold property.

Hole KL5 was stopped at 66.0 metres due to poor ground conditions. Hole KL5A was drilled three metres south of Hole KL5 in an attempt to reach the target depth of Hole KL5. Again gold mineralisation was observed to be weak and associated with quartz stringer veins with minor arsenopyrite.

Hole KL6 was drilled approximately 170 metres to the north of Hole KL5 on the northern edge of the Roman Pit. The hole was designed to test the continuity of mineralised structures observed in Holes PF13, PF3 and PF17. The main mineralised zone was encountered between 89.63 metres and 101.45 metres returning 1.03 g/t gold across a core length of 11.82 metres. Other sporadic gold mineralisation was recorded throughout the hole

Hole KL7 was drilled to test the depth extension of a set of narrow veins observed at surface on the southern edge of the Roman Pit. Gold mineralisation was intersected near surface (8.70 metres to 11.25 metres).

10. On May 13, 2008, the Company announced that it had engaged SGS Mineral Services (SGS Lakefield Research Europe Ltd.), Cornwall, UK ("SGS") to complete scoping level metallurgical testing of a single composite sample of mineralized rock from the adit at the Gralheira deposit on the Jales property. The average recovery of gold to a gravity concentrate was 26.1%. Further testing will be undertaken to determine the amount of gold recoverable from the sample by flotation.
11. On July 15, 2008, the Company announced that it terminated the letter of agreement with Global Minerals Ltd. ("Global") relative to the Alto Sobrido gold-antimony property in Portugal. Under the terms of the letter of agreement, Global had an option to earn up to a 55% interest in the property.

The Company now holds a 100% interest in the property and plans to continue to develop the property by the completion of underground sampling followed by drilling.

12. The Company's Annual General Meeting was held on July 2, 2008 in Vancouver, BC. All proposed resolutions were passed.
13. Applied for the exclusive right to explore for and exploit any coal deposits discovered on its Alto Sobrido property. The coal rights have been granted in principal and the Company is awaiting government approval to finalize the grant of the rights.
14. The Company did not renew the claims covering the Dyke Hot Springs Property in August 2008 and no longer holds an interest in this Property.

15. On October 23, 2008 the Company and St. Elias announced that they have taken a 1.0 tonne sample of vein and gangue material from the existing adit on the Jales property. The sample will be treated at the Portuguese state-run metallurgical laboratory in Porto, Portugal with the objective of applying prior metallurgical knowledge to a large sample.

The Company and St. Elias have also mobilized a drilling rig to the Jales property which will drill a limited number of important holes designed to reclassify inferred resources as indicated resources by decreasing the distance between known pierce points in the vein system.

16. Retained MarketSmart Communications Inc. (“MarketSmart”) of Vancouver, BC to provide investor, financial and corporate communications. Under the terms of the agreement, the Company will pay MarketSmart \$3,500 per month for a six-month initial term and grant 150,000 stock options exercisable at \$0.10 per share for one year, which vest over 12 months.
17. The Company has received notification from the Direção-Geral de Geologia e Energia (“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.
18. The Company signed a \$50,000 and a \$25,000 promissory note with two directors of the Company on December 4, 2008. The promissory notes are due without interest, on or before December 4, 2010. Subsequent to the end of the year, the Company issued 300,000 common shares, valued at \$6,000, as a loan bonus.
19. Formally submitted a request to the DGGE to temporarily suspend work commitments on its Boticas and Alto Sobrido Exploration Contracts and the Jales Experimental Mining Contract. The permission was granted by the DGGE on December 29, 2008 allowing the Company to suspend work commitments until June 30, 2009. At the end of this period, if the Company wishes to further suspend its work commitments, the DGGE has informed the Company that it may consider the possibility of rescinding the Exploration Contracts and Experimental Mining Contract. The Company has to date, fulfilled its work commitments relative to the Boticas and Alto Sobrido Exploration Contracts. Work is ongoing relative to the Jales property.

The following events occurred subsequent to December 31, 2008:

1. Received a report from Wardell Armstrong International Ltd., Cornwall, UK relative to the metallurgical testing of a composite sample of mineralized drill core from the Gralheira Deposit on the Jales Property in northern Portugal. The work was undertaken on behalf of the Company and its joint venture partner, St.Elias Mines Ltd. The full report is available on the Company’s website at www.kernowresources.com.
2. Issued 300,000 common shares on January 12, 2009 to the two directors of the Company, who are holders on the promissory notes originally issued on December 4, 2008. These shares are valued at \$6,000 and were considered as a loan bonus.
3. Announced on January 19, 2009 that it had received the final results from the first 220 meter drill hole completed by the Company and St. Elias Joint Venture. The hole intersected several gold-bearing structures that are inline with the 8 other holes drilled on this section.
4. Granted 750,000 stock options exercisable at \$0.10 per share until February 13, 2014 to directors and officers.
5. Withdrew an application for Mineral Exploration in the Alcacovas area of Southern Portugal thus reducing the balance of €1,000 which has been guaranteed by the bank to the amount €0,000 which is related to the Boticas property.
6. Appointed Donn Burchill as the new Chief Financial Officer. Alan Matthews has resigned as Chief Financial Officer and continues his duties as Chief Executive Officer.

Property Updates

Jales, Portugal

The Company has an option agreement with St. Elias Mines Ltd. (“St. Elias”), 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 51% of the exploration costs incurred on the property. During the year ended December 31, 2008, the Company recovered \$83,424 (2006 - \$36,702) in exploration costs. During the year ended December 31, 2008 the Company also earned \$5,798 (2007 - \$6,986) as an operator fee.

Poco das Freitas Property (Boticas), Portugal

The Company has 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 (approximately \$73,300) of exploration work on the property in the first two years. It has completed a further €45,000 of exploration work that was required by October 2008. 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.

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.

In June 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 has completed a 3-hole drill program at the Limarinho deposit. Following discussions with the appropriate Portuguese authorities regarding the ongoing development of the property the Company has received permission to continue with its exploration activities.

In early 2008 the Company completed a 5 hole diamond drill program at the Limarinho deposit. During the current 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.

Alandroal Property, Portugal

The Company has an option agreement with Rio Narcea to acquire an initial 60% interest with the right to earn the remaining 40% in the Alandroal Property in Southern Portugal.

The Company can earn a 60% interest by incurring exploration expenditures of €50,000 (approximately \$539,000) 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.

During the current year, the Company issued notice to Rio Narcea that it would not proceed with the option to acquire the Alandroal Property and has written-off to operations \$223,349, which represented all of the deferred costs associated with the property.

Alto Sobrido, 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, one year periods 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 of the grant. 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 Minerals Ltd (“Global”) that granted Global an option to earn a 50% interest in the Alto Sobrido property.

The option granted 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;
- 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 has a Letter of Agreement 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, 2008, the Company recovered \$3,824 (2007 - \$23,147) in exploration costs and earned \$306 (2007 - \$1,852) as an operator fee.

In July 2008 the Company announced that it terminated the letter of agreement with Global relative to the Alto Sobrido gold-antimony property.

The Company now holds a 100% interest in the property and plans to continue to develop the property by the completion of underground sampling followed by drilling.

During the year ended December 31, 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 hold 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.

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 \$1.

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

The Company did not renew the mining claims in 2008 and no longer holds an interest in this property.

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, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Total revenues	\$ 15,367	\$ 37,179	\$ 30,878
Net income (loss) before extraordinary items	(583,473)	(419,491)	(178,154)
Net income (loss)	(583,473)	(419,491)	(178,154)
Basic and diluted earnings (loss) per share	(0.03)	(0.01)	(0.02)
Total assets	894,647	1,454,867	854,112
Total long-term liabilities	-	-	-
Cash dividends	-	-	-

Summary of Quarterly Results

For the Quarters Ended				
	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008
Total assets	\$ 894,647	\$ 859,627	\$ 906,425	\$ 1,413,395
Mineral properties	511,708	481,584	440,719	669,095
Working capital	193,746	284,614	346,901	451,138
Shareholders' equity	672,688	799,934	821,355	1,153,968
Interest revenues	593	1,015	6,200	1,455
Net income (loss)	(130,337)	(21,422)	(332,211)	(99,503)
Earnings (loss) per share	(0.01)	(0.01)	(0.02)	(0.01)

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 and deferred costs	492,784	542,661	459,830	234,093
Working capital (deficiency)	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)	(317,600)	80,026	(123,239)	(58,678)
Earnings (loss) per share	(0.01)	0.01	(0.01)	(0.01)

Significant changes in key financial data from 2007 to 2008 can be attributed to writing-off of various mineral properties and writing down others 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 2007 fiscal year end, 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 were written-off to operations during fiscal 2007. During fiscal 2008, the Company notified Rio Narcea that it would not proceed with its option to earn an interest in the Alandroal Property. As a result, total deferred costs of \$223,349 were written-off to operations. During fiscal 2008, the Company received \$75,000 by issuing two promissory notes for \$50,000 and \$25,000.

During fiscal 2008, 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 partners, St. Elias, to manage the Jales Gold Property and Global, to manage the Alto Sobrido Property, both of which are in Portugal. Revenues from operator fees during the current period were \$6,104 compared to \$8,749 during fiscal 2007. During fiscal 2008, the Company realized a net loss of \$10,500 on the sale of marketable securities. In the previous year, the Company had realized a net gain of \$14,370 on the sale of marketable securities. The Company also recorded an unrealized loss on marketable securities of \$47,400 which relates to the 240,000 shares of Global that it holds as marketable securities. In fiscal 2007, the Company had recorded a \$21,000 unrealized loss on these shares.

The Company's accounting policy is to capitalize all costs related to acquisition, exploration and development of mineral properties, net of recoveries. These costs 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

Fourth Quarter Ended December 31, 2008

The Company incurred a net loss of \$130,337 during the three month period ended December 31, 2008 compared to a net loss of \$317,600 during the three month period ended December 31, 2007. Some of the significant expenses are as follows:

Advertising and promotion costs of \$8,199 (2007 - \$19,152) relate to costs of maintaining a Company website and the advertisement in trade magazines to increase investor awareness on the Company's various projects. Fees were also paid to MarketSmart Communications Inc. for the provision of investor relations services.

Consulting fees of \$9,707 (2007 - \$10,803), consistent with the previous comparative period, relate to payments made to various consultants who have assisted the Company in many areas of public company management.

Filing and transfer agent fees of \$1,755 (2007 - \$4,073) relate to various regulatory filings required to maintain public company status on the TSX-V.

Management fees of \$11,777 (2007 - \$14,639) have decreased and are based on the time the President of the Company allocates to the administration and management of the Company.

Professional fees of \$49,092 (2007 - \$51,332) comprising of audit and accounting and legal services provided by Company's accountants, auditors and legal counsel.

Property investigation costs of \$773 (2007 - \$1,064) relate to expenses incurred that are not specifically related to any of the Company's existing properties.

Travel and related costs of \$3,301 (2007 - \$6,638) have decreased because directors and consultants reduced the frequency of their business trips made for the Company.

During the three month period ended December 31, 2008, the Company recorded a non-cash charge of \$8 (2007 - \$26,817) as stock-based compensation expense which recognizes the fair value of vested stock options using the Black Scholes option pricing model.

During the three month period ended December 31, 2008, the Company earned \$1,682 (2007 - \$2,008) as an operator fee pursuant to various Technical Services Contracts. These have decreased over the comparative period because of the decrease in exploration work period by the Company on the various properties.

The Company recorded an unrealized loss on marketable securities of \$9,600 (2007 - \$24,000) on the common shares of Global Minerals Ltd. that it holds in a brokerage account.

The Company wrote-off \$11,918 in mineral property costs related to the Alandroal Property in Portugal. During the previous comparative period, the Company wrote-off \$177,101 in mineral property costs related to the Barrancos Property in Portugal.

Year Ended December 31, 2008

The Company incurred a net loss of \$583,473 during the year ended December 31, 2008 compared to a net loss of \$419,491 during the last fiscal year. Some of the significant expenses are as follows:

Advertising and promotion costs of \$32,170 (2007 - \$36,036) relate to costs of maintaining a Company website, attendance at various Trade Conferences in Vancouver and Toronto and the advertisement in trade magazines to increase investor awareness on the Company's various projects. Fees were also paid to MarketSmart Communications Inc. and First Canadian for the provision of investor relations services.

Consulting fees of \$52,537 (2007 - \$57,376), consistent with the previous fiscal year, relate to payments made to various consultants who have assisted the Company in many areas of public company management.

Filing and transfer agent fees of \$15,252 (2007 - \$19,233) relate to various regulatory filings required to file the private placement and maintain public company status on the TSX-V.

Management fees of \$37,689 (2007 - \$35,639) have increased slightly as the President of the Company allocated more time to the administration and management of the Company.

Professional fees of \$111,515 (2007 - \$102,680) comprising of audit and accounting and legal have increased because of an increase in the Company's activities requiring greater accounting and audit preparation.

Property investigation costs of \$14,106 (2007 - \$7,365) relate to expenses incurred that are not specifically related to any of the Company's existing properties. These costs have increased as the Company is actively seeking other opportunities in Portugal.

Travel and related costs of \$22,083 (2007 - \$35,414) have decreased because directors and consultants reduced the frequency of their business trips made for the Company.

During the year ended December 31, 2008, the Company recorded a non-cash charge of \$5,372 (2007 - \$104,097) as stock-based compensation expense which recognizes the fair value of vested stock options using the Black Scholes option pricing model.

During the year ended December 31, 2008, the Company earned \$6,104 (2007 - \$8,749) as an operator fee pursuant to various Technical Services Contracts on its mineral properties in Portugal.

The Company recorded a loss of \$10,500 on the sale of marketable securities compared a gain of \$14,370 in the last fiscal year.

The Company recorded an unrealized loss on marketable securities of \$47,400 (2007 - \$21,000) on the 240,000 common shares of Global Minerals Ltd. that it holds in a brokerage account.

The Company wrote-off \$223,349 in mineral property costs related to the Alandroal Property in Portugal. During the previous fiscal year, the Company wrote-off \$177,101 in mineral property costs related to the Barrancos Property in Portugal.

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.

	December 31, 2008	December 31, 2007
Working capital	\$ 193,746	\$ 724,270
Deficit	(3,778,630)	(3,195,157)

Net cash used in operating activities for the year ended December 31, 2008 was \$241,152. This consists of items not affecting cash of: \$10,500 loss on disposition of marketable securities; \$5,372 in stock based compensation expense; \$47,400 unrealized loss on marketable securities, a \$1,185 write-off of receivables, a \$223,349 write-off of mineral property costs and an unrealized foreign exchange gain of \$8,499. The balance of cash used in operating activities is a net positive change of \$63,014 in non-cash working capital. During the previous year, operating activities used net cash of \$228,601.

During the current period, financing activities provided cash of \$75,000 from the issuance of two promissory notes. Financing activities provided net cash of \$825,751 during the previous comparative period consisting of the completion of a 3,240,000 unit private placement for proceeds of \$810,000, the exercise of 235,500 stock options for proceeds of \$28,850 and the payment of \$13,099 in share issue costs.

Net cash used in investing activities for the current year was \$352,872 compared to \$355,933 in the previous comparative period. Net cash used during the current period consisted of exploration expenditures of \$428,379, recoveries on exploration expenditures of \$68,007 and proceeds from the sale of marketable securities and investments of \$7,500.

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, 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, the Company may determine that it is impractical to continue commercial production. The price of gold has fluctuated widely in recent years. Gold 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. The supply of gold 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 falls below the Company's full production costs and remains at such levels for any sustained period of time, the Company will 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 will need to raise additional funds to meet its property maintenance payments for 2009 and cover anticipated administrative expenses throughout the 2009 fiscal 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, 2008 is \$35,389 (December 31, 2007 - \$12,566) 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 \$37,689 (2007 - \$35,639) to a director of the Company.
- b) Paid or accrued accounting fees of \$5,500 (2007 - \$6,200) to an officer of the Company.
- c) Paid or accrued technical and professional fees of \$59,975 (2007 - \$54,376) to a director which were charged to the mineral properties in Portugal.
- d) Paid or accrued administration fees of \$Nil (2007 - \$1,420) to an officer which have been charged to the mineral properties in Portugal.
- e) Paid or accrued property investigation costs of \$1,623 (2007 - \$Nil) to a director of the Company.
- f) Issued two promissory notes payable for \$75,000 (2007 - \$Nil) with two directors of the Company.

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.

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 receivable 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 December 31, 2008, approximately 50% (2007 – 68%) 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.

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 very limited interest rate risk as the Company holds no interest bearing financial obligation or assets.

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.

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.

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) (2007 - \$96,909 (€67,000)). The Company has posted certain deposits as security against the guarantees.

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 Company in agreement with the President has agreed to accrue €15,500 and the President has agreed to waive the balance of \$29,221 (2007 -\$29,278) of unpaid monthly fees for the year ended December 31, 2008.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Additional Disclosure for Venture Issuers without Significant Revenue

Please refer to Note 6 in the unaudited interim consolidated financial statements for the year ended December 31, 2008 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 Discussion and Analysis:

	Number of shares issued or issuable
Common shares	18,718,059
Stock options	1,175,000
Warrants	3,240,000

Adoption of New Accounting Standards

Effective January 1, 2008 the Company adopted the following accounting standards updates issued by the Canadian Institute of Chartered Accountants (“CICA”):

Financial instruments

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*.

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.

Capital disclosures

CICA Handbook Section 1535, establishes standards for the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. Other than the additional disclosure in Note 13 the adoption of this Section has had no impact on the Company's financial statements.

The adoption of these sections had no impact on the Company's financial statements other than the additional disclosure in Notes 13 and 14 in the Company's financial statements.

Recent accounting standards

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, “Goodwill and intangible assets”, replacing Section 3062, “Goodwill and other intangible assets”, and Section 3450, “Research and development costs”. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new section is effective for years beginning on or after October 1, 2008.

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.

Risks and Uncertainties

The Company is subject to a number of significant risks due to the nature and the present stage of its business. Exploration for and development of mineral properties involves a high degree of financial risk, which even a combination of careful evaluation, experience and knowledge may not eliminate. While discovery of an ore body may result in substantial rewards, few exploration properties are ultimately developed into producing mines. Major expenditures may be required to establish reserves by drilling, constructing mining and process facilities at a site, developing metallurgical processes and extracting base and precious-metals from ore. It is impossible to ensure that the current exploration programs of the Company will result in profitable commercial mining operations.

Risk factors that should be taken into account in assessing the Company’s activities and any investment in the Company include, but are not limited to, those that follow these paragraphs. Any one or more of these risk factors could have a material impact on the financial condition of the Company. This information, by its nature, is not all-inclusive and risk factors that have not been listed could have a material impact on the future financial condition of the Company.

Limited Operating History

The Company has had a limited operating history since its common shares were listed for trading on the TSX Venture Exchange. The Company is in the early stages of exploring its mineral properties for base and precious metals. The Company does not hold any known mineral reserves of any kind and therefore does not generate any revenues from production. Its success will depend largely upon its ability to locate commercially productive mineral reserves. As a result of these factors, it is difficult to evaluate the Company’s prospects, and its future success is more uncertain than if it had a longer or more proven history of operations.

History of Losses

The Company has incurred net losses every year since. The Company anticipates ongoing expenditures for its mineral exploration programs. Since most exploration projects do not result in the discovery of commercially productive mineral reserves and are ultimately expensed in full, the Company expects to report substantial net losses for at least the foreseeable future.

The long-term profitability of the Company's operations will be in part directly related to the success of its exploration programs, which are affected by numerous factors including the cost of such programs, the amount of mineral reserves discovered and fluctuations in the price of any minerals produced.

No Known Mineral Reserves

All of the Company's mineral properties are in the exploration stage and are without known mineral reserves of any kind. Although the Company may discover mineral reserves through its exploration programs, commercial production may not be warranted due to insufficient quantities. Development of any of the Company's properties will only follow upon obtaining satisfactory exploration results. However, few mineral properties that are explored are ultimately developed into producing mines.

In the event a commercially productive mineral reserve is discovered, substantial expenditures are required to establish mineral reserves through drilling, to develop metallurgical processes for extraction and to develop the mining and processing facilities and infrastructure at the production site. The marketability of any minerals discovered may be affected by numerous factors which are beyond the Company's control and which cannot be predicted, such as market fluctuations, the proximity and capacity of milling facilities, mineral markets and processing equipment, and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. Depending on the price of minerals produced, the Company may determine that it is impractical to commence or continue commercial production.

Title to Mineral Properties

Mineral title in Portugal is awarded and guaranteed by the State and is in the form of a Contract to complete an agreed Work Program within a certain period of time. If the work commitments undertaken by the Company are not fulfilled then the State has the right to revoke title.

Once the time period allowed for exploration in an Exploration Contract with the State has lapsed the Company will have no exclusive right to renew the Contract. Application to renew a Contract at the end of the allotted period can be made to the State. The State however will not guarantee the award of the area under claim to the Company.

The Boticas Contract is due to expire in October 2009 and the Alto Sobrido Contract will expire in May 2012.

The Experimental Mining Licence for the Jales-Gralheira property will expire in May 2009.

The Company however has the exclusive right apply to have any of its Exploration Contracts converted to an Experimental Mining Contract or a Full Mining Contract. In addition it has the exclusive right to convert its Experimental Mining Contract for the Jales-Gralheira property into a full Mining Contract. All of these Contracts are subject to negotiation between the State and the Company.

Both the Exploration Contract and the Experimental Mining Licence grant the Company full and State supported access rights.

The Company believes it has diligently investigated title to all of its mineral properties and, to the best of its knowledge, title to all properties are in good standing. However, the properties may be subject to prior unregistered agreements or transfers, which may affect the validity of the Company's ownership of such properties.

The Company is not aware of any material defect in the title to its mineral properties.

Key Personnel

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the operations of the Company. The Company's success is dependent to a great degree on its ability to attract and retain highly qualified management personnel. The loss of such key personnel, through incapacity or otherwise, would

require the Company to seek and retain other qualified personnel and could compromise the pace and success of its exploration activities. The Company does not maintain key person insurance in the event of a loss of any such key personnel.

Additionally, the Company has relied on, and is expected to continue relying upon, consultants and others for exploration expertise. In the event a body of commercial ore is discovered on any of the Company's properties, the Company will likely require the expertise of such consultants and others for the development and operation of a producing mine.

Competition

The resource industry is intensively competitive in all of its phases, and the Company competes with many companies possessing much greater financial and technical research resources. Competition is particularly intense with respect to the acquisition of desirable undeveloped precious-metal properties. The principal competitive factors in the acquisition of such undeveloped properties include the staff and data necessary to identify, investigate and purchase such properties, and the financial resources necessary to acquire and develop such properties. Competition could adversely affect the Company's ability to acquire suitable prospects for exploration in the future.

Industry Operating Hazards and Risks

Mineral exploration involves many risks, including the inability of the Company to locate commercially productive mineral reserves, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. The operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to resource companies, any of which could result in work stoppages and damage to persons or property or the environment and possible legal liability for any and all damage. Fires, power outages, labour disruptions, flooding, explosions, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are some of the industry operating risks involved in the operation of mines and the conduct of exploration programs. Other risks include injury or loss of life, severe damage to or destruction of property, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The occurrence of any of these operating risks and hazards may have an adverse effect on the Company's financial condition and operations.

Although the Company will, when appropriate, secure liability insurance in an amount which it considers adequate, the nature of these risks is such that liabilities might exceed policy limits, the liability and hazards might not be insurable, or the Company might elect not to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that may have a material adverse effect upon its financial condition and operations.

Government Regulations and Political Climate

Mineral exploration on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) tax laws; (iv) restrictions on production, price controls, and tax increases; (v) maintenance of claims; (vi) tenure. Any mineral exploration activities conducted by the Company, including commencement of production, require permits from governmental authorities and such operations are and will be governed by laws and regulations governing prospecting, mining, production, exports, taxes, labour standards, occupation health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters.

Companies engaged in the operation of mines and related facilities generally experience increased costs, and delays in production and other schedules as a result of the need to comply with applicable laws, regulations and permits. All permits required for the conduct of mining operations, including the construction of mining facilities, may not be obtainable by the Company on reasonable terms which would have an adverse effect on any mining project the Company might undertake.

Additionally, failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

To the best of the Company's knowledge, the Company is and will be operating in compliance with all applicable regulations.

Environmental Liability

Although the Company is not aware of any claims for damages related to any impact that its operations have had on the environment, it may become subject to such claims in the future. An environmental claim could adversely affect the Company's business due to the high costs of defending against such claims and its impact on senior management's time.

The Company conducts exploration activities primarily in Portugal. Such activities are subject to various laws, rules and regulations governing the protection of the environment. All phases of the Company's operations are subject to environmental regulation in the jurisdictions in which it operates

Although the Company is committed to ensure compliance with all environmental regulations currently applicable, environmental hazards may exist on the Company's mineral properties, which hazards are not known to the Company at present, that have been caused by previous or existing owners or operators.

Also, environmental regulations may change in the future which could adversely affect the Company's operations, including the potential to curtail or cease exploration programs or to preclude entirely the economic development of a mineral property. The extent of any future changes to environmental regulations cannot be predicted or quantified, but it should be assumed that such regulations will become more stringent in the future. Generally, new regulations will result in increased compliance costs, including costs for obtaining permits, delays or fines resulting from loss of permits or failure to comply with the new regulations.

Financial and Financing Risks

As a company active in acquisition and exploration within the mineral resource industry, the Company is currently exposed to a number of risks, including the financial risks associated with the fact that it has no operating cash flow and must access the capital markets to finance its activities.

Exploration is a capital intensive business activity, typically with long lead times between the dates exploration expenses are incurred and the time the exploration company can derive a profit from such investments. As a consequence, junior exploration companies such as the Company are very reliant upon accessing the equity markets, as they are not generally in a position to generate cash flow internally. Share prices of companies in the junior exploration sector can be quite volatile and at times there can be a lack of liquidity, if trading volumes decrease to very low levels.

There can be no assurances the Company will continue to be able to successfully access the capital markets for the funding necessary to acquire and evaluate exploration properties and to carry out its desired exploration programs. This may impact its wholly-owned projects and may also result in the Company's interest in a project being diluted as a result of not being able to fund its share of exploration expenditures on the project.

The gold mining industry, in common with many others, has been adversely impacted by the global credit crisis and resultant economic slowdown. These problems are making it difficult for companies in the junior mining sector to obtain financing. It is not known how long such conditions will persist.

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.

Qualified Person

The technical 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.

Additional Information

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