KERNOW RESOURCES & DEVELOPMENTS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2008

DAVIDSON & COMPANY LLP Chartered Accountants A Partnership of Incorporated Professionals

AUDITORS' REPORT

To the Shareholders of
Kernow Resources & Developments Ltd.

We have audited the consolidated balance sheets of Kernow Resources & Developments Ltd. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

March 20, 2009

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

	2008	2007
ASSETS		
Current		
Cash and cash equivalents	$ 298,196	$ 817,220
Receivables	38,909	42,128
Marketable securities (Note 4)	3,600	69,000
	340,705	928,348
Deposits (Note 5)	42,234	33,735
Mineral properties (Note 6)	511,708	492,784
	$ 894,647	$ 1,454,867
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 146,959	$ 204,078
Promissory notes payable (Note 7)	75,000	-
	221,959	204,078
Shareholders' equity		
Capital stock (Note 8)	4,297,942	4,297,942
Contributed surplus (Note 8)	153,376	148,004
Deficit	(3,778,630)	(3,195,157)
	672,688	1,250,789
	$ 894,647	$ 1,454,867

Nature and continuance of operations (Note 1)
Contingencies and commitments (Note 15)
Subsequent event (Note 16)

On behalf of the Board:

Alan F. Matthews Director D. Burchill Director

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

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

	2008	2007
EXPENSES		
Advertising and promotion	$ 32,170	$ 36,036
Bank charges and interest	3,082	3,365
Consulting	52,537	57,376
Filing and transfer agent fees	15,252	19,233
Foreign exchange (gain) loss	(5,203)	4,003
Management fees	37,689	35,639
Office and miscellaneous	25,973	20,191
Professional fees	111,515	102,680
Property investigation	14,106	7,365
Shareholder costs	1,830	2,509
Stock-based compensation (Note 8)	5,372	104,097
Travel and related	22,083	35,414
Loss before other items	(316,406)	(427,908)
OTHER ITEMS		
Interest income	9,263	28,430
Gain (loss) on disposal of marketable securities	(10,500)	14,370
Operator fees (Note 6)	6,104	8,749
Option payments received (Note 6)	-	140,000
Recovery of costs	-	14,969
Unrealized loss on marketable securities	(47,400)	(21,000)
Write-off of receivables	(1,185)	-
Write-off of mineral properties (Note 6)	(223,349)	(177,101)
	(267,067)	8,417
Loss and comprehensive loss for the year	(583,473)	(419,491)
Deficit, beginning of the year	(3,195,157)	(2,775,666)
Deficit, end of the year	$ (3,778,630)	$ (3,195,157)
Basic and diluted loss per share	$ (0.03)	$ (0.01)
Weighted average number of common shares outstanding	18,418,059	17,301,758

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

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

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (583,473)	$ (419,491)
Items not affecting cash:		
(Gain) loss on disposal of marketable securities	10,500	(14,370)
Stock-based compensation	5,372	104,097
Option payments received in marketable securities	-	(90,000)
Unrealized loss on marketable securities	47,400	21,000
Write-off of receivables	1,185	-
Write-off of mineral properties	223,349	177,101
Unrealized foreign exchange gain	(8,499)	-
Changes in non-cash working capital items:		
(Increase) decrease in receivables	32,652	(36,496)
Decrease in prepaid expenses	-	1,877
Increase in accounts payable and accrued liabilities	30,362	27,681
Net cash used in operating activities	(241,152)	(228,601)
CASH FLOWS FROM FINANCING ACTIVITIES		
Promissory notes payable	75,000	-
Proceeds from issuance of capital stock	-	838,850
Share issue costs	-	(13,099)
Net cash provided by financing activities	75,000	825,751
CASH FLOWS FROM INVESTING ACTIVITIES		
Mineral property recoveries	68,007	107,087
Expenditures on mineral properties	(428,379)	(531,049)
Acquisition of marketable securities	-	(421,766)
Proceeds on sale of marketable securities	7,500	520,450
Deposits paid	-	(30,655)
Net cash used in investing activities	(352,872)	(355,933)
Change in cash and cash equivalents during the year	(519,024)	241,217
Cash and cash equivalents, beginning of the year	817,220	576,003
Cash and cash equivalents, end of the year	$ 298,196	$ 817,220
Cash paid during the year for interest	$ -	$ -
Cash paid during the year for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of the Province of British Columbia. The Company is in the process of exploring its mineral properties. 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.

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

2. CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies

Effective January 1, 2008, the Company adopted the following accounting policies.

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.*

2. CHANGES IN ACCOUNTING POLICIES (cont'd…)

Changes in accounting policies (cont'd…)

Financial instruments (cont'd…)

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

Use of estimates

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currency translation

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

Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Marketable securities

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

Mineral properties

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

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

Mineral property option agreements

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

Asset retirement obligations

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Asset retirement obligations (cont'd…)

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

Income taxes

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

Loss per share

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

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

Stock-based compensation

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

Financial instruments – recognition and measurement

The Company classifies all financial instruments as either held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held-for-trading instruments are measured at fair value with unrealized gains and losses recognized in results of operations. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held-to-maturity, loans and receivables and other financial liabilities are measured at amortized cost.

The Company has classified its cash and cash equivalents and marketable securities as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities and promissory notes payable are classified as other financial liabilities. All of which are measured at amortized cost.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financing costs

The Company uses the effective increase method of amortization for any financing costs or consideration given for financing and presents the amortization as non-cash interest expense accrued.

Comprehensive income

Comprehensive income is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

Comparative figures

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

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. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting standards (cont'd…)

International Financial Reporting Standards

In addition to the above accounting pronouncements the Canadian Accounting Standards Board ("AcSB") in 2006 published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards ("IFRS") over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. MARKETABLE SECURITIES

	2008	2007
Global Minerals Ltd.	$ 3,600	$ 69,000

As at December 31, 2008, the Company holds 240,000 (December 31, 2007 – 300,000) common shares of Global Minerals Ltd., a public company listed on the TSX Venture Exchange, pursuant to its mineral property option agreement with the Company (Note 6).

5. DEPOSITS

The Company posted refundable term deposits totalling $98,257 (€57,000) (2007 - $82,442 (€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). During fiscal 2008, the Company received $Nil (€Nil) (2007 – 47,749 (€32,500)) from parties in which the Company has entered into mineral property option agreements, resulting in net deposits of $42,234 (€24,500) (2007 - $33,735 (€24,500)).

6. MINERAL PROPERTIES

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

2008	Jales	Boticas	Alandroal	Alto Sobrido	Joutel, Orvilliers & Voisey's Bay	Shawnee & Dyke Hot Springs	Total
Balance, beginning of year	$ 66,883	$ 176,863	$ 242,170	$ 6,863	$ 3	$ 2	$ 492,784
Additions:							
Administration	3,081	1,572	-	315	-	-	4,968
Assays	2,748	18,481	-	3,226	-	-	24,455
Claim fees and acquisition	2,304	8,872	-	4,800	-	-	15,976
Core storage	3,339	474	-	9,173	-	-	12,986
Drilling and sampling	21,991	110,967	-	-	-	-	132,958
Field accommodations	286	5,888	1,670	58	-	-	7,902
Field supplies	4,718	1,636	-	1,340	-	-	7,694
Labour	12,038	5,857	-	763	-	-	18,658
Metallurgy	15,048	-	-	-	-	-	15,048
Technical and professional	49,826	31,272	2,525	15,714	-	-	99,337
Travel and transport	15,182	7,533	-	1,217	-	-	23,932
	130,561	192,552	4,195	36,606			363,914
Recoveries	(83,424)	(11,377)	(23,016)	(3,824)	-	-	(121,641)
	47,137	181,175	(18,821)	32,782	-	-	242,273
Written-off during the year	-	-	(223,349)	-	-	-	(223,349)
Balance, end of year	$ 114,020	$ 358,038	$ -	$ 39,645	$ 3	$ 2	$ 511,708

6. **MINERAL PROPERTIES** (cont'd…)

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

6. MINERAL PROPERTIES (cont'd…)

Jales, Portugal

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

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

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

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

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

Poco das Freitas Property (Boticas), Portugal

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

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

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.

6. MINERAL PROPERTIES (cont'd…)

Alandroal Property, Portugal

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

The Company can earn a 60% interest by incurring exploration expenditures of €350,000 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 fiscal 2008, 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 all the deferred costs associated with the property.

Alto Sobrido, Portugal

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

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

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

i) issue 50,000 shares and make a cash payment of $25,000 to the Company on or before July 24, 2007; (received)

ii) complete a first year work program of €100,000;

iii) issue 100,000 shares (received) and a cash payment of $50,000 to the Company on or before May 25, 2008;

iv) complete a second year work program of €150,000; and

v) issue 150,000 shares (received) and a cash payment of $75,000 to the Company on or before May 25, 2009.

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

6. MINERAL PROPERTIES (cont'd…)

Alto Sobrido, Portugal (cont'd…)

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

During the year ended December 31, 2007, the Company received $140,000 ($25,000 in cash as a right of first refusal, $25,000 in cash as an option payment and 300,000 common shares valued at $90,000) from Global. These payments were significantly 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 terminated the letter of agreement with Global relative to the 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 Orvillers 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.

6. MINERAL PROPERTIES (cont'd…)

Shawnee, Nevada, U.S.A.

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

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.

7. 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.

Subsequent to December 31, 2008, the lenders were issued 300,000 common shares, valued at $6,000, as a loan bonus.

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance, December 31, 2006	14,812,559	$ 3,444,896	$ 56,452
Private placement	3,240,000	810,000	-
Exercise of stock options	253,500	28,850	-
Finder's fees	37,000	9,250	-
Issued for mineral properties	75,000	14,750	-
Stock-based compensation	-	-	104,097
Contributed surplus on exercise of stock options	-	12,545	(12,545)
Share issue costs	-	(22,349)	-
Balance, December 31, 2007	18,418,059	4,297,942	148,004
Stock-based compensation	-	-	5,372
Balance, December 31, 2008	18,418,059	$ 4,297,942	$ 153,376

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

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

i) Completed a 3,240,000 unit private placement at $0.25 per unit for gross proceeds of $810,000. Each unit consisted of one common share and one share purchase warrant exercisable at $0.40 per share until April 20, 2009. The Company paid a finder's fee in respect of some of the subscriptions by issuing 37,000 shares at a value of $9,250.

ii) 253,500 common shares for gross proceeds of $28,850 pursuant to the exercise of stock options.

iii) 75,000 common shares valued at $14,750 pursuant to a mineral property option agreement with Rio Narcea for the Alandroal Properties (Note 6).

Stock options

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

As at December 31, 2008, 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

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Stock options (cont'd…)

Stock option transactions are summarized as follows:

	Number of Shares		Weighted Average Exercise Price
Balance, December 31, 2006	603,500	$	0.13
Exercised	(253,500)		0.11
Expired	-		
Granted	875,000		0.24
Balance, December 31, 2007	1,225,000		0.21
Exercised	-		-
Expired	(200,000)		0.25
Granted	150,000		0.10
Balance, December 31, 2008	1,175,000	$	0.19
Number of options currently exercisable	1,025,000	$	0.20

Stock-based compensation

During the year ended December 31, 2008, the Company granted stock options to purchase 150,000 shares (2007 - 875,000) to directors, officers and consultants. The estimated fair value of these options was $484 (2007 - $114,097) or $0.01 (2007 - $0.13) per option. The Company has recorded stock-based compensation of $5,372 (2007 - $104,097) relating to options that vested during the year.

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

	2008	2007
Risk-free interest rate	2.01%	4.07%
Expected life of options	1 year	4.31 years
Annualized volatility	103.46%	77.40%
Dividend rate	0.00%	0.00%

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Warrants

As at December 31, 2008, the following share purchase warrants are outstanding:

Number of Shares	Exercise Price	Expiry Date
3,240,000	$ 0.25	April 20, 2009

In March 2008, the Company received regulatory approval to reduce the exercise price of 3,240,000 warrants from $0.40 to $0.25 and 1,622,285 warrants from $0.35 to $0.25.

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding, December 31, 2006	1,622,285	$ 0.35
Issued	3,240,000	0.40
Exercised	-	-
Expired	-	-
Outstanding, December 31, 2007	4,862,285	0.38
Issued	-	-
Exercised	-	-
Expired	(1,622,285)	0.25
Outstanding, December 31, 2008	3,240,000	0.25

9. RELATED PARTY TRANSACTIONS

Included in accounts payable at December 31, 2008 is $35,389 (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.

9. RELATED PARTY TRANSACTIONS (cont'd…)

d) Paid or accrued administration fees of $Nil (2006 - $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 (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.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the year ended December 31, 2008 consisted of:

a) Incurring mineral property costs of $43,595 through accounts payable.

b) Including property recoveries of $30,618 in receivables and $23,016 from reversal of accounts payable accruals.

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

a) Issuing 37,000 common shares as finder's fees valued at $9,250 pursuant to a private placement.

b) Receiving marketable securities consisting of 300,000 common shares of Global Minerals Ltd. at a value of $90,000 as an option payment on mineral properties.

c) Issuing 75,000 common shares valued at $14,750 to Rio Narcea pursuant to a mineral property option agreement.

d) Incurring mineral property costs $108,060 through accounts payable.

Cash and cash equivalents consist of:

	2008	2007
Cash	$ 188,316	$ 817,220
Treasury bill	109,880	-
	$ 298,196	$ 817,220

11. INCOME TAXES

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

	2008	2007
Loss for the year	$ 583,473	$ 419,491
Expected income tax (recovery)	$ (167,000)	$ (129,400)
Non-deductible items	78,500	86,900
Unrecognized benefit of non-capital losses	88,500	42,500
Net income taxes	$ -	$ -

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

	2008	2007
Future income tax assets:		
Non-capital and operating loss carryforwards	$ 149,000	$ 157,000
Resource properties and other assets	822,000	416,000
Other items	5,000	7,330
	976,000	580,330
Valuation allowance	(976,000)	(580,330)
Net future income tax assets	$ -	$ -

The Company has non-capital losses in Canada of approximately $555,000 available to offset against taxable income of future years. These losses, if not utilized, will expire through to 2028. Subject to certain restrictions, the Company also has approximately $3,600,000 of resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital and operating losses and resource expenditures have been offset by a valuation allowance and have not been recognized in these consolidated financial statements.

12. SEGMENTED INFORMATION

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

	2008	2007
Capital assets		
Canada	$ 3	$ 3
United States	2	2
Portugal	511,703	492,779
	$ 511,708	$ 492,784

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 December 31, 2008, approximately 50% (2007 – 68%) 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) (2007 - $96,909 (€67,000)). The Company has posted certain deposits (Note 5) 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 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.

16. SUBSEQUENT EVENT

Subsequent to December 31, 2008, the Company granted 750,000 stock options exercisable at $0.10 per share until February 13, 2014 to officers and directors.