

KERNOW RESOURCES & DEVELOPMENTS LTD

FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2006

The following discussion and analysis, prepared as of April 11, 2007, should be read together with the audited consolidated financial statements for the year ended December 31, 2006 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.

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.

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

Description of Business

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

Performance Summary

The following is a summary of significant events and transactions that occurred during the year ended December 31, 2006:

- 1) Sold 29,666 shares of Bannockburn Resources Limited it held as an investment. Bannockburn became listed on the Canadian Trading and Quotation System Inc. (CNQ) under the symbol BKNN on February 2, 2006.
- 2) Sold 12,500 shares of Pathfinder Resources Ltd. for net proceeds of \$3,415 that it held as an investment.
- 3) Sold 193,000 shares of St. Elias Mines Ltd. ("St. Elias") for net proceeds of \$66,095 that it held as an investment.
- 4) Released the drill results from the drilling program conducted on the Gralheira deposit located on the Jales/Gralheira Gold Property in Portugal. The drill program which commenced in fall 2005 and completed during the spring of 2006 consisted of 12 drill holes totalling 2,400 meters.
- 5) Issued 235,000 common shares pursuant to the exercise of warrants for \$35,250.
- 6) Retained VISA Consultores de Geologia Aplicada e Engenharia do Ambiente, SA (VISA) to prepare an Environmental Impact Statement relative to the Jales/Gralheira Gold Property and also to assist the Company in applying to the DGGE for an "Experimental Mining License." This license will allow the Company to undertake underground drifting and bulk sampling on the Gralheira structure. The application for the license was formally filed on June 14, 2006 with the Government of Portugal.
- 7) Held its Annual General Meeting on June 26, 2006 in Vancouver, BC. All proposed resolutions were passed.
- 8) In August 2006, renewed the Shawnee and Dyke Hot Springs mining claims, both of which are located in Nevada, U.S.A., for one year. However, at the end of the fiscal year, management of the company determined that it would not proceed with the development of the properties at this time and accordingly, all related costs were written-down to \$1.
- 9) Conducted a diamond drilling program on the Company's 100% owned Boticas gold property located in the Tras-O-Montes region of Northern Portugal from September 27, 2006 to December 4, 2006. The program consisted of a total of 376 meters in 3 drill-holes.

- 10) Entered into Option Agreements with Rio Narcea Gold Mines Ltd. to acquire an initial 60% interest with the right to earn a 100% in the Alandroal and Barrancos properties. These properties are in the Ossa Morena Zone of Southern Portugal.
- 11) On December 6, 2006, completed a non-brokered private placement of 3,244,570 units at \$0.175 per unit for gross proceeds of \$567,800. Each unit consists of one common share and one-half of a share purchase warrant exercisable for two years at \$0.27 in the first year and \$0.35 in the second year.

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, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Total revenues	\$ 65,253	\$ 102,292	\$ 24,358
Net income (loss) before extraordinary items	(178,154)	5,909	(61,117)
Net income (loss)	(178,154)	5,909	(61,117)
Basic and diluted earnings (loss) per share	(0.02)	0.01	(0.01)
Total assets	854,112	435,865	267,557
Total long-term liabilities	-	-	-
Cash dividends	-	-	-

The Company earns interest revenue from cash held in banks, securities held as short-term investments and by charging an 8% operators' fee to its joint venture partner, St. Elias, to manage the Jales Gold Property in Portugal. Revenues from operator fees during the current year were \$27,086 compared to \$73,938 during the previous year. During the current year, the Company realized gains of \$34,375 on the sale of marketable securities. The gain during the same period last year was \$27,645.

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

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

Results of Operations

The Company incurred a net loss of \$178,154 during year ended December 31, 2006 compared to earning income of \$5,909 during the previous year. Some of the significant expenses are as follows: paid or accrued \$82,095 (2005 - \$34,724) in accounting, legal and audit fees, \$5,048 (2005 - \$Nil) in advertising and promotion, \$3,168 (2005 - \$3,399) in bank charges and interest, \$7,500 (2005 - \$Nil) in consulting, \$14,525 (2005 - \$12,602) in filing, listing and transfer agent fees, \$49,350 (2005 - \$13,612) in management fees, \$12,134 (2005 - \$9,763) in office and miscellaneous and \$21,110 (2005 - \$5,855) in travel and related costs.

Most of the current year expenses are greater than the previous year as a result of the Company becoming more active. There has been an increase in accounting, legal and audit fees over the previous year. The increase in legal fees is related to the completion of the Private Placement in December 2006, the provision of legal advice relative to a shareholder meeting requisition notice received in September 2006 and the completion of the Option Agreement with Rio Narcea Gold Mines Ltd. regarding the Alandroal and Barrancos properties in Southern Portugal. The increase in travel and related costs are due to the requirement for the Company's management to travel to and from Portugal on a more regular basis than last year. In addition there was some recovery in travel and related costs during the previous year. Management fees also increased because the President increased the amount of time allocated to the future development of the Company.

During the year ended December 31, 2006, the Company earned \$27,086 (2005 - \$73,938) as an operator fee from its joint venture partner, St. Elias, and recovered \$261,283 (2005 - \$1,035,831) in exploration costs from St. Elias.

During the year ended December 31, 2006, the Company wrote-off its Canadian (Joutel, Orvilliers and Voisey's Bay) and United States (Shawnee and Dyke Hot Springs) mineral properties. Management of the Company determined that it would not proceed at this time with the development of these properties. As a result, \$44,228 in mineral property costs have been charged to operations.

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 consists of an exploration license granted by the Government of Portugal. This license expired June 16, 2006. The Company has applied for an experimental mining license with the Government of Portugal. A draft contract has been received and is expected to be finalized in May 2007.

During 2002, the Company entered into an option agreement with St. Elias, a company related by a common director at the time, whereby St. Elias can earn a 51% interest in the property in exchange for cash payments 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.

The Company also entered into a Technical Services Contract with St. Elias whereby St. Elias 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, 2006, the Company recovered \$261,283 (2005 - \$1,035,831) in exploration costs and received \$Nil (2005 - \$100,000) in option payments consisting of \$Nil (2005 - \$25,000) in cash and Nil (2005 - 300,000) common shares valued at \$Nil (2005 - \$75,000). The Company also earned \$27,086 (2005 - \$73,938) as an operator fee.

Poco das Freitas Property (Boticas), Portugal

During the year ended December 31, 2004, the Company entered into a contract of exploration with the government of Portugal to explore the Poco das Freitas property located in northeast Portugal. The contract is initially for two years and was renewed for a further two years expiring in October 2008. The Company completed its commitment to incur €45,000 (\$73,300) of exploration work on the property in the first two years. The Company will be required to incur a further €45,000 (\$73,300) of exploration work on the property before October 2007.

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

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

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

Following positive discussions with the Municipality of Boticas, the Company has commenced a drilling program at the Limarinho deposit. Additional prospecting and assessment work will be undertaken in areas outside of the known Poco das Freitas and Limarinho area.

Alandroal and Barrancos Properties, Portugal

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

i) **Alandroal Property**

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

ii) **Barrancos Property**

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

Summary of Quarterly Results

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

	For the Quarters Ended			
	December 31, 2005	September 30, 2005	June 30, 2005	March 31, 2005
Total assets	\$ 435,865	\$ 361,828	\$ 431,448	\$ 244,048
Mineral properties and deferred costs	57,180	59,779	250,413	113,177
Working capital (deficiency)	220,529	166,572	(64,601)	66,689
Shareholders' equity	305,409	254,051	213,512	207,566
Revenues	23,257	45,970	30,872	2,193
Net Income (loss)	43,858	28,389	(50,506)	(15,832)
Earnings (loss) per share	0.01	0.01	(0.01)	(0.01)

Significant changes in key financial data from 2005 to 2006 can be attributed to a write-off of various mineral properties to nominal carrying values, revenues generated from interest income, sale of various short term investments and earning an operators' fee for managing the Jales Gold Project in Portugal.

Discussion of Fourth Quarter Results

The Company recorded a net loss of \$122,019 for the three months ended December 31, 2006 compared to earning net income of \$43,858 for three months ended December 31, 2005. The increase in the loss over the comparative period can be attributed to various categories. The Company wrote-off the Canadian and US properties in the fourth quarter. Professional fees increased because of an increase in activity and the accrual for the 2006 audit. Consulting fees increased as result of a payment to a consultant in the fourth quarter. There has been an increase in management fees because the President of the Company spent more time working on Company business. Advertising and promotion and travel and related costs all increased because more time was spent to promote the Company and its properties. During the comparative quarter in the previous year, the Company was able to charge more operator fees to St Elias, its joint venture partner, on the Jales property. The fee is based on the expenditures incurred by the Company. The Company was also able to recover more mineral property costs that it incurred on the Jales property from St. Elias during the comparative quarter last year.

Liquidity

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 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, 2006	December 31, 2005
Working capital	\$ 581,835	\$ 220,529
Deficit	(2,775,666)	(2,597,512)

Net cash used in operating activities for the year ended December 31, 2006 was \$114,648 compared to \$25,749 during the comparative year. The cash used in operating activities for the current year consists primarily of the operating loss and a change in non-cash working capital.

Net cash used in investing activities for the year ended December 31, 2006 was \$45,318 compared to \$70,457 in net cash provided during the comparative year. Net cash used during the current period consisted of exploration expenditures of \$428,229, recoveries on exploration expenditures of \$330,861, acquisition of marketable securities and investments of \$239,492, proceeds from the sale of marketable securities and investments of \$269,022 and the redemption of deposits of \$22,520.

During the current year, financing activities provided net cash of \$588,177 from the exercise of warrants. Financing activities provided cash of \$19,650 during the comparative period.

Capital Resources

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

Related Party Transactions

Included in accounts payable at December 31, 2006 is \$20,000 (December 31, 2005 - \$7,562) due to a director of the Company.

The Company entered into the following transactions with related parties during the year ended December 31, 2006:

- a) Paid or accrued management fees of \$49,350 (2005 - \$13,613) to Alan Matthews, the President and a director of the Company.
- b) Paid or accrued accounting fees of \$4,620 (2005 - \$4,140) to Linda Matthews, an officer of the Company.
- c) Paid or accrued technical and professional fees of \$27,922 (2005 - \$43,310) to Alan Matthews, the President and a director which were charged to the Jales property.
- d) Recovered \$261,283 (2005 - \$1,035,831) in mineral property expenditures and \$Nil (2005 -\$100,000) in option payments from a company with a former common director (Alan Matthews was a director of St. Elias until 2003).

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

At December 31, 2006, approximately 47% (December 31, 2005 – 84%) of the Company's accounts payable and accrued liabilities are denominated in Euros. The Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

Off Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Contingencies and Commitments

The Company has provided letters of guarantee to the Government of Portugal for its exploration contracts on the mineral properties in Portugal totalling €12,000 (2005 - €24,965) (see Note 3 of financial statements).

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

Outstanding Share Data

The following table summarizes the outstanding share capital as at April 11, 2007:

	Number of shares issued or issuable
Common shares	14,862,559
Stock options	728,500
Warrants	1,622,285

Disclosure Controls & Procedures

The roles of CEO and CFO are fulfilled by the Company's President. He has evaluated the effectiveness of the Company's disclosure controls and procedures and has concluded based on his evaluation that they are sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations. The Company recognises that a weakness exists in respect of the segregation of duties as a result of having a limited number of accounting staff both at head office and at the foreign subsidiary.

He also concluded that considering the size of and stage of development of the Company the issue does not currently warrant the hiring of additional accounting staff to correct the lack of segregation of duties at this time.

Changes in Internal Controls

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

New Accounting Standards

Management continually monitors the potential impact of new accounting pronouncements on the Company. There have been a number of pronouncements during the year; the ones that may impact the Company are as follows:

Financial Instruments

AcSB issued Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, which establish the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

AcSB issued CICA Handbook Section 3861 *Financial Instruments – Disclosure and Presentation*, which establishes standards for presentation of financial instruments and non-financial derivatives, and identifies the information that should be disclosed about them. The presentation paragraphs deal 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. The disclosure paragraphs deal with information about factors that affect the amount, timing and certainty of an entity's future cash flows relating to financial instruments. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006.

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

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

Hedges

AcSB issued CICA Handbook Section 3865, *Hedges*, which describe when and how hedge accounting may be applied. The section is effective for years beginning on or after October 1, 2006.

Shareholders' Equity

AcSB issued CICA Handbook Section 1530, *Comprehensive Income*, which establishes standards for reporting and display of comprehensive income. This section is effective for years beginning on or after October 1, 2006.

AcSB also revised CICA Handbook Section 3250, *Surplus*, and reissued it as CICA Handbook Section 3251, *Equity*. The section is also effective for years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity to provide consistency with the new requirements of Section 1530, *Comprehensive Income*.

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

Accounting Changes

AcSB issued CICA Handbook Section 1506. The main features of this new standard are (a) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (b) changes in accounting policy are applied retrospectively unless doing so is impracticable (as defined in the section); (c) prior period errors are corrected retrospectively; and (d) new disclosures are required in respect of changes in accounting policies, changes

in accounting estimates and correction of errors. This new standard is effective for fiscal years beginning on or after January 1, 2007

Subsequent events

Subsequent to December 31, 2006, the Company:

- a) Granted stock options to purchase 175,000 common shares to a director and consultants at \$0.225 per share until February 5, 2012.
- b) Issued 50,000 common shares for gross proceeds of \$5,000 pursuant to the exercise of stock options.
- c) Released provisional assay results from the recently completed 3 hole diamond drilling program on the Boticas Property. The diamond drill holes were completed for a total of 376 meters.
- d) Commenced drilling on the Almagreira project on the Alandroal concession on the Ossa Morena zone of Southern Portugal. The current drill program will comprise 600 meters of core drilling and of four holes two of which will be drilled on Almagreira South and two on Almagreira North. The work is being undertaken as part of the option agreement with Rio Narcea Gold Mines Ltd., whereby the Company has a right to acquire an initial 60% interest with a further right to acquire the remaining 40% interest in the Alandroal and Barrancos properties in Southern Portugal.
- e) Received approval from the TSX-V to close a private placement of 3,500,000 units at a price of \$0.25 per unit. Closed the placement at 3,240,000 units for gross proceeds of \$810,000. Each unit consisted of one common share and one share purchase warrant exercisable at \$0.40 per share for a period of two years. A finder's fee of \$9,250 was paid by the issuance of 37,000 shares at a deemed price of \$0.25 per share.