

KERNOW RESOURCES AND DEVELOPMENTS LTD.

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

**SIX MONTH PERIOD ENDED
JUNE 30, 2008**

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended June 30, 2008.

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

	June 30, 2008	December 31, 2007 (Audited)
ASSETS		
Current		
Cash	\$ 231,476	\$ 817,220
Receivables	71,929	42,128
Marketable securities (Note 4)	<u>128,566</u>	<u>69,000</u>
	431,971	928,348
Deposits (Note 5)	33,735	33,735
Mineral properties (Note 6)	<u>440,719</u>	<u>492,784</u>
	<u>\$ 906,425</u>	<u>\$ 1,454,867</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 85,070</u>	<u>\$ 204,078</u>
Shareholders' equity		
Capital stock (Note 7)	4,297,942	4,297,942
Contributed surplus (Note 7)	153,368	148,004
Deficit	<u>(3,629,955)</u>	<u>(3,195,157)</u>
	<u>821,355</u>	<u>1,250,789</u>
	<u>\$ 906,425</u>	<u>\$ 1,454,867</u>

Nature and continuance of operations (Note 2)

Contingencies and commitments (Note 12)

On behalf of the Board:

"Alan F. Matthews"

Director

"Donn Burchill"

Director

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

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

	Three Month Period Ended June 30, 2008	Three Month Period Ended June 30, 2007	Six Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2007
EXPENSES				
Accounting, legal and audit	\$ 37,559	\$ 22,079	\$ 54,021	\$ 26,377
Advertising and promotion	596	3,817	23,489	16,035
Bank charges and interest	894	709	1,864	1,549
Consulting	20,710	12,108	36,628	21,750
Filing, listing and transfer agent fees	4,861	6,561	11,478	11,906
Foreign exchange (gain)	3,364	3,685	3,380	4,210
Management fees	11,293	12,223	17,762	29,076
Office and miscellaneous	5,777	7,010	10,398	9,899
Property investigation	12,333	244	19,863	3,938
Shareholder costs	1,903	822	2,045	2,445
Stock-based compensation (Note 7)	2,682	54,734	5,364	77,280
Travel and related	7,152	8,071	15,442	18,858
Loss before other items	<u>(109,124)</u>	<u>(132,063)</u>	<u>(201,734)</u>	<u>(223,323)</u>
OTHER ITEMS				
Expense recoveries	-	-	-	14,969
Interest income	6,200	6,070	7,655	7,587
Gain (loss) on disposal of marketable securities and investments	(10,500)	(551)	(10,500)	14,370
Operator fees (Note 6)	1,343	3,305	3,411	4,480
Unrealized gain (loss) on marketable securities	(8,700)	-	(22,200)	-
Write-off of mineral property costs	(211,430)	-	(211,430)	-
	<u>(223,087)</u>	<u>8,824</u>	<u>(233,064)</u>	<u>41,406</u>
Net loss for the period	(332,211)	(123,239)	(434,798)	(181,917)
Deficit, beginning of period	<u>(3,297,744)</u>	<u>(2,834,344)</u>	<u>(3,195,157)</u>	<u>(2,775,666)</u>
Deficit, end of period	\$ (3,629,955)	\$ (2,957,583)	\$ (3,629,955)	\$ (2,957,583)
Basic and diluted income (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.01)
Weighted average basic number of shares outstanding	18,418,059	17,575,147	18,418,059	16,203,694

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

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

	Three Month Period Ended June 30, 2008	Three Month Period Ended June 30, 2007	Six Month Period Ended June 30, 2008	Six Month Period Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	\$ (332,211)	\$ (123,239)	\$ (434,798)	\$ (181,917)
Items not affecting cash:				
(Gain) loss on disposal of marketable securities and investments	10,500	551	10,500	(14,370)
Stock-based compensation	2,682	54,734	5,364	77,280
Unrealized loss on marketable securities	8,700	-	22,200	-
Write-off of mineral property costs	211,430	-	211,430	-
Changes in non-cash working capital items:				
Increase in receivables	(49,870)	(24,121)	(47,642)	(6,193)
Increase in prepaid expenses	-	5,387	-	977
Increase (decrease) in accounts payable and accrued liabilities	<u>(57,869)</u>	<u>55,920</u>	<u>(25,718)</u>	<u>56,179</u>
Net cash used in operating activities	<u>(206,638)</u>	<u>(30,768)</u>	<u>(258,664)</u>	<u>(68,044)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of capital stock	-	833,850	-	838,850
Share issue costs	-	<u>(13,100)</u>	-	<u>(13,100)</u>
Net cash provided by financing activities	-	<u>820,750</u>	-	<u>825,750</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of deposits	-	(81,481)	-	(81,481)
Mineral property recoveries	88,301	18,663	113,717	33,359
Expenditures on mineral properties	(152,307)	(244,400)	(348,531)	(352,422)
Acquisition of marketable securities and investments	-	(164,480)	(99,766)	(223,117)
Proceeds on sale of marketable securities and investments	<u>7,583</u>	<u>254,089</u>	<u>7,500</u>	<u>321,802</u>
Net cash used in investing activities	<u>(56,423)</u>	<u>(217,609)</u>	<u>(327,080)</u>	<u>(301,859)</u>
Change in cash during the period	(263,061)	(572,373)	(585,744)	(455,847)
Cash, beginning of period	<u>494,537</u>	<u>459,477</u>	<u>817,220</u>	<u>576,003</u>
Cash, end of period	\$ 231,476	\$ 1,031,850	\$ 231,476	\$ 1,031,850
Cash paid during the period for interest	\$ -	\$ -	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 9)

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

KERNOW RESOURCES & DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008
(Unaudited – Prepared by Management)

1. BASIS OF PRESENTATION

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

These interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period consolidated statements should be read together with the Company's audited consolidated financial statements and the accompanying notes for the year ended December 31, 2007. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of the Province of British Columbia. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not generated significant revenues and is considered to be in the development stage.

The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

	June 30, 2008	December 31, 2007
Working capital	\$ 346,901	\$ 724,270
Deficit	(3,629,955)	(3,195,157)

KERNOW RESOURCES & DEVELOPMENTS LTD.
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3. 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”):

(i) Assessing going concern – Section 1400

The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity’s ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity’s ability to continue as a going concern. The adoption of this standard did not have an impact on our financial statements.

(ii) Capital disclosures – Section 1535

This new pronouncement establishes standards for disclosing information about an entity’s capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.

(iii) Financial Instruments – Section 3862 and 3863 – Disclosure and Presentation

These new standards require additional disclosures to enable users to evaluate the significance of financial instruments for an entity’s financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments.

4. MARKETABLE SECURITIES

	June 30, 2008	December 31, 2007
Global Minerals Ltd.	\$ 28,800	\$ 69,000
Treasury bills	<u>99,766</u>	<u>-</u>
	<u>\$ 128,566</u>	<u>\$ 69,000</u>

As at June 30, 2008, the Company holds 240,000 common shares of Global Minerals Ltd., a public company listed on the TSX Venture Exchange, pursuant to its mineral property option agreement with the Company (Note 5).

5. DEPOSITS

The Company has provided letters of guarantee to the Government of Portugal for its exploration contracts on the mineral properties in Portugal totalling \$61,383 (€42,500) (2007 – \$84,561 (€59,000)) (Note 6). €24,500 of this guarantee is backed by a term deposit purchased by the Company and held at the Company’s bank, Millennium BCP (Banco Commercial Portugal). €7,000 has been reimbursed to the Company by its joint venture partner. The remaining balance of €1,000 has been guaranteed by the bank without requiring the Company to purchase a term deposit for this amount (Note 11).

KERNOW RESOURCES & DEVELOPMENTS LTD.
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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 period	\$ 66,883	\$ 176,863	\$ 242,170	\$ 6,863	\$ 3	\$ 2	\$ 492,784
Additions:							
Administration	1,233	1,088	-	140	-	-	2,461
Assays	211	18,481	-	-	-	-	18,692
Claim fees and acquisition	1,920	130	-	4,800	-	-	6,850
Core storage	1,646	237	-	-	-	-	1,883
Drilling and sampling	-	110,967	-	-	-	-	110,967
Field accommodations	98	5,883	-	-	-	-	5,981
Field supplies	816	1,636	-	1,366	-	-	3,818
Labour	4,207	5,857	-	-	-	-	10,064
Metallurgy	7,128	-	-	-	-	-	7,128
Technical and professional	26,989	22,859	40,767	5,103	-	-	95,718
Travel and transport	1,624	7,372	-	524	-	-	9,520
	45,872	174,510	40,767	11,933	-	-	273,082
Recoveries	(38,386)	-	(71,507)	(3,824)	-	-	(113,717)
	7,486	174,510	(30,740)	8,109	-	-	159,365
Written-off during the period	-	-	(211,430)	-	-	-	(211,430)
Balance, end of period	\$ 74,369	\$ 351,373	\$ -	\$ 14,972	\$ 3	\$ 2	\$ 440,719

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

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

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

The Company has a Technical Services Contract with St. Elias whereby St. Elias will reimburse the Company, as operator, for exploration costs incurred on a pro rata basis (51% as to St. Elias and 49% as to the Company). In addition, St. Elias will pay the Company an 8% operator fee based on 100% of the exploration costs incurred on the property. During the six month period ended June 30, 2008, the Company recovered \$38,386 (2007 - \$33,359) in exploration costs. During the six month period ended June 30, 2008 the Company also earned \$3,105 (2007 - \$4,481) 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. It has completed a further €45,000 of exploration work that was required by October 2008.

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

6. MINERAL PROPERTIES (cont'd...)

Alandroal 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 (approximately \$539,000) (\$259,202 incurred to date) and issuing an aggregate of 150,000 common shares (50,000 issued at a value of \$11,375) over a three year period. In addition, the Company can elect to earn a further 15% interest in the property by solely funding a bankable feasibility study and issuing 1,000,000 common shares. The Company has the right to acquire the remaining 25% undivided interest by issuing 3,000,000 common shares within 30 days of attaining commercial production.

During the six month period ended June 30, 2008, the Company issued notice to Rio Narcea Gold Mines Ltd. that it would not proceed with the option to acquire the Alandroal Property and has written-off to operations all the costs associated with the property.

Alto Sobrido, Portugal

In May 2007, the Company entered into an exploration contract with the Direcção-Geral de Geologia e Energia (“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.

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.

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6. MINERAL PROPERTIES (cont'd...)

Alto Sobrido, Portugal (cont'd...)

During the year ended December 31, 2007, the Company received \$140,000 (\$25,000 in cash as a right of first refusal, \$25,000 in cash as an option payment and 300,000 common shares valued at \$90,000) from Global. These payments are significantly in excess of costs incurred on the property and have been recorded in the results of operations.

The Company 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 six month period ended June 30, 2008, the Company recovered \$3,824 in exploration costs and earned \$306 as an operator fee.

Subsequent to the period, on July 15, 2008 the Company announced that it terminated the letter of agreement with Global relative to the Alto Sobrido gold-antimony property. 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.

Joutel, Quebec, Canada

The Company owns a 100% interest in certain mining claims in north-western Quebec. The claims are subject to a 1% net smelter returns royalty, to a maximum of \$2,000,000.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property and accordingly, all related costs were written-down to \$1.

Orvilliers, Quebec, Canada

The Company owns a 100% interest in certain claims in the Orvilliers Township in Quebec.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property and accordingly, all related costs were written-down to \$1.

Voisey's Bay – Claim I (Sachem Bay), Labrador, Canada

The Company owns a 100% interest in certain mining claims in Labrador, Canada.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property and accordingly, all related costs were written down to \$1.

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6. MINERAL PROPERTIES (cont'd...)

Shawnee, Nevada, U.S.A.

The Shawnee property consists of a 100% interest in certain mining claims in north central Nevada, U.S.A. The mining claims were renewed for a further year in August 2007.

During the year ended December 31, 2006, management of the Company determined that it would not proceed for the time being with the development of the property and accordingly, all related costs were written- down to \$1.

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

The Company owns a 100% interest in certain mining claims in north-western Nevada, U.S.A. The mining claims were renewed for a further year in August 2007.

During the year ended December 31, 2006, management of the Company determined that it would not proceed with the development of the property for the time being and accordingly, all related costs were written down to \$1.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance, December 31, 2007	18,418,059	\$ 4,297,942	\$ 148,004
Stock-based compensation	=	=	<u>5,364</u>
Balance, June 30, 2008	18,418,059	\$ 4,297,942	\$ 153,368

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options

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

As at June 30, 2008, the stock options to purchase shares on the following terms are outstanding:

Number of Shares	Exercise Price	Expiry Date
200,000	\$ 0.25	October 4, 2009
350,000	0.13	June 17, 2010
175,000	0.22	February 5, 2012
300,000	0.28	May 16, 2012
200,000	0.18	November 21, 2012

Stock-based compensation

During the six month period ended June 30, 2008, the Company granted stock options to purchase nil shares (2007 – 475,000) to directors, officers and consultants. The estimated fair value of these options was \$Nil (2007 - \$77,280) or \$Nil (2007 - \$0.16) per option. The Company has recorded stock-based compensation of \$5,364 (2007 - \$77,280) relating to options that vested during the period.

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

	2008	2007
Risk-free interest rate	-	4.10%~ 4.21%
Expected life of options	-	5 years
Annualized volatility	-	66.80%~77.20%
Dividend rate	-	0.00%

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Warrants

As at June 30, 2008, the following share purchase warrants are outstanding:

Number of Shares	Exercise Price	Expiry Date
1,622,285	\$ 0.25	December 5, 2008
3,240,000	0.25	April 20, 2009

On March 11, 2008, the Company received regulatory approval to reduce the exercise price of 1,622,285 outstanding share purchase warrants from \$0.35 to \$0.25 and the exercise price of 3,240,000 share purchase warrants from \$0.40 to \$0.25.

8. RELATED PARTY TRANSACTIONS

Included in accounts payable at June 30, 2008 is \$30,849 (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 six month period ended June 30, 2008:

- a) Paid or accrued management fees of \$17,762 (2007 - \$29,075) to a director of the Company.
- b) Paid or accrued accounting fees of \$2,820 (2007 - \$2,220) to an officer of the Company.
- c) Paid or accrued technical and professional fees of \$28,306 (2007 - \$30,908) to a director which were charged to the mineral properties in Portugal.
- d) Paid or accrued property investigation costs of \$1,623 (2007 - \$Nil) to a director of the Company.
- e) Paid or accrued administration fees of \$Nil (2007 - \$1,100) to an officer of which was charged to the Barrancos property.

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

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9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions for the six month period ended June 30, 2008 consisted of incurring mineral property costs of \$14,770 through accounts payable.

The significant non-cash transaction for the six month period ended June 30, 2007 was the issuance of 37,000 common shares as finder's fees valued at \$0.25 per share pursuant to the completion of the 3,240,000 unit private placement.

10. SEGMENTED INFORMATION

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

	June 30, 2008	December 31, 2007
Capital assets		
Canada	\$ 3	\$ 3
United States	2	2
Portugal	440,714	492,779
	\$ 440,719	\$ 492,784

11. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, marketable securities, deposits, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

At June 30, 2008, approximately 53% (December 31, 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.

Credit risk

The Company does not believe it is subject to any significant credit risk although cash is held in excess of federally insured limits, with major financial institutions.

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. The Company does not use derivative instruments to reduce its currency risk.

11. FINANCIAL INSTRUMENTS (cont'd...)

Risk management

The Company's largest non-monetary assets are its mineral exploration interests in Portugal. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments in Portugal.

The Company maintains other monetary assets and liabilities in Portugal. The Company relies on foreign consultants for the management of its exploration activities.

12. CAPITAL DISCLOSURE

The Company's capital currently consists of common shares, options and warrants. As the Company is in the exploration stage its principal source of funds is from the issuance of common shares. The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to meet the Company's property exploration plans to ensure the growth of activities.

13. CONTINGENCIES AND COMMITMENTS

The Company has provided letters of guarantee to the Government of Portugal for its exploration contracts on the mineral properties in Portugal totalling \$61,383 (€42,500) (2007 – \$61,383 (€42,500)) (Note 5). €24,500 of this guarantee is backed by a term deposit purchased by the Company and held at the Company's bank. €7,000 has been reimbursed to the Company by its joint venture partner. The remaining balance of €1,000 has been guaranteed by the bank without requiring the Company to purchase a term deposit for this amount (Note 4).

The Company entered into a consulting agreement effective September 1, 2006 with its President for management services, expiring September 1, 2008. The Company agreed to pay \$10,000 per month and severance of \$240,000 in the event of a change of control of the Company, and 200% of any compensation due over the remaining term of the contract in the event of termination other than due to a change of control or for other than just cause. The Company also agreed to grant stock options to purchase not less than 1,000,000 shares to the President. The agreement may be extended for a further two years. The President has agreed to waive the balance of \$12,308 of unpaid monthly fees for the six month period ended June 30, 2008.

14. SUBSEQUENT EVENTS

Subsequent to June 30, 2008, the Company:

On July 15, 2008, the Company announced that it terminated the letter of agreement with Global Minerals Ltd 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.