# KERNOW RESOURCES & DEVELOPMENTS LTD.

**FORM 51-102F1**
**MANAGEMENT DISCUSSION AND ANALYSIS**
**SIX MONTH PERIOD ENDED JUNE 30, 2008**

The following discussion and analysis, prepared as of August 18, 2008, should be read together with the unaudited consolidated financial statements for the six month period ended June 30, 2008 and the audited consolidated financial statements for the year ended December 31, 2007 and related notes attached thereto, which are prepared in accordance with Canadian generally accepted accounting principles. All amounts are stated in Canadian dollars unless otherwise indicated.

## Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

## Description of Business

The Company is a natural resource company engaged in acquisition, exploration, and development of mineral properties. It currently holds three properties in Northern Portugal (Jales, Alto Sobrido and Boticas). The Jales and Alto Sobrido properties are subject to Option Agreements. 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 six month period ended June 30, 2008:

1. Announced on January 14, 2008, the commencement of a 600 meter, 4 drill hole diamond drilling program on the Company's 100% owned Boticas gold property located in Northern Portugal.

2. Announced on January 18, 2008 that the Company had received an estimate of the gold and silver resources identified at the Gralheira gold-silver project in Portugal owned by the Company (49% interest) and its joint venture partner, St. Elias Mines Ltd. (51% interest),. The estimate is contained in a report entitle "A Report of the Mineral Assets of the Gralheira Gold-Silver property, Portugal" prepared by Wardell Armstrong International Ltd. (WAI) of Cornwall, U.K. The full NI 43-101 Resource Estimate report is available for view on www.sedar.com.

3. On February 25, 2008 provided an update on the progress of drilling at the 100% owned Boticas gold property.

4. Received Notice on March 10, 2008 from The TSX Venture Exchange that it has consented to the reduction in the exercise price of the following warrants: Number of Warrants: 3,240,000, Expiry date of warrants: April 20, 2009, Original exercise price of warrants: $0.40, New exercise price of warrants: $0.25.
5. Received Notice on March 11, 2008 from The TSX Venture Exchange that it has consented to the reduction in the exercise price of the following warrants: Number of Warrants: 1,622,285 million, Expiry date of warrants: December 5, 2008, Original exercise price of warrants: $0.35, New exercise price of warrants: $0.25.
6. Announced on March 17, 2008 the results of the first hole completed at the Boticas property during the 2008 drill campaign. The hole contained mineralisation that returned 2.91 g/t (grams per tonne) gold over 20.40 meters from 20.7 meters to 41.1 meters. Within this interval an area with a higher density of quartz veining returned 3.87 g/t gold over 7.75 meters (23.7 meters to 31.45 meters). In addition, deeper within the hole, several areas of gold mineralisation were intersected that contain narrow quartz veins in less altered granites including 3.37 g/t gold over 9.05 meters from 145.00 meters to 154.05 meters (including 0.9 meters at 22.2 g/t gold).

7. On April 10, 2008, terminated its contract with First Canadian Capital Corp. (“First Canadian”) to provide strategic marketing and corporate communication services.

8. Issued notice to Rio Narcea Gold Mines Ltd (“Rio Narcea”). that it would not proceed with the option to acquire the Alandroal property.

9. On April 18, 2008, the Company announced additional assay results on holes KL5, KL5A, KL6 and KL7 from the diamond drill program on the Boticas gold property.

   Hole KL5 intersected several geochemicaly anomalous gold-bearing intervals from near surface to the completion of the hole at 66.0 Meters. The hole was stopped at 66.0 meters due to poor ground conditions.

   Hole KL5A was drilled three meters south of Hole KL5 in an attempt to reach the target depth of Hole KL5. Again gold mineralisation was observed to be weak and associated with quartz stringer veins with minor arsenopyrite.

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

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

10. On May 13, 2008, the Company announced that it had engaged SGS Mineral Services (SGS Lakefield Research Europe Ltd.), Cornwall, UK (“SGS”) to complete scoping level metallurgical testing of a single composite sample of mineralized rock from the Gralheira deposit on the Jales property. The average recovery of gold to a gravity concentrate was 26.1%. Further testing will be undertaken to determine the amount of gold recoverable from the sample by floatation.

The following events occurred subsequent to the six month period ended June 30, 2008:

1. On July 15, 2008, the Company announced that it terminated the letter of agreement with Global Minerals Ltd (“Global”). relative to the Alto Sobrido gold-antimony property in Portugal. Under the terms of the letter of agreement, Global had an option to earn up to a 55% interest in the property.

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

2. The Company’s Annual General Meeting was held on July 2, 2008 in Vancouver, BC. All proposed resolutions were passed.

## Summary of Quarterly Results

**For the Quarters Ended**

| | June 30, 2008 | March 31, 2008 | December 31, 2007 | September 30, 2007 |
|---|---|---|---|---|
| Total assets | $ 906,425 | $ 1,413,395 | $ 1,454,867 | $ 1,692,607 |
| Mineral properties | 440,719 | 669,095 | 492,784 | 542,661 |
| Working capital | 346,901 | 451,138 | 724,270 | 936,567 |
| Shareholders’ equity | 821,355 | 1,153,968 | 1,250,789 | 1,522,969 |
| Interest revenues | 6,200 | 1,455 | 2,223 | 12,528 |
| Net income (loss) | (332,211) | (99,503) | (246,569) | 67,673 |
| Earnings (loss) per share | (0.02) | (0.01) | (0.01) | 0.01 |

**For the Quarters Ended**

| | | June 30, 2007 | | March 31, 2007 | | December 31, 2006 | | September 30, 2006 |
|---|---|---|---|---|---|---|---|---|
| Total assets | $ | 1,631,405 | $ | 823,239 | $ | 854,112 | $ | 355,365 |
| Mineral properties and deferred costs | | 459,830 | | 234,093 | | 140,767 | | 108,757 |
| Working capital (deficiency) | | 902,405 | | 457,377 | | 581,835 | | 147,302 |
| Shareholders' equity | | 1,446,796 | | 694,550 | | 725,682 | | 284,524 |
| Revenues | | 7,587 | | 6,092 | | 2,726 | | 26,378 |
| Net Income (loss) | | (181,917) | | (58,678) | | (122,019) | | (18,759) |
| Earnings (loss) per share | | (0.01) | | (0.01) | | (0.01) | | (0.01) |

Significant changes in key financial data from 2006 to 2008 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, earning an operator's fee for managing the Jales and Alto Sobrido projects in Portugal and the completion of private placements in December 2006 and April 2007. During the 2007 fiscal year end, the Company notified Rio Narcea that it would not proceed with its option to earn an interest in the Barrancos Property. As a result, total mineral property costs of $177,101 were written-off to operations during the year ended December 31, 2007. During the six month period ended June 30, 2008, the Company notified Rio Narcea that is would not proceed with its option to earn an interest in the Alandroal Property. As a result, total mineral property costs of $211,430 were written-off to operations.

During the current period, the Company earned interest revenue from cash held in banks, securities held as short-term investments and by charging an 8% operators' fee to its joint venture partner, St. Elias, to manage the Jales Gold Property and to Global, to manage the Alto Sobrido Property, both of which are in Portugal. Revenues from operator fees during the current period were $3,105 compared to $4,480 during the previous comparative period. During the current period, the Company realized a net loss of $10,500 on the sale of marketable securities. In the previous year, the Company had realized a net gain of $14,370 on the sale of marketable securities.

The Company'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 does not have any intention at present of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

## Results of Operations

The Company incurred a net loss of $434,798 during the six month period ended June 30, 2008 compared to a net loss of $181,917 during the previous comparative period. Some of the significant expenses are as follows:

Accounting, legal and audit fees of $54,021 (2007 - $26,377) have risen because of an increase in the Company's activities requiring greater accounting and audit preparation.

Advertising and promotion costs of $23,489 (2007 - $16,035) relate to costs of maintaining a Company website, attendance at various Trade Conferences in Vancouver and Toronto and the advertisement in trade magazines to increase investor awareness on the Company's various projects. Fees were also paid to "First Canadian" for the provision of Investor relations services.

Consulting fees of $36,628 (2007 - $21,750) have increased because the Company retained the services of various consultants who have assisted the Company in many areas of public company management.

Filing, listing and transfer agent fees of $11,478 (2007 - $11,906) relate to various regulatory filings required to file the private placement and maintain public company status on the TSX-V.

Management fees of $17,762 (2007 - $29,076) have increased slightly as the President allocated more time to the administration and management of the Company.

Property investigation costs of $19,863 (2007 - $3,938) relate to expenses incurred that are not specifically related to any of the Company's existing properties. These costs have increased as the Company is actively seeking other opportunities in Portugal.

Travel and related costs of $15,442 (2007 - $18,858) have slightly decreased.

During the six month period ended June 30, 2008, the Company recorded a non-cash charge of $5,364 (2007 - $77,280) as stock-based compensation expense which recognizes the fair value of vested stock options.

During the six month period ended June 30, 2008, the Company earned $3,411 (2007 - $4,480) as an operator fee pursuant to various Technical Services Contracts.

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

The Company recorded an unrealized loss on marketable securities of $22,200 (2007 - $Nil) on the 240,000 common shares of Global Minerals Ltd. that it holds in a brokerage account.

**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, 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 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. 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 ($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.

In early 2007 following positive discussions with the Municipality of Boticas, the Company has completed a 3-hole drill program at the Limarinho deposit. Following discussions with the appropriate Portuguese authorities regarding the ongoing development of the property the Company has received permission to continue with its exploration activities.

In early 2008 the Company completed a 5 hole diamond drill program at the Limarinho deposit. The Company has an application pending for an extension of the term of the contract of exploration.

**Alandroal Property, Portugal**

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

The Company can earn a 60% interest by incurring exploration expenditures of €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 that it would not proceed with the option to acquire the Alandroal Property. As a result, the Company charged $211,430 in mineral property costs to operations.

**Alto Sobrido, Portugal**

In May 2007, the Company entered into an exploration contract with the Direcção-Geral de Geologia e Energia ("DGGE) for Alto Sobrido property, located 16 kilometres to the east of the coastal city of Porto in the north east of Portugal. The exploration contract covers an area of approximately 16.4 square kilometres. The exploration contract is for a period of two years and can be renewed for a further three, one year periods each by reducing the area of the license by 50% at each annual renewal. Under the terms of the contract, work must start in the property within three months. Work has commenced within the required time period. A performance deposit in the amount of €7,000 has been posted and a minimum of €25,000 must be expended on the property during the first year and thereafter a minimum of €30,000 must be expended each year over the life of the license.

In June 2007, the Company signed a Letter of Intent with Global 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 proceed to earn a further 10% in the property by completing further exploration work totalling €750,000 and making further cash and share payments to the Company of $250,000 and 600,000 shares on or before May 25, 2011.

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

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

The Company has a Letter of Agreement with Global whereby Global will reimburse the Company, as operator, for exploration costs incurred plus an 8% operator fee based on exploration costs incurred on the property. During the 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.

## Liquidity and Capital Resources

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options. The Company continues to seek capital through various means including the issuance of equity and debt.

The financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

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

Net cash used in operating activities for the six month period ended June 30, 2008 was $258,664 compared to $68,044 during the previous comparative period. The cash used in operating activities for the current period consists primarily of the operating loss and a change in non-cash working capital.

The Company did not have any financing activities during the current period. Financing activities provided net cash of $825,750 during the previous comparative period from the completion of a 3,240,000 unit private placement and the exercise of 235,500 stock options.
Net cash used in investing activities for the six month period ended June 30, 2008 was $327,080 compared to $301,859 in the previous comparative period. Net cash used during the current period consisted of exploration expenditures of $348,531 (2007 – $352,422), recoveries on exploration expenditures of $113,717 (2007 - $33,359), acquisition of deposits (bond guarantees) of $Nil (2007 - $81,481), the acquisition of marketable securities and investments of $99,766 (2007 – $223,117) and proceeds from the sale of marketable securities and investments of $7,500 (2007 -$321,802).

There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company’s shareholders and may result in dilution to the value of such interests.

The Company’s revenues, if any, are expected to be in large part derived from the mining and sale of gold, base metals or interests related thereto. The economics of developing and producing gold properties are affected by many factors including the cost of operations, variations in the grade of ore mined and the price of gold. Depending on the price of gold, the Company may determine that it is impractical to continue commercial production. The price of gold has fluctuated widely in recent years. Gold prices are affected by many factors beyond the Company’s control including anticipated changes in international investment patterns and monetary systems, economic growth rates, political developments, extent of sales of reserves by governments and shifts in the private supply of and demand for gold. The supply of gold consists of a combination of new mine production and existing stocks held by governments, producers, financial institutions and consumers. If the market price for gold falls below the Company's full production costs and remains at such levels for any sustained period of time, the Company will experience losses and may decide to discontinue operations or other development of a project or mining at one or more of its properties.

The Company has sufficient funds to meet its property maintenance payments for 2008 and cover anticipated administrative expenses throughout the 2008 fiscal year. It will continue to focus exploration and development efforts in the Portugal and maintain its landholdings in Nevada and Canada.

## Related Party Transactions

Included in accounts payable at 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.

## Financial Instruments

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

At June 30, 2008, approximately 53% (December 31, 2007 – 68%) of the Company's accounts payable and accrued liabilities are denominated in Euros. The Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

**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.

**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.

## 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 $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 €11,000 has been guaranteed by the bank without requiring the Company to purchase a term deposit for this amount.

The Company entered into a consulting agreement effective September 1, 2006 with 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 other than due to a change of control or 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. The President has agreed to waive the balance of $12,308 of unpaid monthly fees for the six month period ended June 30, 2008.

## Additional Disclosure for Venture Issuers without Significant Revenue

Please refer to Note 6 in the unaudited interim consolidated financial statements for the six month period ended June 30, 2008 for description of the capitalized exploration and development costs presented on a property-by-property basis.

## Outstanding Share Data

The following table summarizes the outstanding share capital as of the date of this Management Discussion and Analysis:

| | **Number of shares issued or issuable** |
|---|---|
| Common shares | 18,418,059 |
| Stock options | 1,225,000 |
| Warrants | 4,862,285 |

## 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 recognizes 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.

## 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.

## Business Risks

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

- Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.

- Financial risks include commodity prices, interest rates and the Canadian / United States / Euro exchange rate, all of which are beyond the Company's control.

- Regulatory risks include the possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of ever more complex reporting requirements the cost of which the company must meet in order to maintain its exchange listing.

## Outlook

The Company's primary focus for the foreseeable future will be on advancing the mineral properties in Portugal and on reviewing its financial position to finance new business ventures in the mineral resource industry.

## Qualified Person

The data contained in this Management's Discussion & Analysis has been reviewed and verified by the Company's President, Alan F. Matthews, C.Eng., a "qualified person" for the purposes of National Instrument 43-101 *Standards of Disclosure for Mineral Projects* of the Canadian securities administrators, and he has prepared or supervised the preparation of the information that forms the basis for the disclosure contained herein. The Company's quality assurance program and quality control measures are described in its news release dated 17 March 2008.

## Additional Information

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