

KERNOW RESOURCES AND DEVELOPMENTS LTD.

FORM 51-102F1 MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 31, 2005

The following discussion and analysis, prepared as of March 6, 2006 should be read together with the unaudited consolidated financial statements for the year ended December 31, 2005 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.

The reader should also refer to the annual audited financial statements for the year ended December 31, 2005 and 2004, and the Management Discussion and Analysis for those years.

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.

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), two properties in Quebec, one in Labrador and two in the State of Nevada, USA. The Jales property in Portugal is subject to an Option Agreement. The Company trades on the TSX Venture Exchange under the symbol KRD.

Performance Summary

The following is a summary of significant events and transactions that occurred during the year:

1. On March 9, 2005, the Company announced the results of a Titan 24 geophysical survey completed by Quantec Geoscience Inc. on the Jales gold property in Portugal.
2. 300,000 stock options exercisable at \$0.15 expired unexercised.
3. The Company commenced a 5 hole, deep drilling program at the Jales property on April 24, 2005. The drilling program is designed to test at depths of between 400 meters and 500 meters below surface anomalies identified by the geophysical survey undertaken in November 2004.
4. Granted 450,000 stock options at \$0.135 to its directors, officers and employees expiring June 20, 2010.
5. The Company held its Annual and Special Meeting on June 20, 2005. All proposed resolutions were passed.
6. Issued 46,500 common shares for gross proceeds of \$4,650 pursuant to the exercise of stock options.
7. Issued 100,000 common shares for gross proceeds of \$15,000 pursuant to the exercise of warrants.
8. Received 300,000 shares from St. Elias at a value of \$75,000 as required for St. Elias to acquire its 51% in the Jales property.
9. St. Elias exercised its First Option and has acquired a 51% interest in the Jales property. In addition, St. Elias has elected to proceed with the Second Option to earn an additional 24% in the property (to 75%) in consideration of cash payments totalling \$100,000, incurring exploration expenditures of not less than \$2,500,000 and issuing an aggregate of 1,000,000 shares over a three year period (received \$25,000 cash).
10. On September 6, 2005, the Company announced the results of a recently completed drill program on the Jales property in Portugal. The program consisted of 11 drill holes that totalled approximately 3,978 metres.

11. On October 14, 2005, the Company commenced a 2400 meter, 12 drill-hole program on the Jales property.
12. On December 13, 2005, the Company announced that it has drilled 9 holes on the Jales property and sent the samples to OMAC Labs Ltd. in Ireland for assay.

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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Total revenues	\$ 145,436	\$ 24,358	\$ 30,748
Net income (loss) before extraordinary items	5,909	(61,117)	(341,765)
Net income (loss)	5,909	(61,117)	(341,765)
Basic and diluted earnings (loss) per share	0.01	(0.01)	(0.04)
Total assets	435,865	267,557	255,850
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 operators' fee to its joint venture partner to manage the Jales Gold Property in Portugal. Revenues from operator fees during the current year were \$73,938 and \$23,679 during the 2004 comparative year. During the current year, the Company realized a gain of \$27,645 on the sale of marketable securities. The gain during the previous year was \$335.

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 earned net income (loss) of \$5,909 (2004 - (\$61,117)) during the year ended December 31, 2005. Some of the significant expenses are as follows: paid or accrued \$34,724 (2004 - \$35,509) in accounting, legal and audit fees, \$3,399 (2004 - \$2,571) in bank charges and interest, \$12,602 (2004 - \$12,740) in filing, listing and transfer agent fees, \$13,612 (2004 - \$10,400) in management fees, \$11,357 (2004 - \$8,257) in office, miscellaneous and shareholder costs, \$Nil (2004 - \$1,400) in property investigation costs and \$5,855 (2004 - \$10,176) in travel and related costs.

Most of the current period expenses are comparable to that of the previous period. Management fees increased from the previous comparative period because the Company's director spent more time in managing an active company.

During the year, the Company incurred \$56,452 (2004 - \$Nil) in stock based compensation expense. This non-cash expense represents the fair value of the stock options granted. The Black-Scholes option pricing model was used the value the stock options granted during the year.

During the year ended December 31, 2005, the Company earned \$73,938 (2004 - \$23,679) as an operator fee from its joint venture partner, recovered \$1,035,831 (2004 - \$295,990) in exploration costs and \$100,000 (\$75,000 in shares) (2004 - \$18,000 received in shares) in option payments from St. Elias of which \$911,761 (2004 - \$278,515) was received during the current year.

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. The Jales property consists of an exploration license granted by the Government of Portugal on June 19, 2000, with options to renew for up to four years. The license has been renewed to June 16, 2006. 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.

During 2001, the Company also entered into an agreement with Bannockburn whereby Bannockburn assigned its option agreement to earn a 100% interest in the Jales property to the Company in exchange for a promissory note in the amount of \$49,100 (USD\$30,729). During the fiscal year ended December 31, 2004, the Company issued 421,949 common shares at a price of \$0.10 per share to settle the promissory note and accrued interest totalling \$42,195.

During the 2002 fiscal year, the Company entered into an option agreement with St. Elias Mines Ltd. ("St. Elias"), a company related by a common director at the time, whereby St. Elias can earn a 51% interest in the property in exchange for cash payments totalling \$100,000 (received), incurring cumulative exploration expenditures of \$1,500,000 (completed) on the property and issuing a total of 500,000 common shares (500,000 received at a value of \$119,000) 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 \$250,000 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 current year, the Company recovered \$1,035,831 (2004 - \$295,990) in exploration costs and received \$100,000 (2004 - \$43,000) in option payments consisting of \$25,000 (2004 - \$Nil) cash and 300,000 (2004 - 100,000) common shares valued at \$75,000 (2004 - \$18,000).

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 thereafter can be renewed annually for further one year terms. The Company has committed to complete 45,000 euros of exploration work on the property in the first two years. The Company was required to provide a guarantee in the amount of €10,000 related to the property.

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

Summary of Quarterly Results

	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)

For the Quarters Ended

	December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
Total assets	\$ 267,557	\$ 272,943	\$ 290,774	\$ 388,618
Mineral properties and deferred costs	118,191	96,535	90,262	149,752
Working capital (deficiency)	77,507	116,270	131,301	91,582
Shareholders' equity	223,398	240,505	249,263	269,034
Revenues	5,386	2,620	13,136	3,216
Net Income (loss)	(17,107)	(8,758)	(19,771)	(15,481)
Earnings (loss) per share	(0.01)	(0.01)	(0.02)	(0.01)

Significant changes in key financial data from 2004 to 2005 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. Revenues increased particularly during 2005 as the Company earned \$73,938 in operator fees.

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/or 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, 2005	December 31, 2004
Working capital	\$ 220,529	\$ 77,507
Deficit	(2,597,512)	(2,603,421)

Net cash used in operating activities for the year ended December 31, 2005 was \$25,749 compared to \$77,017 during the year ended December 31, 2004. 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 provided by investing activities for the year ended December 31, 2005 was \$70,457 compared to \$11,054 in net cash provided during the prior year. Net cash used during the current year consisted of exploration expenditures of \$922,202, recoveries on exploration expenditures of \$948,815 and proceeds from the sale of investments of \$43,845.

During the current year, financing activities provided cash of \$19,650. Financing activities provided cash of \$80,000 during comparative period last year.

Capital Resources

The Company has sufficient funds to meet its property maintenance payments for 2006 and cover anticipated administrative expenses throughout the 2006 year. It will continue to focus exploration and development efforts in the Iberian Peninsula and maintain its landholdings in Nevada and Canada. Joint venture partners will be sought for its Canadian properties.

Related Party Transactions

Included in accounts payable is \$7,562 (2004 - \$16,966) due to a director of the Company and \$Nil (2004 - \$1,500) due to a company with a common director.

Included in receivables is \$124,071 (2004 - \$17,475) due from a company with a former common director.

The Company entered into the following transactions with related parties during the year ended December 31, 2005:

- a) Paid or accrued management fees of \$13,612 (2004 - \$10,400) to a director of the Company.
- b) Paid or accrued accounting fees of \$4,160 (2004 - \$4,255) to an officer of the Company.
- c) Paid or accrued technical and professional fees of \$43,310 (2004 - \$29,617) to a director which were charged to the Jales property.
- d) Recovered \$1,035,831 (2004 - \$295,990) in mineral property expenditures and \$100,000 (2004 - \$43,000) in option payments from a company with a former common director.
- e) Settled a promissory note and accrued interest totalling \$42,195 in 2004 with a company having common directors at the time by issuing 421,949 common shares.

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, 2005, approximately 84% (2004 - 36%) of the Company's accounts payable and accrued liabilities are denominated in Euro's. The Company does not use derivative instruments or foreign exchange contracts to hedge against gains or losses arising from foreign exchange fluctuations.

Outstanding Share Data

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance, December 31, 2003	9,914,540	\$ 2,704,624	\$ -
Shares for debt	421,949	42,195	-
Private placement	<u>800,000</u>	<u>80,000</u>	<u>-</u>
Balance, December 31, 2004	11,136,489	2,826,819	-
Shares issued pursuant to the exercise of stock options	46,500	4,650	-
Shares issued pursuant to the exercise of warrants	100,000	15,000	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>56,452</u>
Balance, December 31, 2005	<u>11,282,989</u>	<u>\$ 2,846,469</u>	<u>\$ 56,452</u>

Stock options

As at December 31, 2005, the following stock options are outstanding:

Number of Shares	Exercise Price	Expiry Date
153,500	\$ 0.10	June 7, 2007
450,000	0.135	June 20, 2010

Warrants

As at December 31, 2005, the following share purchase warrants are outstanding:

Number of Shares	Exercise Price	Expiry Date
300,000	\$ 0.15	April 20, 2006

Subsequent events

The following events occurred subsequent to December 31, 2005:

- i) The Company sold 10,000 shares of Bannockburn Resources, Inc that it held as an investment. Bannockburn Resources, Inc became listed on the CNQ under the symbol BKNN on February 2, 2006.
- ii) Announced that its Annual General Meeting will take place on June 26, 2006.
- iii) 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 in winter 2006 consisted of 12 drill holes totaling 2,400 meters.