

KERNOW RESOURCES AND DEVELOPMENTS LTD.

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

**SIX MONTH PERIOD ENDED
JUNE 30, 2007**

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, 2007

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

| | June 30, 2007 | December 31, 2006 (Audited) |
|---|---------------------|-----------------------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 1,031,850 | \$ 576,003 |
| Receivables | 54,264 | 48,071 |
| Prepaid expenses | 900 | 1,877 |
| Marketable securities, at market (Note 4) | <u>-</u> | <u>84,314</u> |
| | 1,087,014 | 710,265 |
| Deposits (Note 5) | 84,561 | 3,080 |
| Mineral properties (Note 6) | <u>459,830</u> | <u>140,767</u> |
| | <u>\$ 1,631,405</u> | <u>\$ 854,112</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | <u>\$ 184,609</u> | <u>\$ 128,430</u> |
| Shareholders' equity | | |
| Capital stock (Note 7) | 4,283,192 | 3,444,896 |
| Contributed surplus (Note 7) | 121,187 | 56,452 |
| Deficit | <u>(2,957,583)</u> | <u>(2,775,666)</u> |
| | <u>1,446,796</u> | <u>725,682</u> |
| | <u>\$ 1,631,405</u> | <u>\$ 854,112</u> |

Nature and continuance of operations (Note 2)

Contingencies and commitments (Note 12)

Subsequent events (Note 13)

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

| | Three Month Period Ended June 30, 2007 | Three Month Period Ended June 30, 2006 | Six Month Period Ended June 30, 2007 | Six Month Period Ended June 30, 2006 |
|--|---|---|---|---|
| EXPENSES | | | | |
| Accounting, legal and audit | \$ 22,079 | \$ 30,492 | \$ 26,377 | \$ 33,152 |
| Advertising and promotion | 3,817 | - | 16,035 | - |
| Bank charges and interest | 709 | 892 | 1,549 | 1,684 |
| Consulting | 12,108 | - | 21,750 | - |
| Filing, listing and transfer agent fees | 6,561 | 7,405 | 11,906 | 11,792 |
| Foreign exchange | 3,685 | 688 | 4,210 | 1,402 |
| Management fees | 12,223 | 5,200 | 29,076 | 8,400 |
| Office and related | 6,588 | 5,948 | 9,477 | 7,582 |
| Property investigation | 244 | 932 | 3,938 | 932 |
| Shareholder costs | 822 | - | 2,445 | - |
| Stock-based compensation | 54,734 | - | 77,280 | - |
| Travel and related | 8,071 | 5,435 | 18,858 | 8,581 |
| Website | 422 | - | 422 | - |
| Loss before other items | <u>(132,063)</u> | <u>(56,992)</u> | <u>(223,323)</u> | <u>(73,525)</u> |
| OTHER ITEMS | | | | |
| Expense recoveries | - | - | 14,969 | - |
| Interest income | 6,070 | 693 | 7,587 | 1,199 |
| Gain (loss) on disposal of marketable securities | (551) | 755 | 14,370 | 15,342 |
| Operator fees | 3,305 | 7,937 | 4,480 | 19,608 |
| | <u>8,824</u> | <u>9,385</u> | <u>41,406</u> | <u>36,149</u> |
| Net loss for the period | (123,239) | (47,607) | (181,917) | (37,376) |
| Deficit, beginning of the period | <u>(2,834,344)</u> | <u>(2,587,281)</u> | <u>(2,775,666)</u> | <u>(2,597,512)</u> |
| Deficit, end of the period | \$ (2,957,583) | \$ (2,634,888) | \$ (2,957,583) | \$ (2,634,888) |
| Basic and diluted loss per share | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ (0.01) |
| Weighted average number of shares outstanding | 17,575,147 | 11,485,846 | 16,203,694 | 11,240,356 |

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

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

| | Three Month Period Ended June 30, 2007 | Three Month Period Ended June 30, 2006 | Six Month Period Ended June 30, 2007 | Six Month Period Ended June 30, 2006 |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | \$ (123,239) | \$ (47,607) | \$ (181,917) | \$ (37,376) |
| Items not affecting cash: | | | | |
| (Gain) loss on disposal of marketable securities and investments | 551 | - | (14,370) | - |
| Stock-based compensation | 54,734 | - | 77,280 | - |
| Changes in non-cash working capital items: | | | | |
| (Increase) decrease in receivables | (24,121) | (2,783) | (6,193) | 123,558 |
| Increase in prepaid expenses | 5,387 | - | 977 | - |
| Increase (decrease) in accounts payable and accrued liabilities | <u>55,920</u> | <u>(2,737)</u> | <u>56,179</u> | <u>(56,310)</u> |
| Net cash provided by (used in) operating activities | <u>(30,768)</u> | <u>(53,127)</u> | <u>(68,044)</u> | <u>29,872</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from issuance of capital stock | 833,850 | 18,750 | 838,850 | 35,250 |
| Share issue costs | <u>(13,100)</u> | <u>-</u> | <u>(13,100)</u> | <u>-</u> |
| Net cash provided by financing activities | <u>820,750</u> | <u>18,750</u> | <u>825,750</u> | <u>35,250</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisition of deposits | (81,481) | - | (81,481) | - |
| Mineral property recoveries | 18,663 | 99,206 | 33,359 | 133,081 |
| Expenditures on mineral properties | (244,400) | (117,466) | (352,422) | (197,322) |
| Acquisition of marketable securities and investments | (164,480) | (60,641) | (223,117) | (60,641) |
| Proceeds on sale of marketable securities and investments | <u>254,089</u> | <u>5,000</u> | <u>321,802</u> | <u>27,083</u> |
| Net cash provided by (used in) investing activities | <u>(217,609)</u> | <u>(73,901)</u> | <u>(301,859)</u> | <u>(97,799)</u> |
| Change in cash during the period | 572,373 | (108,278) | 455,847 | (32,677) |
| Cash, beginning of the period | <u>459,477</u> | <u>223,393</u> | <u>576,003</u> | <u>147,792</u> |
| Cash, end of the period | \$ 1,031,850 | \$ 115,115 | \$ 1,031,850 | \$ 115,115 |
| 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, 2007
(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, 2006. 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, 2007 | December 31, 2006 |
|-----------------|------------------|----------------------|
| Working capital | \$ 902,405 | \$ 581,835 |
| Deficit | (2,957,583) | (2,775,666) |

KERNOW RESOURCES & DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet either at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

As a result of the adoption of these new standards, the Company has classified its marketable securities as held-for-trading. Receivables and deposits are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

4. MARKETABLE SECURITIES

| | June 30, 2007 | December 31, 2006 |
|--|------------------|----------------------|
| St. Elias Mining Ltd. (80,000 common shares) | \$ - | \$ 26,750 |
| Short-term Canadian T-Bill | - | 57,564 |
| | \$ - | \$ 84,314 |

As at June 30, 2007, the Company does not hold any marketable securities. During the current period, the Company sold 80,000 shares of St. Elias Mines Ltd. (“SLI”), a public company listed on the TSX Venture Exchange and a Canadian T-Bill.

5. DEPOSITS

The Company has posted refundable term deposits totaling \$84,561 (€59,000) (2006 - \$3,080 (€2,000)) as security with the Millennium BCP (Banco Commercial Portugal) to support performance guarantees written by the bank to the Portuguese Government relating to the exploration of the mineral properties in Portugal (Note 12).

KERNOW RESOURCES & DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2007
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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.

| | Jales | Boticas | Alandroal | Barancos | Alto Sobrido | Joutel, Orvilliers & Voisey's Bay | Shawnee & Dyke Hot Springs | Total |
|------------------------------|-----------------|---------------|----------------|---------------|--------------|-----------------------------------|----------------------------|-----------------|
| Balance, beginning of period | \$ - | \$ 128,406 | \$ 6,178 | \$ 6,178 | \$ - | \$ 3 | \$ 2 | \$ 140,767 |
| Additions: | | | | | | | | |
| Administration | 3,249 | 195 | 5,296 | 3,813 | - | - | - | 12,553 |
| Assays | - | 5,145 | 6,896 | 218 | - | - | - | 12,259 |
| Claim fees and taxes | - | 7,749 | 30,972 | 10,521 | 5,844 | - | - | 55,086 |
| Core storage | 1,651 | 507 | 855 | 521 | - | - | - | 3,534 |
| Drilling and sampling | 3,409 | - | 79,494 | 22,618 | - | - | - | 105,521 |
| Field accommodation | - | - | 3,347 | 1,251 | - | - | - | 4,598 |
| Field supplies | 3,531 | 493 | 3,831 | 4,209 | 107 | - | - | 12,171 |
| Labour | 6,224 | 1,232 | 18,205 | 9,024 | - | - | - | 34,685 |
| Technical and professional | 14,706 | 15,434 | 28,881 | 23,902 | 1,095 | - | - | 84,018 |
| Travel and transport | 589 | 1,652 | 15,406 | 10,062 | 288 | - | - | 27,997 |
| | <u>33,359</u> | <u>32,407</u> | <u>193,183</u> | <u>86,139</u> | <u>7,334</u> | - | - | <u>352,422</u> |
| Recoveries | <u>(33,359)</u> | - | - | - | - | - | - | <u>(33,359)</u> |
| | <u>-</u> | <u>32,407</u> | <u>193,183</u> | <u>86,139</u> | <u>7,334</u> | - | - | <u>319,063</u> |
| Balance, end of period | \$ - | \$ 160,813 | \$ 199,361 | \$ 92,317 | \$ 7,334 | \$ 3 | \$ 2 | \$ 459,830 |

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 then consisted of an exploration license granted by the Government of Portugal. This license expired June 16, 2006. On May 25, 2007, the Company was awarded an Experimental Mining License for the Jales Gralheira Gold 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. Under the terms of the contract, work must start on the property within three months. A performance bond in the amount of €50,000 has been posted and a minimum of €250,000 must be expended on the property each year over the three year life of the license.

During 2002, the Company entered into an option agreement with St. Elias Mines Ltd. (“St. Elias”), a company related by a common director at the time, whereby St. Elias can earn a 51% interest in the property in exchange for cash payments totalling \$50,000 (received), incurring cumulative exploration expenditures of \$1,500,000 (completed) on the property and issuing a total of 500,000 common shares (received) at a value of \$106,000 to the Company over a three year period. St. Elias 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 was informed by its joint venture partner, St. Elias Mines Ltd. that it has decided not to proceed with the second option to acquire an additional 24% interest and therefore retain a 51% interest in the Jales/Gralheira gold property.

The Company will enter 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 six month period ended June 30, 2007, the Company recovered \$33,359 (2006 - \$133,081) in exploration costs. These recoveries have not yet been received and are recorded in receivables. The Company also earned \$4,481 (2006 - \$19,608) as an operator fee. Subsequent to the period, the company received the recoveries and the 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 year 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. The Company is required to incur a further €45,000 (approximately \$73,300) of exploration work prior to October, 2007.

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 and Barrancos Properties, Portugal

During the year ended December 31, 2006, 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.

The terms of the option agreements are as follows:

i) Alandroal Property

The Company can earn a 60% interest by incurring exploration expenditures of €350,000 (approximately \$539,000) and issuing an aggregate of 150,000 common shares (25,000 issued at a value of \$5,125) 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.

ii) Barrancos Property

The Company can earn a 60% interest by incurring exploration expenditures of €25,000 (approximately \$808,000) and issuing an aggregate of 250,000 common shares (25,000 issued at a value of \$5,125) over a four 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 in the property by issuing 3,000,000 common shares within 30 days of attaining commercial production.

Alto Sobrido, Portugal

On May 25, 2007, the Company entered into an exploration contract with DGGE for the Alto Sonrido property, located 16 kilometers 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 kilometers. It is initially for a period of two years. Following this period, the license can be renewed for a further three periods of one year each by reducing the area of the license by 50% as each annual renewal. Under the terms of the contract, work must start on the property within three months. A performance bond 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 a minimum of €30,000 the following year. Subsequent to this, an amount of €30,000 must be expended each year over the life of the license.

On June 7, 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 gold/antimony property located in Portugal.

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

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

The option grants Global to acquire, firstly, a 50% interest in the property and secondly, if that part of the option has been exercised and the Company elects not to form a 50-50 joint venture at that time, a further 10% in the property. To earn a 50% interest, Global must complete the following:

- i) issue 50,000 shares and make a cash payment of \$25,000 to the Company on or before July 24, 2007;
- ii) complete a first year work program of €100,000;
- iii) issue 100,000 shares 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 share and a cash payment of 75,000 to the Company on or before May 25, 2009.

If Global attains the 50% level, the Company can elect whether it will 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 the completion of further exploration work totaling €750,000 and further cash and share payments to the Company of \$250,000 and 600,000 shares on or before May 25, 2011.

The Company will have the right to be the operator of the property and of any joint venture so long as the Company owns at least a 25% interest in the property.

On June 7, 2007, the Company's directors signed a resolution to proceed with the Letter of Intent. The Company received regulatory approval on July 27, 2007.

Joutel, Quebec, Canada

The Company owns a 100% interest in certain mining claims in northwestern 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.

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 northwestern Nevada, U.S.A. The mining claims were renewed for a further year in August 2006.

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, 2006 | 14,812,559 | \$ 3,444,896 | \$ 56,452 |
| Private placement | 3,240,000 | 810,000 | - |
| Exercise of stock options | 253,500 | 28,850 | - |
| Finder's fees | 37,000 | 9,250 | - |
| Stock based compensation | - | - | 77,280 |
| Contributed surplus on exercise of stock options | - | 12,545 | (12,545) |
| Issue costs | - | (22,349) | - |
| Balance, June 30, 2007 | 18,343,059 | \$ 4,283,192 | \$ 121,187 |

During the six month period ended June 30, 2007, the Company issued the following common shares:

- a) Completed a 3,240,000 unit private placement at \$0.25 per unit for gross proceeds of \$810,000. Each unit consists of one common share and one share purchase warrant exercisable at \$0.40 per share until April 20, 2009. The Company paid a finder's fee in respect of some of the subscriptions by issuing 37,000 shares at a deemed issue price of \$0.25 per share.
- b) 253,500 common shares for gross proceeds of \$28,850 pursuant to the exercise of stock options.

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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, 2007, the following stock options are outstanding:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|----------------|------------------|
| 350,000 | \$ 0.135 | June 17, 2010 |
| 175,000 | 0.225 | February 5, 2012 |
| 300,000 | 0.280 | May 16, 2012 |

Stock-based compensation

During the six month period ended June 30, 2007, the Company granted 475,000 (2006 - Nil) stock options to directors, officers and consultants. The estimated fair value of these options was \$77,280 (2006 - \$Nil) or \$0.16 (2006 - \$Nil) per option. This amount has been recorded as stock-based compensation in the statement of operations with a corresponding amount recorded as contributed surplus in shareholders' equity.

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

| | June 30, 2007 | June 30, 2006 |
|--------------------------|-----------------|---------------|
| Risk-free interest rate | 4.10% ~ 4.21% | - |
| Expected life of options | 5 years | - |
| Annualized volatility | 66.80% ~ 77.20% | - |
| Dividend rate | 0.00% | - |

Warrants

As at June 30, 2007, the following share purchase warrants are outstanding:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|------------------------|------------------|
| 1,622,285 | \$ 0.27 | December 5, 2007 |
| | if not, then at \$0.35 | December 5, 2008 |
| 3,240,000 | \$0.40 | April 20, 2009 |

8. RELATED PARTY TRANSACTIONS

Included in accounts payable at June 30, 2007 is \$20,095 (December 31, 2006 - \$20,000) due to a director and an officer of the Company.

The Company entered into the following transactions with related parties during the six month period ended June 30, 2007:

- a) Paid or accrued management fees of \$29,075 (2006 - \$8,400) to a director of the Company.
- b) Paid or accrued accounting fees of \$2,220 (2006 - \$2,360) to an officer of the Company.
- c) Paid or accrued technical and professional fees of \$30,908 (2006 - \$19,250) to a director which were charged to the Jales, Boticas, Alandroal and Barrancos properties.
- d) Paid or accrued administration fees of \$1,100 (2006 - \$Nil) to an officer of which was charged to the Barrancos property.
- e) Recovered \$33,359 (2006 - \$133,081) in mineral property expenditures from a company with a former common director. These recoveries have not yet been received and are recorded in receivables.

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.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transaction for the six month period ended June 30, 2006 was the issuance of 37,000 common shares as finder's fees valued at \$0.25 per share pursuant to the 3,240,000 unit private placement completed.

There are no significant non-cash transactions for the six month period ended June 30, 2006.

10. SEGMENTED INFORMATION

The Company operates in one business segment, being the exploration of mineral properties.

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. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

At June 30, 2007, approximately 85% (December 31, 2006 – 53%) 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.

12. 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 €9,000 (December 31, 2006 - €12,000) (Note 5).

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 (comprising of management fees and technical and professional fees) 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.

13. SUBSEQUENT EVENTS

Subsequent to June 30, 2007, the Company received regulatory approval on July 27, 2007 with respect to the Letter of Intent that it entered into with Global Minerals Ltd. on June 7, 2007 for the Alto Sobrido gold/antimony property located in Portugal.