KERNOW RESOURCES & DEVELOPMENTS LTD

FORM 51-102F1
MANAGEMENT DISCUSSION AND ANALYSIS
SIX MONTHS ENDED JUNE 30, 2007

The following discussion and analysis, prepared as of August 22, 2007, should be read together with the unaudited interim consolidated financial statements for the six month period ended June 30, 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.

The reader should also refer to the annual audited consolidated financial statements for the year ended December 31, 2006 and the Management Discussion and Analysis for that year.

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 two properties in Northern Portugal (Jales and Boticas) and another property in North Eastern Portugal (Alto Sobrido). In addition, it is earning an initial 60% interest in two properties in Southern Portugal from Rio Narcea Gold Mines Ltd. (Alandroal and Barrancos). The Jales property in Portugal is subject to an Option Agreement. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol KRD.

Performance Summary

The following is a summary of significant events and transactions that occurred during the six months ended June 30, 2007:

1. Granted stock options to purchase 175,000 common shares to directors and consultants at $0.225 per share until February 5, 2012.

2. Issued 253,500 common shares for gross proceeds of $28,850 pursuant to the exercise of stock options.

3. Released provisional assay results from the recently completed three hole diamond drilling program on the Boticas Property. The diamond drill holes were completed for a total of 376 meters. Further surface sampling results were released on February 1, 2007.

4. Commenced drilling on the Almagreira project on the Alandroal concession on the Ossa Morena zone of Southern Portugal. The current drill program will comprise 600 meters of core drilling and of four holes two of which will be drilled on Almagreira South and two on Almagreira North. The work is being undertaken as part of the option agreement with Rio Narcea Gold Mines Ltd., whereby the Company has a right to acquire an initial 60% interest with a further right to acquire the remaining 40% interest in the Alandroal and Barrancos properties in Southern Portugal. Drill results were released subsequent to the period.

5. 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 for a period of two years. The Company paid a 5% finder's fee in respect of some of the subscriptions by issuing 37,000 shares as a deemed issue price of $0.25 per share.

6. 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.

7. The Company granted stock options to purchase 300,000 common shares at $0.28 per share until 16 May, 2012.

8. 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.

9. 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.

10. 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.

11. Commenced drilling on the Barrancos concession located in the Ossa Morena zone of Southern Portugal. The work is being undertaken as part of the option agreement with Rio Narcea Gold Mines Ltd., whereby the Company has a right to acquire an initial 60% interest with a further right to acquire the remaining 40% interest in the Alandroal and Barrancos properties in Southern Portugal. Drill results were released subsequent to the period.

12. Held its Annual General Meeting on June 26, 2007 in Vancouver, British Columbia, Canada. All proposed resolutions were passed.

Summary of Quarterly Results

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
Interest 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)

For the Quarters Ended

		June 30, 2006		March 31, 2006		December 31, 2005		September 30, 2005
Total assets	$	377,429	$	409,023	$	435,865	$	361,828
Mineral properties and deferred costs		121,421		103,161		57,180		59,779
Working capital (deficiency)		154,870		201,987		220,529		166,572
Shareholders' equity		303,283		332,140		305,409		254,051
Revenues		9,385		26,764		23,257		45,970
Net Income (loss)		(47,607)		10,231		43,858		28,389
Earnings (loss) per share		(0.01)		0.01		0.01		0.01

Significant changes in key financial data from 2006 to 2007 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 operators' fee for managing the Jales Gold Project in Portugal and the completion of private placements in December 2006 and April 2007.

The Company earns interest revenue from cash held in banks, securities held as short-term investments and by charging an 8% operators' fee to its joint venture partner, St. Elias Mines Ltd., to manage the Jales Gold Property in Portugal. Revenues from operator fees during the current period were $4,480 compared to $19,608 during the previous comparative period. During the current period, the Company realized net gains of $14,370 on the sale of marketable securities. The net gain during the previous comparative period was $15,342.

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

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

Results of Operations

The Company incurred net loss of $181,917 during the six month period ended June 30, 2007 compared to a net loss of $37,376 during the previous comparative period. Some of the significant expenses are as follows: paid or accrued $26,377 (2006 - $$33,152) in accounting, legal and audit fees, $16,035 (2006 - $Nil) in advertising and promotion, $21,750 (2006 - $Nil) in consulting, $11,906 (2006 - $11,792) in filing, listing and transfer agent fees, $29,076 (2006 - $8,400) in management fees, $9,477 (2006 - $7,582) in office and related, $3,938 (2006 - $932) in property investigation, $77,280 (2006 - $Nil) in stock-based compensation costs and $18,858 (2006 - $8,581) in travel and related costs.

Most of the current period expenses are greater than the previous comparative period as a result of the Company becoming more active. There has been an increase in accounting, legal and audit fees over the previous period. The increase in legal fees is related to a Private Placement completed in April 2007. The increase in advertising and promotion relates to costs of maintaining a Company website, attendance at the March 2007 PDAC and the advertisement in a trade magazine to increase Company awareness and to gain new shareholders. Consulting costs have increased because the Company used the services of various consultants who assisted the Company in many areas of public company management. Management fees have increased because the President increased the amount of time allocated to the development of the Company. The Company entered into a consulting agreement effective September 1, 2006 with the President of the Company for management services, expiring September 1, 2008, whereby the Company will pay $10,000 a month (comprising of management fees and technical and professional fees) to the President for management fees. The increase in travel and related costs are due to the requirement for the Company's management to travel to and from Portugal on a more regular basis than the previous comparative period.

During the six month period ended June 30, 2007, the Company recorded a non-cash charge of $77,280 (2006 - $Nil) for stock-based compensation relating to the granting of 475,000 stock options.

The Company received a recovery of € 9,800 ($14,969) from the Government of Portugal relating to Valued Added Tax (VAT) paid in prior years.

During the six month period ended June 30, 2007, the Company earned $4,480 (2006 - $19,608) as an operator fee from its joint venture partner, St. Elias Mines Ltd., and recovered $33,359 (2006 - $133,081) in exploration costs from St. Elias Mines Ltd..

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. The Company applied for an experimental mining license with the Government of Portugal.. 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., a company related by a common director at the time, whereby St. Elias Mines Ltd. 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 Mines Ltd. 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.

On April 27, 2007 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 also entered into a Technical Services Contract with St. Elias Mines Ltd. whereby St. Elias Mines Ltd. 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. The Company also earned $4,481 (2006 - $19,608) as an operator fee.

Poco das Freitas Property (Boticas), Portugal

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

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

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

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

Following positive discussions with the Municipality of Boticas, the Company has completed a 3 hole drilling program at the Limarinho deposit. Additional prospecting and assessment work will be undertaken in areas outside of the known Poco das Freitas and Limarinho area.

The Company is currently in discussion with the appropriate Portuguese authorities regarding the ongoing development of the property.

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.

i) ***Alandroal Property***

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

ii) ***Barrancos Property***

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

Alto Sobrido, Portugal

On May 25, 2007, the Company entered into an exploration contract with the Direcção-Geral de Geologia e Energia (DGGE) Alto Sonrido 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. 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 in 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 like 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.

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 o$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 totalling € 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.

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 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, 2007	December 31, 2006
Working capital	$ 902,405	$ 581,835
Deficit	(2,957,583)	(2,775,666)

Net cash used in operating activities for the six month period ended June 30, 2007 was $68,044 compared to net cash provided by operating activities of $29,872 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.

Net cash used in investing activities for the six month period ended June 30, 2007 was $301,859 compared to $97,799 in the previous comparative period. Net cash used during the current period consisted of exploration expenditures of $352,422, recoveries on exploration expenditures of $33,359, acquisition of deposits (bond guarantees) of $81,481, acquisition of marketable securities and investments of $223,117 and proceeds from the sale of marketable securities and investments of $321,802.

During the current period, financing activities provided net cash of $825,750 from the exercise of 235,500 stock options and the completion of a 3,240,000 unit private placement. Financing activities provided net cash of $35,250 during the previous comparative period.

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 2007 and cover anticipated administrative expenses throughout the 2007 year. It will continue to focus exploration and development efforts in the Portugal and maintain its landholdings in Nevada and Canada.

Related Party Transactions

Included in accounts payable at June 30, 2007 is $20,095 (December 31, 2006 - $20,000) due to a director 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 shown 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

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. 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.

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 €59,000 (2005 - €12,000) (see Note 5 of financial statements).

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 og 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 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.

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, 2007 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 at August 22, 2007:

	Number of shares issued or issuable
Common shares	18,343,059
Stock options	825,000
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.

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.

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 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 reviewing its financial position and the ability to finance new business ventures in the mineral resource industry.

Additional Information

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

Subsequent events

Subsequent to June 30, 2007, the Company:

a) Announced drill results from the recently completed four drill holes on the Alandroal concession in Southern Portugal.

b) 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.

c) Announced drill results from the recently completed three drill holes on the Barrancos concession in Southern Portugal.