

KERNOW RESOURCES AND DEVELOPMENTS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited –Prepared by Management)

NINE MONTH PERIOD ENDED
SEPTEMBER 30, 2006

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 September 30, 2006.

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

	September 30, 2006	December 31, 2005 (Audited)
ASSETS		
Current		
Cash	\$ 152,498	\$ 147,792
Receivables	3,838	126,818
Prepaid expenses	5,363	-
Marketable securities (market value \$62,957; 2005- \$76,375)	<u>56,444</u>	<u>76,375</u>
	218,143	350,985
Deposits (Note 3)	28,465	25,600
Investments (Note 4)	-	2,100
Mineral properties (Note 5)	<u>108,757</u>	<u>57,180</u>
	<u>\$ 355,365</u>	<u>\$ 435,865</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 70,841</u>	<u>\$ 130,456</u>
	<u>70,841</u>	<u>130,456</u>
Shareholders' equity		
Capital stock (Note 6)	2,881,719	2,846,469
Contributed surplus (Note 6)	56,452	56,452
Deficit	<u>(2,653,647)</u>	<u>(2,597,512)</u>
	<u>284,524</u>	<u>305,409</u>
	<u>\$ 355,365</u>	<u>\$ 435,865</u>

Nature and continuance of operations (Note 2)

Contingencies (Note 11)

Subsequent events (Note 12)

On behalf of the Board:

"Alan F. Matthews"

Director

"Robert F. Weicker"

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 September 30, 2006	Three Month Period Ended September 30, 2005	Nine Month Period Ended September 30, 2006	Nine Month Period Ended September 30, 2005
EXPENSES				
Accounting, legal and audit	\$ 9,476	\$ 4,117	\$ 42,628	\$ 20,110
Advertising and promotion	2,300	-	2,300	-
Bank charges and interest	834	916	2,518	2,521
Filing, listing and transfer agent fees	1,027	1,882	12,819	11,693
Foreign exchange	577	2,298	1,979	2,361
Management fees	15,950	3,200	24,350	10,013
Office, miscellaneous and shareholder costs	4,475	2,545	12,057	8,516
Property investigation	379	-	1,311	-
Stock-based compensation	-	-	-	56,452
Travel and related	10,119	2,623	18,700	5,318
Loss before other items	<u>(45,137)</u>	<u>(17,581)</u>	<u>(118,662)</u>	<u>(116,984)</u>
OTHER ITEMS				
Interest income	1,156	136	2,355	347
Gain on disposal of marketable securities	19,033	12,615	34,375	27,645
Operator fees	6,189	33,219	25,797	51,043
	<u>26,378</u>	<u>45,970</u>	<u>62,527</u>	<u>79,035</u>
Net income (loss) for the period	(18,759)	28,389	(56,135)	(37,949)
Deficit, beginning of the period	<u>(2,634,888)</u>	<u>(2,669,759)</u>	<u>(2,597,512)</u>	<u>(2,603,421)</u>
Deficit, end of the period	\$ <u>(2,653,647)</u>	\$ <u>(2,641,370)</u>	\$ <u>(2,653,647)</u>	\$ <u>(2,641,370)</u>
Basic and diluted earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	11,517,989	11,153,853	11,284,548	11,142,341

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 September 30, 2006	Three Month Period Ended September 30, 2005	Nine Month Period Ended September 30, 2006	Nine Month Period Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	\$ (18,759)	\$ 28,389	\$ (56,135)	\$ (37,949)
Items not affecting cash:				
Stock-based compensation	-	-	-	56,452
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(578)	(297)	122,980	18,233
Increase in prepaids	(5,363)	-	(5,363)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>(3,305)</u>	<u>(110,378)</u>	<u>(59,615)</u>	<u>63,619</u>
Net cash provided by (used in) operating activities	<u>(28,005)</u>	<u>(82,286)</u>	<u>1,867</u>	<u>100,355</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of capital stock	<u>-</u>	<u>12,150</u>	<u>35,250</u>	<u>12,150</u>
Net cash provided by financing activities	<u>-</u>	<u>12,150</u>	<u>35,250</u>	<u>12,150</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Mineral property recoveries	77,371	440,230	210,453	663,031
Expenditures on mineral properties	(64,708)	(324,597)	(262,030)	(679,620)
Acquisition of deposits	(2,865)	-	(2,865)	-
Acquisition of marketable securities and investments	(93,414)	-	(154,056)	-
Proceeds on sale of marketable securities and investments	<u>149,004</u>	<u>4,880</u>	<u>176,087</u>	<u>16,200</u>
Net cash provided by (used in) investing activities	<u>65,388</u>	<u>120,513</u>	<u>(32,411)</u>	<u>(389)</u>
Change in cash during the period	37,383	50,377	4,706	112,116
Cash, beginning of the period	<u>115,115</u>	<u>145,173</u>	<u>147,792</u>	<u>83,434</u>
Cash, end of the period	<u>\$ 152,498</u>	<u>\$ 195,550</u>	<u>\$ 152,498</u>	<u>\$ 195,550</u>
Cash paid during the period for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid during the period for income taxes	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Supplemental disclosure with respect to cash flows (Note 8)

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

KERNOW RESOURCES AND DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(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, 2005. 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.

	September 30, 2006	December 31, 2005
Working capital	\$ 147,302	(Audited) \$ 220,529
Deficit	(2,653,647)	(2,597,512)

3. DEPOSITS

The Company posted refundable term deposits totaling \$28,465 (€18,000) as security with the Banco Commerical of Portugal to support a performance guarantee written by the bank to the Portuguese Government relating to the exploration of the mineral properties in Portugal (Note 5).

KERNOW RESOURCES AND DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. INVESTMENTS

	September 30 2006	December 31, 2005 (Audited)
Bannockburn Resources Inc.	\$ -	\$ 2,100
	\$ -	\$ 2,100

The Company owned 19,666 common shares of Bannockburn Resources, Inc. (“Bannockburn”) which were written down by \$29,425 to a carrying value of \$2,100 in the 2002 fiscal year. The president and director of the Company became a director of Bannockburn during the 2003 fiscal year and resigned as a director of Bannockburn in the 2005 fiscal year. During the nine month period ended September 30, 2006, the Company sold all of the common shares of Bannockburn.

5. 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.

KERNOW RESOURCES AND DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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5. MINERAL PROPERTIES (cont'd...)

2006	Jales	Boticas	Joutel	Orvilliers	Voisey's Bay	Shawnee	Dyke Hot Springs	Total
Balance, beginning of period	\$ -	\$ 17,130	\$ 5,460	\$ 6,150	\$ 4,761	\$ 12,541	\$ 11,138	\$ 57,180
Additions:								
Administration	7,898	34	-	-	-	-	-	7,932
Assays	19,805	857	-	-	-	-	-	20,662
Claim fees	3,138	6,966	-	-	-	1,412	1,129	12,645
Core storage	2,543	-	-	-	-	373	-	2,916
Drilling and sampling	17,828	3,600	-	-	-	-	-	21,428
Field accommodations	2,655	-	-	-	-	-	-	2,655
Field supplies	5,048	711	-	-	-	-	-	5,759
Labour	16,088	-	-	-	-	-	-	16,088
Technical and professional	157,534	5,060	-	-	-	-	-	162,594
Travel and transport	9,072	279	-	-	-	-	-	9,351
	241,609	17,507	-	-	-	1,785	1,129	262,030
Recoveries	(210,453)	-	-	-	-	-	-	(210,453)
	31,156	17,507	-	-	-	1,785	1,129	51,577
Balance, end of period	\$ 31,156	\$ 34,637	\$ 5,460	\$ 6,150	\$ 4,761	\$ 14,326	\$ 12,267	\$ 108,757

5. 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 consists of an exploration license granted by the Government of Portugal. This license expired June 16, 2006. The Company has now applied for an experimental mining license with the Government of Portugal. As at September 30, 2006, the license had not yet been granted.

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 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 (2004 – 200,000 shares at a value of \$31,000) 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 nine month period ended September 30, 2006, the Company recovered \$210,453 (2005 - \$638,031) in exploration costs and earned \$25,797 (2005 - \$51,043) 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 thereafter can be renewed annually for further one year terms. The Company has committed to complete €45,000 (\$73,300) 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 (\$16,200) related to the property.

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.

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 2003 fiscal year, the Company wrote-down the carrying value of the Joutel property by \$245,440 to a nominal value of \$5,000.

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

Orvilliers, Quebec, Canada

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

During the 2003 fiscal year, the Company wrote-down the carrying value of the Orvilliers property by \$86,870 to a nominal value of \$5,000.

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

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

The Company entered into an agreement with Pathfinder Resources Ltd. (“Pathfinder”) whereby it granted an option to Pathfinder to earn a 100% interest in its Voisey’s Bay property. During the 2003 fiscal year, the Company received \$10,000 cash, and 50,000 shares of Pathfinder valued at \$6,500. During the 2004 fiscal year, the agreement was terminated.

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, 2002, the Company wrote-down the carrying value of the Shawnee property by \$249,861 to a nominal value of \$5,000. The mining claims were renewed for a further year in August 2006.

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.

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6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance, December 31, 2005	11,282,989	\$ 2,846,469	\$ 56,452
Exercise of warrants	<u>235,000</u>	<u>35,250</u>	<u>-</u>
Balance, September 30, 2006	<u>11,517,989</u>	<u>\$ 2,881,719</u>	<u>\$ 56,452</u>

During the nine month period ended September 30, 2006, the Company issued 235,000 common shares for proceeds of \$35,250 from the exercise of warrants priced at \$0.15 per warrant.

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.

As at September 30, 2006, 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 September 30, 2006, there were no share purchase warrants outstanding.

KERNOW RESOURCES AND DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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7. RELATED PARTY TRANSACTIONS

Included in accounts payable at September 30, 2006 is \$12,701 (December 31, 2005 - \$7,562) due to a director of the Company.

The Company entered into the following transactions with related parties during the nine month period ended September 30, 2006:

- a) Paid or accrued management fees of \$24,350 (2005 - \$10,012) to a director of the Company.
- b) Paid or accrued accounting fees of \$3,420 (2005 - \$2,980) to an officer of the Company.
- c) Paid or accrued technical and professional fees of \$22,922 (2005 - \$29,400) to a director which were charged to the Jales 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.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

There were no significant non-cash transactions for the nine month period ended September 30, 2006.

The significant non-cash transactions for the nine month period ended September 30, 2005 include the receipt of 300,000 shares of St. Elias at a value of \$75,000 as an option payment.

9. SEGMENTED INFORMATION

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

	2006	2005
Net income (loss) for the period		
Canada	\$ (43,342)	\$ (75,662)
Portugal	<u>(12,793)</u>	<u>37,713</u>
	<u>\$ (56,135)</u>	<u>\$ (37,949)</u>
Identifiable assets		
Canada	\$ 228,390	\$ 286,145
United States	26,593	23,372
Portugal	<u>100,382</u>	<u>52,311</u>
	<u>\$ 355,365</u>	<u>\$ 361,828</u>

KERNOW RESOURCES AND DEVELOPMENTS LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2006
(Unaudited – Prepared by Management)

10. 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 September 30, 2006, approximately 56% (December 31, 2005 – 84%) 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.

11. CONTINGENCIES

The Company has provided letters of guarantee to the Government of Portugal for its exploration contracts on the mineral properties in Portugal totalling €24,965 (\$39,900), €18,000 (\$28,465) of which was secured by term deposits in 2004 (Note 3).

12. SUBSEQUENT EVENTS

Subsequent to September 30, 2006, the Company:

- a) Entered into Option Agreements with Rio Narcea Gold Mines Ltd. to acquire an initial 60% interest with the right to earn a 100% in the Alandroal and Barrancos properties. These properties are in the Ossa Morena Zone of Southern Portugal.

The terms of the options are as follows:

- i) Alandroal Property

The Company can earn a 60% interest in consideration of incurring exploration expenditures of not less than €350,000 (\$495,000) and issuing an aggregate of 150,000 common shares over a three year period. In addition, the Company can elect to earn a further 15% interest in the property in consideration of solely funding a Bankable Feasibility Study and issuing 1,000,000 common shares. Further to this the Company has the right to acquire the remaining 25% undivided interest in the property by the issuance of 3,000,000 common shares.

- ii) Barrancos Property

The Company can earn a 60% interest in consideration of incurring exploration expenditures of not less than €25,000 (\$750,000) and issuing an aggregate of 250,000 common shares over a four year period. In addition, the Company can elect to earn a further 15% interest in the property in consideration of solely funding a Bankable Feasibility Study and issuing 1,000,000 common shares. Further to this the Company has the right to acquire the remaining 25% undivided interest in the property by the issuance of 3,000,000 common shares.

- b) Announced a non-brokered private placement of 2,900,000 units at \$0.175 per unit for gross proceeds of \$507,500. Each unit consists of one common share and one-half of a share purchase warrant exercisable for two years at \$0.27 in the first year and \$0.35 in the second year.