Progress of the Strategic Review

August 7, 2007

Summary of Progress

A Strategic Review is being undertaken of all the geological and geophysical data in the vicinity of the Darnley Bay Anomaly. It will determine if additional surveys are necessary prior to commencing the base metal drilling programme. The review commenced in June 2007. The following has been completed to date:

1. Paterson, Grant & Watson Limited - Complete review of the gravity and magnetic data over the Darnley Bay Anomaly and surrounding region, incorporating new regional data from the Geological Survey of Canada (GSC). A suite of new processed images was prepared.

2. The geologists on the Advisory Board, namely Terry Bottrill, John Dowsett, Peter Hubacheck, George Kent and Brian King, have all contributed concepts with respect to the possible source(s) of the Darnley Bay Anomaly, and suggested several mineral deposit types for the property. They are based on the mapped geology, previous drilling and published material for the region. The deposit types are currently being assessed for their potential.

The following phases are currently underway:

3. The Vancouver office of Mira Geoscience is carrying out the 3D geophysical modeling study. More details are provided below.

4. Budgeting for the drilling program and ongoing exploration has commenced.

The results of the four phases outlined above will be utilized to finalize the exploration and drilling programme, initially for a three-year period. Drilling of the near-surface targets will commence during the first year.

3D Modeling Study

Darnley Bay Resources Limited (DBRL) has engaged the Advanced Geophysical Inversion Centre at Mira Geoscience, for the modeling of the Darnley Bay gravity and magnetic anomaly near Paulatuk, NWT. The main objective of the modeling is to determine the possible types and geometries of source(s). From this, we will deduce which mineral deposit types have the greatest potential to be associated with the anomaly source(s), and where they are most likely to be located. This will guide the choice of any follow-up methods, and the location of drill targets.

The initial aim of the project is to model the upper surface of an expected mafic or ultramafic intrusive body, understand the overall geometry of the intrusive body, and define the geometry and physical property variations of the upper surface, and shallower potential feeder zones and offshoots.

Mira Geoscience has been provided with all of the airborne magnetic and ground gravity data collected by DBRL and by the GSC as well as a synthesis of the GSC's published geology maps. Geological concepts developed by the Advisory Board were illustrated, to provide starting models for testing. In addition, the following references were provided:

Arjay Kirker Resources Ltd., 1972, *Seismic Reflection of Darnley Bay Area on the Arctic Coast*, August 3, 1972.

Charlie W. Jefferson, Hulbert, L.J., Rainbird, R.H., Hall, G.E.M., Grégoire, D.C. and Grinenko, L.I., 1994, *Mineral Resource Assessment of the Neproterozoic Franklin Igneous Events of Arctic Canada: Comparison with the Permo-Triassic Noril'sk-Talnakh Ni-Cu-PGE Deposits of Russia*, Geological Survey of Canada Open File 2789, April 1994.

Jan Klein, 1991, *Review of the Darnley Bay Anomaly, Darnley Bay, N.W.T.*, Cominco Limited, December 1991.

Rob Langridge, 1999, *Logistics and Interpretation Report- UTEM Moving Loop Survey Thrasher Zone, N.W.T. for Darnley Bay Resources Ltd*, Lamontagne Geophysics Ltd., April 1999.

A.J. (Tony) Naldrett, 1998, *Darnley Bay Project Reports*, TOGA Technical and Translation Services Inc., February 1998, March 1998, May 1998.

Stephen W. Reford, 2001, *Darnley Bay Project, Mineral Exploration for Base Metals and Diamonds*, Paterson, Grant & Watson Limited, July 2001.

Stephen W. Reford, 2007, *Framework for the Strategic Review*, Paterson, Grant & Watson Limited, July 2007.

Stephen W. Reford, 2007, *Review of Gravity and Magnetic Data, Darnley Bay, NWT*, Paterson, Grant & Watson Limited, July 2007.

As a first step, using both UBC (GRAV3D and MAG3D) and VPMG inversion modeling methods, the gravity and magnetic data will be modeled to define the upper surface and feeder zones. Some assumptions about physical properties (density and magnetic susceptibility) of the anomaly will have to be made at the initial stages, as the intrusive has not been directly sampled. As both geometry and physical property variations of the intrusive are in question, and will therefore introduce ambiguities, the magnetic and gravity data will be modeled in cooperation in order to reduce these ambiguities. This can be achieved by making reasonable assumptions about common structures (physical

property contrasts) and assuming a relationship between high density and high magnetic susceptibility material.

Previous modeling and drilling of the overlying sediments will help form a starting point for the potential field modeling, along with other conceptual scenarios for the geometry of the intrusive body, and be used for hypothesis testing through forward modeling.

During the modeling process, physical properties, or their assumed values, will play an important role. It should be noted that when future samples of the intrusive are obtained, the potential field modeling could be quite easily updated with new information, including pierce-points and physical property values, in order to provide a more accurate and up-to-date exploration model.

The deliverables will be as follows:

1. Report detailing the work undertaken, the methods used, an assessment of the results, and recommendations.

2. 3D density and magnetic susceptibility models of the Darnley Bay Anomaly consistent with all the information provided. Several models will be delivered that reflect the range of starting models provided by DBRL. They can be provided in a number of digital formats but will be generated in GOCAD.

As a second phase, after modeling of the intrusive body itself, follow-up work is recommended that can focus on the shallower feeder-zones and potential targets. This can build on the previously generated intrusive model by using it to remove 'regional' effects so analysis can focus on the shallower exploration targets. Detailed modeling can help generate targets based on the exploration criteria provided, and can also include any necessary design of surveys that will accurately delineate targets for drilling.

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