

Darnley Bay Resources Limited

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Date August 26, 2004

REVISED & REFILED

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER OF 2004

This Management Discussion and Analysis is a revision of the MD&A previously released under date of May 28, 2004, which combined the MD&A for the quarter ended March 31, 2003 with that for the year ended December 31, 2003. Separate MD&As are refiled for each of these accounting periods.

This MD&A for the 1st quarter of 2004 is a follow up of the MD&A for the year 2003, which provided background on the Company's objectives and operations since its commencement. For background of the Company and its operations to date, please refer to the MD&A for the year ended December 31, 2003.

Schedule 1 provides financial results for the first quarter of 2004, a comparison with the corresponding quarter of 2003 and a comparison of the Company's financial condition with that of the 2003 year end. Schedule 2 provides a summary of quarterly results and cash flows for the 1st quarter of 2004 and the eight previous quarters.

In its financial statements (note 3) and the MD&A for the year 2003 the Company disclosed a joint venture agreement for the exploration of diamonds. Activation of the joint venture was to commence with the granting of prospecting permits by the Department of Energy & Mines, which occurred in the 1st quarter of 2004. The Company's joint venture partner, Diadem Resources Ltd., commenced exploration in the 1st quarter with staking followed, in the 2nd quarter, by a ground geomagnetic survey which should lead to a drill program. As provided under the joint venture agreement the initial stage of the current diamond exploration is being financed by Diadem. The pick up of the costs of diamond exploration by Diadem is reflected in the "Statement of Mineral Properties" for the 1st quarter of 2004 by the relatively small expenditures for the period, \$45 thousand. The expenditures for the 1st quarter are for professional services and other items applicable to the Company's general exploration and not directly for the diamond program. Diadem is committed to spend \$5 million on the joint venture, by December 2006, in order to earn a 50% participating interest in the joint venture.

As disclosed by Schedule 1, the financial position of the Company as at March 31, 2004 was compatible with that at December 31, 2003. The substantial decline in net assets, and net equity, from \$7.8 million as at March 31, 2003 to \$3.9 million as at March 31, 2004 resulted from the write down in the 4th quarter of 2003 of mineral property expenditures by \$6.5 million, less applicable future income taxes of \$2.9 million. This write down was covered in the MD&A for the year 2003, under "Financial Review - Years 2001 to 2003".

The negative cash flows, disclosed in the quarterly summaries, Schedule 2, reflects the inconsistencies in the markets for venture capital, which is a major source of funding for junior exploration companies. This factor was discussed in the MD&A for the year 2003.

FINANCIAL SUMMARY

BALANCE SHEET	March 31		December 31
	2004	2003	2003
	\$	\$	\$
Current assets and deposits	261,103	167,028	464,332
Less payables and advances	<u>-1,785,357</u>	<u>-1,125,533</u>	<u>-1,958,691</u>
Working capital deficit	-1,524,254	-958,505	-1,494,359
Mineral property and related expenditures	6,435,036	12,464,549	6,389,649
Less applicable income taxes	<u>-953,701</u>	<u>-3,696,499</u>	<u>-953,701</u>
Net assets	<u>3,957,081</u>	<u>7,809,545</u>	<u>3,941,589</u>
Share capital	17,787,280	17,391,147	17,670,837
Deficit	<u>-13,830,199</u>	<u>-9,581,602</u>	<u>-13,729,248</u>
Net equity	<u>3,957,081</u>	<u>7,809,545</u>	<u>3,941,589</u>
LOSS & DEFICIT	1st quarter		Year
	2004	2003	2004
	\$	\$	\$
Administrative and general expenses	100,951	106,607	499,273
Write down of mineral property expenditures			6,500,000
Future income tax (reduction) payable		117,156	<u>-2,625,641</u>
Loss for period	<u>100,951</u>	<u>223,763</u>	<u>4,373,632</u>
Share issue expense (recovery)			-2,223
Deficit at beginning of period	<u>13,729,248</u>	<u>9,357,839</u>	<u>9,357,839</u>
Deficit at end of period	<u>13,830,199</u>	<u>9,581,602</u>	<u>13,729,248</u>
<i>loss per share</i>	<i>0.003</i>	<i>0.007</i>	<i>0.132</i>
<i>diluted loss per share</i>	<i>0.003</i>	<i>0.007</i>	<i>0.132</i>
CASH FLOW	1st quarter		Year
	2004	2003	2004
	\$	\$	\$
Funds received from subscriptions for shares	<u>116,442</u>	<u>266,266</u>	<u>548,179</u>
Less disbursements on			
exploration	45,386	110,842	535,943
administration	<u>100,951</u>	<u>106,607</u>	<u>499,273</u>
	<u>146,337</u>	<u>217,449</u>	<u>1,035,216</u>
Increase (decrease) in working capital	-29,895	48,817	-487,037
Working capital (deficit) at beginning of period	<u>-1,494,359</u>	<u>-1,007,322</u>	<u>-1,007,322</u>
Working capital (deficit) at end of period	<u>-1,524,254</u>	<u>-958,505</u>	<u>-1,494,359</u>

SUMMARY OF QUARTERLY RESULTS

	1st Quarter \$	2nd Quarter \$	3rd Quarter \$	4th Quarter \$	Year \$
LOSS & DEFICIT					
2002					
Revenue	nil	nil	nil	nil	nil
Administrative & general expenses	120,547	200,872	144,855	160,407	626,681
Future income tax (reduction) payable	52,966	100,753	13,223	64,096	231,038
Loss for period	173,513	301,625	158,078	224,503	857,719
Share issue expense	5,591	-20,687	900		-14,196
Deficit for period	179,104	280,938	158,978	224,503	843,523
<i>loss per share</i>	<i>0.006</i>	<i>0.010</i>	<i>0.005</i>	<i>0.007</i>	<i>0.029</i>
<i>diluted loss per share</i>	<i>0.006</i>	<i>0.010</i>	<i>0.005</i>	<i>0.007</i>	<i>0.028</i>
2003					
Revenue	nil	nil	nil	nil	nil
Administrative & general expenses	106,607	128,392	142,415	122,349	499,763
Write down of mineral property				6,500,000	6,500,000
Future income tax (reduction) payable	117,156	96,298	13,200	-2,852,295	-2,625,641
Loss for period	223,763	224,690	155,615	3,770,054	4,374,122
Share issue expense			-2,223		-2,223
Deficit for period	223,763	224,690	153,392	3,770,054	4,371,899
<i>loss per share</i>	<i>0.007</i>	<i>0.003</i>	<i>0.004</i>	<i>0.107</i>	<i>0.132</i>
<i>diluted loss per share</i>	<i>0.007</i>	<i>0.003</i>	<i>0.004</i>	<i>0.105</i>	<i>0.129</i>
2004					
Revenue	nil				
Administrative & general expenses	100,951				
Write down of mineral property					
Future income tax (reduction) payable					
Loss for period	100,951				
Share issue expense					
Deficit for period	100,951				
<i>loss per share</i>	<i>0.003</i>				
<i>diluted loss per share</i>	<i>0.003</i>				

SUMMARY OF QUARTERLY RESULTS

	1st Quarter \$	2nd Quarter \$	3rd Quarter \$	4th Quarter \$	Year \$
CASH FLOW					
2002					
Share subscriptions, less commissions	176,467	252,152	71,901	145,677	646,196
Expenditures					
Administrative & general expenses	120,547	200,872	144,855	160,408	626,681
Mineral property expenditures	81,221	89,710	141,198	178,012	490,141
	<u>201,768</u>	<u>290,582</u>	<u>286,053</u>	<u>338,420</u>	<u>1,116,822</u>
Change in working capital	<u>-25,301</u>	<u>-38,430</u>	<u>-214,152</u>	<u>-192,743</u>	<u>-470,626</u>
2003					
Share subscriptions, less commissions	266,266	234,690	47,224	nil	548,179
Expenditures					
Administrative & general expenses	106,117	128,392	142,414	122,350	499,273
Mineral property expenditures	110,843	75,310	132,361	217,429	535,943
	<u>216,960</u>	<u>203,702</u>	<u>274,775</u>	<u>339,779</u>	<u>1,035,216</u>
Change in working capital	<u>49,306</u>	<u>30,988</u>	<u>-227,551</u>	<u>-339,779</u>	<u>-487,037</u>
2004					
Share subscriptions, less commissions	<u>116,443</u>				
Expenditures					
Administrative & general expenses	100,951				
Mineral property expenditures	45,387				
	<u>146,338</u>				
Change in working capital	<u>-29,895</u>				