

DARNLEY BAY RESOURCES LTD.

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November 25, 2004

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 3rd QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2004**

This MD&A for the 3rd quarter and nine months 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. Please refer to the MD&A for the year ended December 31, 2003.

Schedule 1, "Financial Summary", provides balance sheet summaries as of September 30, 2004, September 30, 2003 and December 31, 2003 and the operating results and cash flows for the 3rd quarter and the nine months of 2004 and 2003. Schedule 2 provides a summary of quarterly results and cash flows for the 1st, 2nd and 3rd quarters of 2004 and the eight quarters of 2003 and 2002

As outlined in recent MD&As, the Company continues to seek the requisite funding to resume exploration for base metals and is renegotiating its earlier agreements with the Inuvialuit Land Corporation (ILC) for the exploration of base metals and diamonds in the area where the ILC own the mineral rights.. The Company's current financial position is illustrated by Schedule 1, "Financial Summary", which discloses a working capital deficit of \$1,664,000 as at September 30, 2004 compared with a working capital deficit of \$1,494,000 as at December 31, 2003. As disclosed by the "Summary of Quarterly Results - Cash Flow", Schedule 2, page 2, the Company, through private placements, raised \$336,000 in the 9 month period to September 30, 2004 but it was not sufficient to wholly cover \$505,000 of expenditures (\$357,000 applicable to administration and \$148,000 for exploration). This schedule also covers the quarters for the years 2002 and 2003. The negative cash flows reflect the weakness in recent years for the market for venture capital, which is the major source of funding for junior exploration companies.

In the nine month period of 2004, through private placements the company has issued 1,792,499 additional shares for total subscriptions of \$335,673. The outstanding shares have increased from 35,324,106 as at December 31, 2003 to 37,116,605 as at September 30, 2004. Presently 113,600 shares are reserved for exercise at \$0.22 per share up to December 31, 2004. In addition Carnarvon Capital Corporation (Carnarvon), under a joint venture agreement (subsequently assigned by Carnarvon to Diadem Resources Ltd.) will be granted 500,000 common shares upon completion of the first \$2 million of the Darnley Bay / Diadem joint venture financing. On

November 5, 2004 the Company, pursuant to its stock option plan, granted options to its directors and officers to purchase up to a total of 3,600,000 common shares at an issue price of \$0.13 per share. The options are not exercisable until May 4, 2005 and expire on November 4, 2009.

As disclosed in our previous MD&As, the Company has entered into a joint venture agreement with Diadem Resources Ltd (Diadem) covering exploration for diamonds in selected lands of the Inuvialuit Settlement Region in the Northwest Territories. In order to earn a 50% participating interest with the Company, Diadem is required to expend a total of \$5 million by December 31, 2006, which recognizes past expenditures incurred by the Company in diamond exploration. In addition a condition of a Cooperation Agreement entered into jointly by the Company and Diadem with the ILC requires that \$2 million be spent by June 30, 2005, of which Diadem in its recent MD&A states that \$621,000 has been spent to date.

The current expenditures for diamonds, although undertaken by Diadem, are for the joint benefit of both companies and with respect to Damley Bay are classified as “off-balance sheet financing”. Although the current diamond exploration program is being undertaken by Diadem, any resulting benefits accrue to both companies. As disclosed in the MD&A for the half year of 2004, the joint venture commenced with the granting of prospecting permits by the Department of Energy & Mines in February 2004 followed by staking and ground magnetic surveys covering 22 potential kimberlite targets. From the subsequent evaluation of these targets, eight have been classified as high priority drill targets. Diadem plans to undertake geophysical modeling on the eight targets prior to drill testing.

Diadem in its recent annual report to shareholders has disclosed success with private placements for additional shareholders’ equity which argues well that with continuation of its success, it will meet its joint venture commitments, including the minimum expenditure requirements by June 30, 2005.

FINANCIAL SUMMARY

BALANCE SHEET

	September 30		December 31	
	2004	2003	2003	2003
	\$	\$	\$	\$
Current assets and deposits	238,238	178,799		464,332
Less payables and advances	(1,902,556)	(1,333,380)		(1,958,691)
Working capital deficit	(1,664,318)	(1,154,581)		(1,494,359)
Mineral property and related expenditures	6,537,969	12,672,220		6,389,649
Less applicable income taxes	(953,701)	(3,805,996)		(953,701)
Net assets	3,919,950	7,711,643		3,941,589
Share capital	18,006,510	17,670,837		17,670,837
Deficit	(14,086,560)	(9,959,194)		(13,729,248)
Net equity	3,919,950	7,711,643		3,941,589

LOSS & DEFICIT

	3rd Quarter		Nine Months	
	2004	2003	2004	2003
Administrative and general expenses	130,608	142,414	357,312	376,924
Future income tax (reduction) payable		13,200		226,654
Loss for period	130,608	155,614	357,312	603,578
Deficit at beginning of period	13,955,952	9,805,803	13,729,248	9,357,839
Cost of issuing shares		(2,223)		(2,223)
Deficit at end of period	14,086,560	9,959,194	14,086,560	9,959,194
<i>loss per share</i>	0.004	0.004	0.010	0.018
<i>diluted loss per share</i>	0.004	0.004	0.010	0.018

CASH FLOW

Funds received				
subscriptions for shares	219,230	47,223	335,673	548,179
Less disbursements on				
exploration	50,528	132,361	148,319	318,514
administration	130,608	142,414	357,312	376,924
	181,136	274,775	505,631	695,438
Increase (decrease) in working capital	38,094	(227,553)	(169,959)	(147,259)
Working capital (deficit) at beginning of period	(1,702,412)	(927,028)	(1,494,359)	(1,007,322)
Working capital (deficit) at end of period	(1,664,318)	(1,154,581)	(1,664,318)	(1,154,581)

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>	0.006	0.010	0.005	0.007	0.029
<i>diluted loss per share</i>	0.006	0.010	0.005	0.007	0.028
2003					
Revenue	nil	nil	nil	nil	nil
Administrative & general expenses	106,117	128,392	142,415	122,349	499,273
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	223,273	224,690	155,615	3,770,054	4,373,632
Share issue expense			(2,223)		(2,223)
Deficit for period	223,273	224,690	153,392	3,770,054	4,371,409
<i>loss per share</i>	0.007	0.003	0.004	0.107	0.132
<i>diluted loss per share</i>	0.007	0.003	0.004	0.105	0.129
2004					
					Year to date
Revenue	nil	nil	nil		nil
Administrative & general expenses	100,951	125,753	130,608		357,312
Write down of mineral property					
Future income tax (reduction) payable					
Loss for period	100,951	125,753	130,608		357,312
Share issue expense					
Deficit for period	100,951	125,753	130,608		357,312
<i>loss per share</i>	0.003	0.003	0.004		0.010

