

DARNLEY BAY RESOURCES LIMITED

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MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER OF 2005

This Management's Discussion and Analysis for the 1st quarter of 2005 is a follow up of the MD&A for the year 2004, which provided background on the Company's objectives and operations since its commencement. In conjunction with this up date on current operations, it is suggested that reference be made to the MD&A for the year ended December 31, 2004 and to Note 3 of the relative financial statements. Note 3 covers both the governing agreements with the Inuvialuit Land Corporation and the joint venture agreement with Diadem Resources Ltd. for exploration of diamonds.

CURRENT EXPLORATION

The Company's exploration covers both base metals and diamonds. For base metals, the Company is negotiating a new, or replacement, agreement with the Inuvialuit covering continuation of the base metals program.

The joint venture agreement for diamond covers an area of approximately 4 million acres near Paulatuk in the Northwest Territories. The joint venture agreement was revised effective March 16, 2005 to exclude exploration for diamonds south of the 68th parallel, reducing the area of the joint venture from approximately 8 million acres to about 4 million. Under the revised agreement, Diadem is committed to expend an additional \$2.3 million on the diamond exploration program to qualify for a 50% participation with the Company. The present diamond exploration, although undertaken by Diadem, is for the joint benefit of both companies; the resulting benefits accrue to both.

Activation of the joint venture commenced in the 1st quarter of 2004 with the granting of prospecting permits by the Department of Energy & Mines which was followed by Diadem's staking and ground magnetic surveys. In March 2005 Diadem undertook an airborne geophysical survey for an estimated 52,000 km. By mid May, approximately 22,000 km were covered when survey operations were suspended so as not to impinge on wildlife migrations during the spring period. The survey should recommence on or about June 15th to cover an addition 30,000 km. With ground follow-up to the airborne survey in the 2005 summer season, targets for drill testing in early 2006 will be established.

The Northwest Territories is the site of Canada's two operating diamond mines and recently De Beers Canada has announced it will proceed with the construction of a third in the NWT, at Snap Lake northeast of Yellowknife. A fourth diamond mine is slated to open next year in Nunavut, which territory is adjacent to the NWT. With the two existing operating mines, Canada has become the world's Number 3 diamond producer. In management views, these facts are most encouraging with respect to the Company's success with its diamond program.

FINANCIAL REVIEW

The attached "Financial Summary", Schedule 1, summarizes the balance sheet, administrative expenses and cash flow for the 1st Quarter of 2005 with comparisons to the 1st Quarter of 2004 and the Year 2004. An analysis of quarterly operations is provided by the "Summary of Quarterly Results", Schedule 2. This summary covers administrative operations for the 1st Quarter of 2005 and the eight previous quarters of 2004 and 2003.

Bottom line, the comparative results with the current and previous quarters indicate a "stand still" situation pending additional funding for base metals and anticipated success from the joint venture partner in its exploration for diamonds. The summary of Cash Flow, Schedule 2, page 2, indicates total expenditures of \$116,000 for the recent quarter. A break down of this total is provided by the Financial Statements for the 1st Quarter of 2005. The "Statement of Mineral Properties and Related Expenditures" summarizes \$34,291 for expenditures applicable to exploration and the "Statement of Loss and Deficit" has the analysis of \$82,004 for administrative expenses. These expenditures cover current charges for rent, stock transfer and legal and audit services, interest payable to the Inuvialuit and other creditors and ongoing technical reviews conducted by various professionals. The professional services are being provided chiefly by the senior officers and directors and the reader will note from Note 2. Related Party Transactions, to the Financial Statements for the 1st Quarter of 2005 that payment for these services have been deferred. In total approximately \$479,000 is due for current and past services and in addition cash advances have been made by the CEO / director to cover payments to outside suppliers.

By quarters, over the past two years the only exception charges are the write down of mineral properties expenditures; \$6,500,000 less \$2,852,295 of applicable income tax in the 4th Quarter of 2003 and \$196,067 less \$86,556 of applicable income tax in the 4th Quarter of 2004. As explained in the MD&A for the Year ended December 31, 2004, these write downs were applicable to lands abandoned for exploration.

SCHEDULE 1

FINANCIAL SUMMARY

BALANCE SHEET	March 31		December 31
	2005	2004	2004
	\$	\$	\$
Current assets and deposits	248,618	261,103	246,915
Less payables	(2,195,357)	(1,785,357)	(2,077,359)
Working capital deficit	(1,946,739)	(1,524,254)	(1,830,444)
Mineral property and related expenditures	6,435,601	6,435,036	6,401,310
Less applicable income taxes	(867,145)	(953,701)	(867,145)
Net assets	3,621,717	3,957,081	3,703,721
Share capital	18,006,510	17,787,280	18,006,510
Deficit	(14,384,793)	(13,830,199)	(14,302,789)
Net equity	3,621,717	3,957,081	3,703,721
LOSS & DEFICIT	1st quarter	2004	Year
	2005	2004	2004
	\$	\$	\$
Administrative and general expenses	82,004	100,951	463,379
Write down of mineral property expenditures			196,718
Future income tax (reduction) payable			(86,556)
Loss for period	82,004	100,951	573,541
Deficit at beginning of period	14,302,789	13,729,248	13,729,248
Deficit at end of period	14,384,793	13,830,199	14,302,789
<i>loss per share</i>	<i>0.00</i>	<i>0.003</i>	<i>0.02</i>
<i>diluted loss per share</i>	<i>0.00</i>	<i>0.003</i>	<i>0.02</i>
CASH FLOW	1st quarter	2004	Year
	2005	2004	2004
	\$	\$	\$
Funds received from subscriptions for shares	nil	116,442	335,673
Less disbursements on			
exploration	34,291	45,386	208,379
administration	82,004	100,951	463,379
	116,295	146,337	671,758
(Decrease) in working capital	(116,295)	(29,895)	(336,085)
Working capital (deficit) at beginning of period	(1,830,444)	(1,494,359)	(1,494,359)
Working capital (deficit) at end of period	(1,946,739)	(1,524,254)	(1,830,444)

SUMMARY OF QUARTERLY RESULTS

	1st Quarter \$	2nd Quarter \$	3rd Quarter \$	4th Quarter \$	Year \$
LOSS & DEFICIT					
Year 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	0.007	0.004	0.113	0.132
<i>diluted loss per share</i>	0.007	0.006	0.004	0.111	0.129
Year 2004					
Revenue	nil	nil	nil	nil	nil
Administrative & general expenses	100,951	125,753	130,608	106,067	463,379
Write down of mineral property	nil	nil	nil	196,718	196,718
Future income tax (reduction) payable	nil	nil	nil	(86,556)	(86,556)
Loss for period	100,951	125,753	130,608	216,229	573,541
Share issue expense					
Deficit for period	100,951	125,753	130,608	129,673	486,985
<i>loss per share</i>	0.003	0.003	0.004	0.006	0.016
<i>diluted loss per share</i>	0.003	0.003	0.004	0.005	0.016
Year 2005					
Revenue	nil				
Administrative & general expenses	82,004				
Write down of mineral property					
Future income tax (reduction) payable					
Loss for period					
Share issue expense					
Deficit for period	82,004				
<i>loss per share</i>	0.002				
<i>diluted loss per share</i>	0.002				

CASH FLOW

Year 2003

Share subscriptions, less commissions	266,266	234,690	47,224	nil	548,179
Expenditures					
Administrative	106,117	128,392	142,414	122,350	499,273
Mineral property expenditures	110,843	75,310	132,361	217,429	535,943
	216,960	203,702	274,775	339,779	1,035,216
Change in working capital	49,306	30,988	(227,551)	(339,779)	(487,037)

Year 2004

Share subscriptions, less commissions	116,443	nil	219,230	nil	335,673
Expenditures					
Administrative	100,951	125,753	130,608	106,067	463,379
Mineral property expenditures	45,387	52,405	50,528	60,059	208,379
	146,338	178,158	181,136	166,126	671,758
Change in working capital	(29,895)	(178,158)	38,094	(166,126)	(336,085)

Year 2005

Share subscriptions, less commissions	nil
Expenditures	
Administration	82,004
Mineral property expenditures	34,291
	116,295
Change in working capital	(116,295)