

DARNLEY BAY RESOURCES LIMITED

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE 3rd QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2005**

This Management's Discussion and Analysis for the 3rd quarter and nine months ended September 30, 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.

This MD&A, in addition to covering operations for the nine month period of 2005, provides a general background on the Company's objectives, a summary of past exploration and expectations for the future. For more detailed information, we suggest that reference be made to our Web Site www.darnleybay.com.

SUMMARY

Darnley Bay Resources Limited's main focus is exploration for base metals and diamonds in an area comprising some 14 million acres surrounding the Hamlet of Paulatuk in the Inuvialuit Settlement Region, Northwest Territories, Canada.

The area is the site of the strongest isolated gravity anomaly in North America which, together with a coinciding magnetic anomaly, is termed the "Anomaly."

The Geological Survey of Canada (GSC) has assigned a moderate to a high rating for the cause of the Anomaly to be a major mineral complex comparable to the Sudbury Basin in Ontario, Norilsk in Russia, or to the Bushveld Complex in South Africa. These are mining districts known primarily for their great nickel and copper production and are also prime platinum/palladium producers. (*Ref.: 1994 GSC, Open File Report 2789*)

COMPLETED EXPLORATION

BASE METALS

In 1997, the Company flew an aeromagnetic survey over the Anomaly that indicated the main source to be a buried intrusive body lying 1,000-3,000 metres below surface. The survey indicated that the main intrusive has 4 upward extending feeder pipes. The feeder pipes give way to 9 laterally trending shallow magnetic zones which are referred to as intrusive “offshoots” that could contain mineral deposits.

In 1999 and 2000, ground geophysical surveys and geological investigation were carried out. The ground surveys revealed 5 electromagnetic conductors within 250 metres of the surface that are coincident with the gravity and magnetic responses, 3 of the conductors are horizontal and 2 are vertical. The 2 vertical conductors are along fault shear structures with possible associated mineralization, having strike lengths of 1,500 metres and widths of 450-800 metres respectively, that are 250 metres below surface and extend to over 1,000 metres in depth.

In 2000, a drill hole on the Thrasher Zone of the Anomaly prior to reaching its targeted depth at 2,300 m was terminated at 1,812 m due to extreme ground water pressure and gravel run-in from aquifers. However, the drill hole revealed geological information of the region such as the contact between the Precambrian and younger overlying sediments at a depth of 1,168 m. The Precambrian formation outcrops just east of the Anomaly suggesting that the igneous intrusive to be shallower to the east.

The Company has reviewed all the available geophysical and the geological data for the Anomaly and surrounding area and plans a year-round base metal exploration program to include:

1. drilling two vertical electromagnetic conductors to intersect possible mineralization within the Anomaly;
2. drilling the kimberlite targets within the Anomaly to reveal any sulphide fragments showing the composition of the Anomaly and to upgrade the potential for additional diamondiferous kimberlites;
3. ground geophysical surveys to locate the shallowest location of the cause of the Anomaly.

DIAMONDS

In the course of exploration, numerous kimberlite targets were disclosed which prompted the Company to embark on a diamond program in addition to the base metal investigation. These kimberlite targets show characteristic circular magnetic signatures similar to those at Lac de Gras in the Northwest Territories where some of the richest diamond deposits in the world are now being mined or prepared for production. Follow up till sampling contained many kimberlite indicator minerals and three samples carried diamonds. Also, a 17,000 km aeromagnetic survey of the Parry Peninsula identified 76 kimberlite targets, 10 of which were drilled and 6 contain diamonds. This is

a statistically significant result as only 14% of the world's known kimberlites contain diamonds. The relationship between the kimberlite pipes and the mafic intrusives is unknown.

PRESENT DIAMOND EXPLORATION

In June 2003 the Company entered into a joint venture agreement with Carnarvon Capital Corporation, which was subsequently transferred to Diadem Resources Ltd., the Company's present joint venture partner. The agreement was revised in March 2005 and is summarized in Note 3 to the financial statements dated December 31, 2004. Under terms of the agreement, the present phase of diamond exploration is being undertaken by Diadem for the joint benefit of both Darnley Bay and Diadem.

The site work for 2005 has been completed. To date, Diadem has flown approximately 52,000 line-km of an airborne magnetic survey and collected 223 till samples for heavy mineral processing and optical examination for kimberlite indicator minerals. As of November 28, 2005, Diadem has reported that partial results have been received from samples collected in August and September of this year. The preliminary results from 44 of the till samples are encouraging and support the results that there are at least six magnetic targets within the kimberlite field that comprise high probability kimberlite targets that remain to be drill tested. Two samples contain highly anomalous concentrations of pyrope garnet and ilmenite with minor chromite and eclogitic garnet and the results will be further verified by electronic microscope. The remaining till sampling results are expected later this year which will assist in prioritizing geophysical targets for additional follow-up, including core drilling in 2006.

FINANCIAL REVIEW

Darnley Bay Resources is an exploration company and has no operating revenues and relies solely on investors' subscriptions with which to finance its exploration and administrative functions. Currently, as at September 30, 2005, the Company has a working capital deficit of about \$2.2 million which includes \$1.1 million payable to the Inuvialuit Land Corporation, the governing body for the area of exploration, and \$626 thousand to related parties. For the purpose of reducing the working capital deficit, and accommodating new equity financing, the Company currently is making proposals to these and other creditors for conversion of debt to share equity or deferral to term debt. On the positive side, to date the Company has raised \$18 million through subscriptions to share capital. With rising prices for base metals and the development of diamond operations in Canada, the Company anticipates a return to its previous track record for raising funds by share subscriptions.

The attached "Financial Summary", Schedule 1, summarizes the balance sheet, administrative expenses and cash flow for the 3rd Quarter and Nine Months of 2005 with comparisons to same periods of 2004. An analysis of quarterly operations is provided by the "Summary of Quarterly Results", Schedule 2. This summary covers administrative operations for the first three quarters of 2005 and the eight previous quarters of 2004 and 2003. The MD&A for the year ended December 31, 2004 contains general comments on quarterly operations for the eight quarters of 2004 and 2003.

Bottomline, the quarterly results for 2005 indicate a “stand still” situation pending additional funding for base metals and anticipated success from the joint venture partner in its diamond exploration.

Quarterly 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 to the nine-month Financial Statements, “Related Party Transactions,” that payments to senior officers and directors have been deferred.

As disclosed by Note 1 to the financial statements, a new charge to operations is that in connection with options granted to officers and directors. Under new accounting standards, when options are granted, an estimate is made of the fair present value of the options and this estimate is recorded as an operating expense at the time when the options become effective.

FINANCIAL SUMMARY

| BALANCE SHEET | September 30 | | December 31 | |
|--|------------------|------------------|------------------|--------------|
| | 2005 | 2004 | 2004 | |
| | \$ | \$ | \$ | |
| Current assets and deposits | 245,354 | 238,238 | 246,915 | |
| Less payables and advances | -2,456,583 | -1,902,556 | -2,077,359 | |
| Working capital deficit | -2,211,229 | -1,664,318 | -1,830,444 | |
| Mineral property and related expenditures | 6,567,831 | 6,537,969 | 6,401,310 | |
| Less applicable income taxes | -867,145 | -953,701 | -867,145 | |
| Net assets | 3,489,457 | 3,919,950 | 3,703,721 | |
| Share capital | 18,085,210 | 18,006,510 | 18,006,510 | |
| Deficit | -14,595,753 | -14,086,560 | -14,302,789 | |
| Net equity | 3,489,457 | 3,919,950 | 3,703,721 | |
| | 3rd Quarter | | Nine Months | |
| | 2005 | 2004 | 2005 | 2004 |
| LOSS & DEFICIT | | | | |
| Administrative and general expenses | 59,293 | 130,608 | 292,964 | 357,312 |
| Future income tax (reduction) payable | nil | nil | nil | nil |
| Loss for period | 59,293 | 130,608 | 292,964 | 357,312 |
| Deficit at beginning of period | 14,536,460 | 13,955,952 | 14,302,789 | 13,729,248 |
| Deficit at end of period | 14,595,753 | 14,086,560 | 14,595,753 | 14,086,560 |
| <i>loss per share</i> | <i>0.002</i> | <i>0.004</i> | <i>0.008</i> | <i>0.010</i> |
| <i>diluted loss per share</i> | <i>0.001</i> | <i>0.004</i> | <i>0.007</i> | <i>0.010</i> |
| CASH FLOW | | | | |
| Funds received | | | | |
| subscriptions for shares | nil | 219,230 | nil | 335,673 |
| Less disbursements on | | | | |
| exploration | 83,942 | 50,528 | 166,521 | 148,320 |
| administration (ex stock option compensation) | 57,193 | 130,608 | 214,264 | 357,312 |
| | 141,135 | 181,136 | 380,785 | 505,632 |
| Increase (decrease) in working capital | -141,135 | 38,094 | -380,785 | -169,959 |
| Working capital (deficit) at beginning of period | -2,070,094 | -1,702,412 | -1,830,444 | -1,494,360 |
| Working capital (deficit) at end of period | -2,211,229 | -1,664,318 | -2,211,229 | -1,664,319 |

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 | | | | | |
| | | | | Year to date | |
| Revenue | nil | nil | nil | nil | |
| Administrative & general expenses * | 82,004 | 151,667 | 59,293 | 292,964 | |
| Write down of mineral property | | | | | |
| Future income tax (reduction) payable | | | | | |
| Loss for period | 82,004 | 151,667 | 59,293 | 292,964 | |
| Share issue expense | | | | | |
| Deficit for period | 82,004 | 151,667 | 59,293 | 292,964 | |
| <i>loss per share</i> | 0.002 | 0.004 | 0.002 | 0.008 | |
| <i>diluted loss per share</i> | 0.002 | 0.004 | 0.001 | 0.007 | |

* includes "Stock option compensation \$78,700"

| | 1st Quarter \$ | 2nd Quarter \$ | 3rd Quarter \$ | 4th Quarter \$ | Year \$ |
|--|----------------------|----------------------|----------------------|------------------------|------------|
| 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 | nil | nil | Year to date nil | |
| Expenditures | | | | | |
| Administration (ex stock option compensation) | 82,004 | 75,067 | 57,193 | 214,264 | |
| Mineral property expenditures | 34,291 | 48,290 | 83,942 | 166,521 | |
| | 116,295 | 123,357 | 141,135 | 380,785 | |
| Change in working capital | -116,295 | -123,357 | -141,135 | -380,785 | |