

May 30, 2006

DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis
For the three month period ended March 31, 2006

GENERAL

Darnley Bay Resources Limited was formed in 1993 to explore and develop an area of geophysical significance in the Northwest Territories of Canada. Base metal exploration resulted in the discovery of diamonds and the area is now host to two distinct interests. The Company's objective is to secure and maintain successful financing partnerships to continue exploration for base metals and diamonds resulting in the development of a profitable mining camp.

BALANCE SHEET AND OPERATIONS

At March 31, 2006, assets totaled \$237,090 compared to \$239,263 at year end December 31, 2005. During the first quarter, 2006, the Company has not capitalized any mineral property expense (\$34,291 in 2005). The current liability increased to \$2,577,010 from \$2,476,915 at year end 2005. The Company reported a loss for the first quarter of \$102,268 compared to \$82,004 in 2005. The ongoing corporate and general expenses required to run a public company continue to be monitored closely.

LIQUIDITY AND CAPITAL RESOURCES

The Company is an exploration and development company and has no revenue. At March 31, 2006, the Company had cash resources of \$1,117 compared to \$3,808 at year end December 31, 2005. The Company has a working capital deficit of \$2,573,389 compared to \$2,471,121 at year end 2005 and an accumulated deficit of \$20,545,460 (\$20,443,192 at year end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors.

The Company is in partnership with Diadem Resources Ltd. to ensure the continuation of diamond exploration and is seeking funding through equity financing for the base metal project.

The Company's current funding objective is to support a \$3 million base metal exploration program. An initial commitment of approximately \$750,000 will enable the Company to proceed with site work this season. The Company's ability to raise the capital resources to undertake this objective is dependent upon the venture capital market, metal prices and the replacement of a former agreement to access the property for the purpose of base metal exploration. The Company is committed to environmental protection at its project sites and will comply with government regulations in place.

SUMMARY OF QUARTERLY RESULTS

<i>For the quarter ended</i>	<i>Mar. 31</i> <i>2006</i>	<i>Dec. 31</i> <i>2005</i>	<i>Sep. 30</i> <i>2005</i>	<i>Jun. 30</i> <i>2005</i>
Net loss (in thousands)	102	5,847	59	152
Loss per common share	0.001	0.001	0.002	0.004
Total assets (in thousands)	237	239	6,813	6,731
Shareholders' equity (deficiency) (in thousands)	(2,340)	(2,238)	3,489	3,547
<i>For the quarter ended</i>	<i>Mar. 31</i> <i>2005</i>	<i>Dec. 31</i> <i>2004</i>	<i>Sep. 30</i> <i>2004</i>	<i>Jun. 30</i> <i>2004</i>
Net loss (in thousands)	82	216	131	126
Loss per common share	0.002	0.006	0.004	0.003
Total assets (in thousands)	6,684	6,648	6,776	6,730
Shareholders' equity (in thousands)	3,622	3,704	3,920	3,831

ANALYSIS OF MINERAL PROPERTY EXPENDITURES

	<i>March 31, 2006</i>	<i>March 31, 2005</i>
Project management	-	9,002
Engineering services	-	4,333
Project consulting fees	-	1,274
Property access	<u>-</u>	<u>19,682</u>
	-	34,291

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

	<i>March 31, 2006</i>	<i>March 31, 2005</i>
Project consulting fees/services	15,545	-
Accounting services	19,500	19,500
Management services	10,333	8,000
Premises rent	10,351	14,772
Audit fees	6,825	3,450
Legal fees	-	15,000
Office services & supplies	4,640	4,572
Administration services	5,184	3,933
Stock transfer/exchange fees	4,463	5,678
Shareholder communication	2,592	3,933
Interest	22,548	3,048
Miscellaneous	<u>287</u>	<u>118</u>
	102,268	82,004

COMMON SHARES ISSUED

Common shares issued at March 31, 2006 were 37,116,606 (unchanged from the year end and March 31, 2005). Share purchase options were granted to directors, officers and consultants at an exercise price of \$0.13 (3,600,000) and \$0.10 (100,000) expiring on November 4, 2009 and in accordance with the Company's Stock Option Plan (see note 5b) of the interim financial statements). The Company will make 500,000 shares available to Carnarvon Capital Corporation when the Darnley Bay/Diadem diamond joint venture meets a \$2 million exploration expenditure target. The Company has 41,866 shares in escrow.

ACCOUNTING POLICIES

The Company's accounting is based upon Canadian Generally Accepted Accounting Principles (GAAP) applicable to resource issuers, which are applied on a consistent basis. These are outlined in full detail in note 2 of Company's audited financial statements for the year ended December 31, 2005.

The recovery of amounts capitalized as Mineral Property expenditures is dependent upon the discovery of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to explore and develop potential ore reserves, future profitable production, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. At the 2005 year end, the carrying value of the mineral exploration property was considered unrecoverable and written down to \$1 due to uncertainties in financing. The Company continues to retain interest in its property and looks to future funding opportunities and ongoing exploration for both base metals and diamonds.

The Company uses the fair value method of accounting for all stock options awarded. Compensation expense is recognized based on the fair value of the option on the date of the grant and is expensed over the vesting period of the option (see note 5c of the 2005 annual statement)

RELATED PARTY TRANSACTIONS

Technical and administrative support is received from directors and officers of the Company. In the absence of financial resources to pay for these services, the allowable issuance of common shares for debt is undertaken. In the three month period ended March 31, 2006, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, CEO/director) were \$23,360 and \$12,997 in 2006 and 2005. Mr. La Prairie charged \$13,000 for consulting services (2006 - \$8,000). Accounting services were provided in the amount of \$19,500 in the period in both years by the Company's CFO, Richard La Prairie. William Allen, director, provides legal services to the Company, no services were provided in the three month periods in 2006 and 2005 however an accrual of \$15,000 was made in 2005. Patricia Mannard provided corporate maintenance services in the amount of \$960 (\$4,700 in 2005). George Kent,

RELATED PARTY TRANSACTIONS continued

director, provided geological consulting services in the amount of \$829 (nil in 2005). As at March 31, 2006, accounts payable to the above total \$651,585 (2005 - \$397,312).

COMMITMENTS

Note 3 of the financial statements for the year ended December 31, 2005 covers both the governing agreements with the Inuvialuit Land Corporation and the joint venture agreement with Diadem Resources Ltd. for exploration of diamonds.

Effective November 26, 2003 the Company entered into an agreement to form a joint venture with Diadem Resources Ltd., formerly an agreement held with Carnarvon Capital Corporation, to operate diamond exploration in an area near Paulatuk in the Northwest Territories. Diadem has not met earn in requirements outlined in the agreement at the time of this report.

The joint venture entered into a letter agreement with the Inuvialuit Regional Corporation allowing access to the property that lies within the Inuvialuit Settlement Region. The Company's joint venture partner has, at the time of this report, not confirmed that the conditions of the agreement have been met however; the Company has not received a notice of default as required by the agreement.

RISKS AND UNCERTAINTIES

The inherent risks, which most profoundly affect the Company's activities, are metal prices and the ability of the Company to obtain venture capital necessary to establish economic ore reserves. Further, the Company is relying on its joint venture partner to fulfill its obligations as operator of the diamond exploration project and the Inuvialuit Regional Corporation to allow property access for diamond exploration.

OUTLOOK

The recent rally in metal prices and the influx of major mining companies participating in diamond exploration in the area surrounding our interests in the Northwest Territories has bolstered financing possibilities. Renewed interest from the investment community including third party interest in the diamond exploration and continuing support from the Inuvialuit and other local participants is encouraging. The Company anticipates the commencement of diamond target drilling by its joint venture partner. A base metal exploration schedule is in place to further define the property's potential upon the receipt of funding. We will be seeking funding for this initiative and to build on our achievements through equity financing or joint ventures on terms most favourable for our shareholders.

OUTLOOK (continued)

This MD&A contains certain forward-looking statements related but not limited to the Company's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. Readers are cautioned to not place undue reliance on forward-looking information because it is possible that the Company will not achieve predictions, forecasts, projections and other forms of forward-looking information.

THE MANAGEMENT'S DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 AND THE INTERIM STATEMENTS FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2006 WHICH ACCOMPANY THIS ANALYSIS AND, ALTERNATELY ARE AVAILABLE ALONG WITH ALL THE COMPANY'S PUBLIC DOCUMENTS ON WWW.SEDAR.COM

P.O.Box 206, Suite 3901 – Scotia Plaza, 40 King Street West, Toronto, Ontario M5H 3Y2
T: 416 862-7885 F: 416 862-7889 E: dbr@darnleybay.com
www.darnleybay.com TSX Venture Exchange Symbol DBL