

DARNLEY BAY RESOURCES LIMITED

ANNUAL REPORT 2009

Darnley Bay Resources Limited's main focus is exploration for base metals and diamonds in an area surrounding the Hamlet of Paulatuk, located along the shores of Darnley Bay, in the Inuvialuit Settlement Region, NWT, Canada - the site of the strongest isolated gravity anomaly in North America.

Board of Directors: Mark Bennett, John S. Dowsett, Kerry Knoll
Leon F. La Prairie, Patricia G. Mannard,
Stephen Reford, Peter G. Telford and Donald Yamkowy

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Letter to Shareholders of Darnley Bay Resources Limited

May 21, 2010

What a difference a year makes, the last six months in particular! The junior mining industry regained momentum in 2009, and as a result, we began executing our exploration project of North America's strongest isolated gravity anomaly. As a result of a \$5 million dollar financing in December 2009 led by Haywood Securities Inc., we signed the Concession Agreement on the Inuvialuit 7(1)(a) lands and are meeting the financial obligations set out in the agreement. In addition, we recently expanded our land holdings to more than 4,900 km² (1.2 million acres).

In April, two airborne geophysical surveys of some 9,000 line-km were completed over the Darnley Bay Anomaly and the lands to the east, where geological evidence suggests the presence of metal-bearing igneous rocks at shallow depths. We are currently in the midst of interpreting the data and selecting drill targets, and are encouraged by the preliminary findings. The environmental permitting process for our drill program is scheduled for completion in June 2010, and we are preparing to mobilize as soon as the permits are in hand.

The Company expects that diamond exploration on the Parry Peninsula will resume in this year. It is anticipated that a 2010 drill program will assess several high-priority kimberlite targets and the most promising of the diamondiferous kimberlite pipes initially explored a decade ago.

An important component of any successful mining venture is the cooperation and involvement of the local communities. We are blessed to have a strong working relationship with the Inuvialuit, and, in particular, the community of Paulatuk that is located within the Darnley Bay Anomaly. The community and we are working together, along with Inuvialuit, territorial and federal agencies, to maximize the opportunities for residents of Paulatuk to participate in all phases of exploration and development.

Two new Directors, Mark Bennett and Kerry Knoll, joined our Board late in 2009. Mr. Knoll is a well-known figure in the mining industry, having co-founded several successful companies over more than two decades. Mr. Bennett is a lawyer with Cassels Brock, practicing in the area of corporate and securities law with an emphasis on mergers and acquisitions, and corporate finance in the mining sector. Both of these gentlemen bring

extensive knowledge and experience in the mining and exploration community and their impact will be an important part of the success for the coming year.

John Dowsett will be retiring as a Director at our AGM. He has worked as the geological and geophysical expert since the company was founded, and we sincerely thank him for his many years of service as a board member. He will continue to provide his expertise as a consultant.

With Kind Regards and Best Wishes,

Stephen Reford, President and CEO

May 3, 2010

DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis
For the year ended December 31, 2009

GENERAL

Darnley Bay Resources Limited was formed in 1993 to explore and develop an area of geophysical significance in the Northwest Territories of Canada and within the Inuvialuit Settlement Region. 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 metals and diamonds, resulting in the development of a profitable mining camp.

SELECTED ANNUAL INFORMATION

	2009	2008	2007
Net loss (in thousands)	492	632	1,268
Loss per common share	0.01	0.01	0.03
Total assets (in thousands)	4,777	638	526
Shareholders' equity (in thousands)	2,900	(1,432)	(1,373)

BALANCE SHEET AND OPERATIONS

At December 31, 2009, assets totaled \$4,777,386 compared to \$637,511 at year end December 31, 2008. This amount includes a cumulative mineral property expense at the year end of \$671,340 (\$439,475 in 2008). The current liability decreased to \$1,877,231 from \$2,069,745 at the 2008 year-end. The share capital increased to \$23,192,738 from \$20,624,796 in 2008 through the private placement of 39,987,633 common shares (1,025,000 in 2008) for \$5,698,626 (\$380,000 in 2008) less \$1,691,100 representing the fair value of warrants, \$471,402 for the tax effect of flow-through shares and \$968,182 in share issue cost. In 2008, there were 400,000 options exercised for \$52,000, a debt conversion for 142,500 shares valued at \$57,000 and the addition of the fair value of options exercised of \$205,160. There was no share issue cost in 2008. The stock options granted in the current period resulted in stock-based compensation expense of \$227,940 (2008 - \$nil) and agent's options issued resulted in share issue costs in the amount of \$422,000 (\$nil in 2008). The Company reported a net loss at December 31, 2009 of

\$492,463 compared to \$632,254 in 2008. 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 December 31, 2009, the Company had cash resources of \$3,965,696 compared to \$64,588 at the 2008 year-end. There were 39,987,633 shares issued for \$5,698,626 during the year and 1,425,000 shares issued for \$432,000 in 2008. The Company has working capital of \$2,228,815 compared to a working capital deficit of \$1,871,709 at year-end 2008 and an accumulated deficit of \$23,141,675 (\$22,649,212 at the 2008 year-end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors. On April 8, 2010, the TSX Venture Exchange approved the debt conversion of \$718,466 to 3,041,361 common shares. In 2008, a \$57,000 debt was converted to 142,500 common shares of the Company. Further debt settlement is planned where allowable. On March 11, 2010, there were 100,000 options exercised for 100,000 common shares and on April 27, 2010, there were 4,175 agent's compensation options exercised for 4,175 common shares and 2,088 common share purchase warrants.

The Company's current funding objective is to support a metal exploration program and fulfill its obligations to the Inuvialuit Regional Corporation. Current funding will allow for an exploration program including geophysical analysis and drilling. At the same time, the Company is negotiating future diamond exploration options with Diadem Resources Ltd. The ability to raise the capital resources to undertake these projects is dependent upon the venture capital market and metal prices.

SUMMARY OF QUARTERLY RESULTS

<i>For the three month period ended</i>	<i>Dec. 31</i>	<i>Sept. 30</i>	<i>June 30</i>	<i>Mar. 31</i>
	<i>2009</i>	<i>2009</i>	<i>2009</i>	<i>2009</i>
Net loss (in thousands)	(36)	147	274	107
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	4,777	959	883	592
Shareholders' deficiency (in thousands)	2,900	(1,364)	(1,447)	(1,539)
<i>For the three month period ended</i>	<i>Dec. 31</i>	<i>Sept. 30</i>	<i>June 30</i>	<i>Mar. 31</i>
	<i>2008</i>	<i>2008</i>	<i>2008</i>	<i>2008</i>
Net loss (in thousands)	141	116	219	172
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	637	523	542	426

Shareholders' deficiency (in thousands)	(1,432)	(1,457)	(1,382)	(1,545)
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ANALYSIS OF MINERAL PROPERTY EXPENDITURES

	<i>2009</i>	<i>2008</i>
Project management	60,620	60,885
Project consulting fees	16,349	22,191
Licences and permits	64,744	163,899
Property access and agreement costs	<u>90,151</u>	<u>-</u>
	231,864	246,975

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

	<i>2009</i>	<i>2008</i>
Project evaluation and management services	113,475	157,862
Stock based compensation	227,940	-
Administration services	101,853	102,000
Office support services & supplies	65,255	73,226
Accounting services	45,000	45,750
Premises rent	58,165	59,121
Legal fees	14,202	63,049
Audit fees	25,700	35,800
Stock transfer/exchange fees	39,042	40,774
Shareholder communication	54,549	19,411
Interest	221,899	45,129
Miscellaneous	<u>250</u>	<u>-</u>
	967,330	642,122

COMMON SHARES ISSUED

Common shares issued at the year-end 2009 were 88,738,714 (48,751,081 at the year-end 2008). There were 2,475,000 shares issued at \$0.10 added to the 791,633 flow-through shares issued at \$0.12 and 2,720,000 common shares issued at \$0.10 issued during the period plus 534,000 common shares and 133,666 flow-through shares at \$0.12 and \$0.15 that were subscribed for in December 2008 and issued in January, 2009. Holders of the \$0.12 shares issued in the first three months of the year are entitled to purchase an additional share for \$0.24 before December 19, 2010 and those subscribed for the \$0.15 shares have a warrant to purchase an additional flow-through share for \$0.30 for a two year period. The \$0.10 shares issued in April, May and July 2009 entitle the holder to purchase an additional share for \$0.20 up to April 20, May 20 and July 23, 2013, similarly, the \$0.12 shares entitle their holder to exercise the attached warrant for flow-through shares at \$0.24 on or before April 20 and May 20, 2013. On December 31, 2009, there were 33,333,334 shares issued, which included 24,443,368 common shares and 8,889,966 flow-through shares, at \$0.15. Common shares issued had share purchase warrants attached which allowed holder to purchase an additional 12,221,684 shares at \$0.25 for three years. On April 8, 2010, there were 3,041,361 shares issued upon the conversion of a \$718,466 debt

to creditors.

In 2008, there were 825,000 shares issued through private placements at \$0.40 per share with an option to purchase an additional share at \$1.00 after the first year and \$2.00 in a second year up to April 14, 2010. There were an additional 200,000 units sold at \$0.25 with a two year warrant exercisable up to October 2, 2010 for \$0.40. There were also 534,000 units purchased at \$0.12 with a two-year \$0.24 warrant exercisable up to January 20, 2011 and 133,666 flow through units purchased at \$0.15 with a two year warrant to purchase a flow through share exercisable at \$0.30 up to January 20, 2011 in 2008 and issued on January 20, 2009. There was a debt conversion resulting in the further issue of 142,500 shares at \$0.40.

On December 29, 2009, there were 3,333,333 agent's options granted. The option is open for three years and consists of a unit for one common share and one half of one common share purchase warrant for \$0.15. On April 27, 2010, the agent exercised 4,175 compensation options for 4,175 shares and 2,088 share purchase warrants.

During the year, there were 3,094,230 share purchase options granted to directors, officers and consultants that expired and there were 3,600,000 issued at \$0.10 compared to the exercise of 400,000 options at \$0.13 in 2008. These options were issued in conjunction with the Company's Stock Option Plan (see note 8(e) of the audited financial statements).

ACCOUNTING POLICIES

The Company's accounting policies are 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, 2009.

The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

The Company uses the fair value method of accounting for all stock options awarded. Each year, the 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 6(e) of the 2009 audited year end statement).

NEW ACCOUNTING STANDARDS

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's operating results or financial position.

Mining exploration costs

On March 27, 2009, the CICA approved EIC 174, "Mining Exploration Costs". This provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long lived assets in general. The Company has applied this new abstract for the year ended December 31, 2009 resulting in no impact on the Company's financial statements.

Goodwill and intangible assets

Effective November 1, 2008, the Company adopted Section 3064 – Goodwill and Intangible Assets which replaced CICA Handbook sections 3062 and 3450, EIC 27 and part of Accounting Guideline 11. Under previous Canadian standards, more items were recognized as assets than under International Financial Reporting Standards ("IFRS"). The objectives of CICA 3064 are to reinforce the principle based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of intangible assets intends to reduce the differences with IFRS in the accounting for intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at and for the year ended December 31, 2009.

Amendments to section 1400 – general standards of financial statement presentation

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at December 31, 2009.

Fair value hierarchy and liquidity risk disclosure

In June 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending December 31, 2009. This adoption resulted in additional disclosure as provided below.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash and cash equivalents, receivables and accounts payable and accrued liabilities. Equity investments classified as available for sale that do not have an active trading market are recorded at cost. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

	Level One	Level Two	Level Three
Cash	\$ 3,965,696	\$ -	\$ -
Accounts receivables	\$ -	\$ 131,823	\$ -
Accounts payable and accrued liabilities	\$ -	\$ 1,877,231	\$ -

International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") formally adopted the strategy of replacing financial reporting under Canadian GAAP with financial reporting under IFRS, for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011.

In February 2008, AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than the first quarter of 2011, with restatement of comparative information presented.

The conversion to IFRS could potentially have an impact on the Company's accounting

policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also have an impact on business activities, such as certain contractual arrangements, foreign translation and capital requirements. The Company is currently evaluating the future impact of IFRS on its financial statements and has initiated a preliminary IFRS transition plan with a proposed timeline for the execution and completion of the transition to IFRS. The transition plan was established following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on the Company's accounting and reporting processes, information systems, business processes and external disclosures. During 2009, the Company continues to focus its efforts on identifying specific Canadian GAAP and IFRS differences, selecting ongoing IFRS policies, determining any information technology issues and considering the impact of the transition to IFRS on internal control over financial reporting and business activities. External advisors will be retained, if necessary, to assist management with the transition.

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.

During the year, amounts charged for management fees by La Prairie Ltd. (controlled by Leon La Prairie, Chairman/director) were \$48,000 (\$48,000 in 2008), rent and office services amounts were \$58,165 (\$57,821 in 2008) and \$9,678 (\$9,323 in 2008) respectively. Mr. La Prairie charged \$57,750 for consulting services (2008 - \$77,000) as CEO up to June 26, 2008 and then as Chairman. Reimbursable expenses including travel, office and meeting costs for 2009 totalled \$1,918 (\$15,454 in 2008).

On June 26, 2008, Stephen Reford became a director and was appointed CEO of the Company. In 2009, Reford charged \$31,750 for professional fees (\$9,675 in the second half of 2008). Fees relating to deferred project expense of \$46,684 were charged in 2009 (\$37,125 after June 26, 2008) and reimbursable travel expenses amounted to \$13,819 in 2009 and \$2,086 since his appointment in 2008. On October 3, 2008, Mr. Reford participated in the purchase of 200,000 share purchase units for \$0.25 consisting of one common share and a warrant to purchase an additional share for \$0.40 up to October 2, 2010. On December 19, 2008, he purchased an additional 84,000 units at \$0.12 with a two year warrant at \$0.24 and 67,000 flow through units at \$0.15 with a two year \$0.30 flow through warrant.

William Allen provided legal services to the Company until he retired as a director of the Company on June 26, 2008. Legal fees were \$42,907 in 2008. Patricia Mannard was appointed Chief Financial Officer on June 26, 2008 and provided corporate maintenance and accounting management services in the amount of \$45,000 in 2009 and \$45,750 in

2008. John Dowsett, a director, provided geophysical and project development services in the amount of \$2,950 in 2008. George Kent provided geological consulting services in the amount of \$5,837 up to December 31, 2008 when he resigned as a director. Mr. Kent exercised 400,000 options at \$0.13 during the year. Peter Telford charged \$4,000 for professional services in 2008 (\$nil in 2009). On June 26, 2008, Donald Yamkowy was elected as a director and in 2009 charged the Company \$7,735 in project expenses and \$8,218 in reimburseable expenses. During the second six months of 2008, Yamkowy invoiced the Company for \$4,297 in consulting fees related to project development. As at December 31, 2008, accounts payable to the above total \$741,856 (2008 - \$607,309).

On August 5, 2009, there were 600,000 two year options at \$0.10 issued to each of Reford, La Prairie and Mannard and 300,000 to each of Dowsett, Telford and Yamkowy (director since June, 2008). On November 12, 2009, an additional 300,000 options at \$0.15 were issued to Kerry Knoll, a new director of the company, to be exercised within two years and on November 27, 2009, there were 300,000 options granted to Mark Bennett, a new director, exercisable at \$0.32 for two years.

In 2008, La Prairie held 1,000,000 options exercisable at \$0.25 up to March 20, 2009 and Mannard held 500,000 options with the same terms. Dowsett held 269,230 options for \$0.13 exercisable up to November 4, 2009 and Peter Telford held an option to purchase 300,000 shares at \$0.45 up to October 16, 2009. Reford and Yamkowy (former consultants to the Company and now directors) each held options (500,000 and 300,000 at \$0.35) expiring on June 12, 2009.

COMMITMENTS

Notes 4 and 11 of the financial statements for the year ended December 31, 2009 cover the intent of current agreement conditions with the Inuvialuit Land Corporation, the status of the relationship with Diadem Resources Ltd. regarding future exploration of diamonds and other commitments.

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. On November 29, 2007 the agreement was revised to set the earn-in requirement deadline of June 30, 2008. At the time of this report, the terms of a future arrangement with Diadem Resources Ltd. are being negotiated but have not been resolved.

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. On January 1, 2009, this agreement expired. The Company has been assured by the Inuvialuit Regional Corporation that the agreement can be renewed on substantially the same terms. The Company continues to hold an interest in the Inuvialuit Settlement Region with active prospecting permits.

In addition, the Company has a number of Finder's Fee agreements and an Agent's Agreement with varying terms and conditions outlined in Note 11 of the year-end financial statements for the period ended December 31, 2009.

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 in the case that an economic ore reserve is established. Further, the Company is relying on the Inuvialuit Regional Corporation to allow property access for both projects. Also see the financial risk factors in the interim financial statements for the period ended December 31, 2009 (note 9).

CORPORATE GOVERNANCE

On February 22, 2007, the Company filed its Corporate Governance Policy document with the TSX Venture Exchange and which can be viewed on www.sedar.com. The policy is amended annually and appears as an appendix to the Company's Management Information Circular. The Company maintains its commitment to achieve full compliance with the policy.

OUTLOOK

The Company closed 2009 with the successful conclusion of a \$5 million financing lead by its agent, Haywood Securities Inc. A portion of the funds was applied to retiring 50% of the Company's debt to the Inuvialuit Land Corporation, which had arisen mainly from unpaid access fees during the early 2000s. Of the remaining debt, half will be paid by December 21, 2010 and the remainder by December 21, 2011. This allowed the Company and Inuvialuit Regional Corporation to enter into a new Letter Agreement for a Combined Metals and Diamond Concession for Paulatuk 7(1)(a) Lands. Consequently, the Company embarked on preparation for a drill program on its 7(1)(a), 7(1)(b) and Crown land holdings in 2010.

The Company has focused its marketing and financing initiatives on Canada, China and Russia to seek new sources of financing and potential joint venture partners. The ongoing support from the Inuvialuit Regional Corporation (IRC), the community of Paulatuk and other local participants is encouraging. The purpose of the exploration and drilling is to locate metal and diamond deposits for eventual development.

Some of the highlights from the current interim period ended December 31, 2009 include:

- The Company raised \$5 million through private placements of flow-through shares and common share units, lead by Haywood Securities Inc.

- The Company engaged Haywood Securities Inc. of Toronto, Canada as its agent.
- The Company completed arrangements to pay all its debts to the Inuvialuit Land Corporation in three tranches between 2009 and 2011.
- The Company and the Inuvialuit Regional Corporation entered into a new Letter Agreement for a Combined Metals and Diamond Concession for Paulatuk 7(1)(a) Lands on December 22, 2009.
- The Company announced the appointment of Mr. Kerry J. Knoll to its Board of Directors on November 18, 2009. Mr. Knoll is a well-known figure in the mining industry, having co-founded several successful companies over more than two decades. His financing skills are a particular asset to the Company.
- The Company announced the appointment of Mr. Mark Bennett to its Board of Directors on December 22, 2009. Mr. Bennett is a lawyer with Cassels Brock, practicing in the area of corporate and securities law with an emphasis on mergers and acquisitions and corporate finance in the mining sector. His legal skills are a particular asset to the Company.
- In December 2009, the Company announced a series of share-for-debt conversions with several creditors.

Subsequent to the reporting period, the Company reports the following activities:

- The Company was issued sixteen prospecting permits in the Paulatuk area, covering approximately 2,412 km². The Company now holds a contiguous block of 4,557 km² (1,126,100 acres), incorporating the mineral concession over the Paulatuk 7(1)(a) lands and eighteen prospecting permits on the adjacent 7(1)(b) and Crown lands. It also holds mineral claims over its kimberlite pipes and diamond targets on the Parry Peninsula.
- The Company carried out a consultation in Paulatuk and completed the environmental permitting process for airborne geophysical surveys over the majority of its land holdings.
- The company contracted Geotech Ltd. to carry out a VTEM time-domain electromagnetic and magnetic survey over a portion of its land holdings, comprising 2,750 line-km at 400 m line spacing. The objective was to locate conductive rocks and minerals that may be indirect or direct responses from metal deposits and kimberlite pipes. The survey was completed on March 23, 2010. Preliminary results were posted on the Company's website.
- The company contracted Sander Geophysics Limited to carry out an AIRGrav gravity and magnetic survey over a portion of its land holdings, comprising 6,190 line-km at 500 m line spacing. The objective was to locate dense rocks and minerals that may be indirect or direct responses from metal deposits. The survey was completed on April 3, 2010. Preliminary results were posted on the Company's website.
- The Company engaged Aurora Geosciences to manage and undertake its ground-based activities in 2010, to include drilling, sampling, prospecting and ground geophysics.

- The Company engaged Kavik-Axys Inc. to assist with permit applications and environmental procedures related to ground-based activities. They undertook consultations with all six Inuvialuit communities in February-March, 2010. On April 19, 2010, Kavik-Axys submitted the Company's Project Description for the proposed 2010-2012 drill and exploration program to the Inuvialuit Environmental Impact Screening Committee. The Company's application is scheduled to be heard on June 3, 2010.
- The Company entered into discussions with several agencies from Paulatuk, the Inuvialuit, the territorial and federal governments with respect to employment and service opportunities in Paulatuk, with associated funding. Certain proposals are under development.
- The Company commenced a higher profile marketing campaign in Canada and China, including participation at the PDAC Convention in March 2010 and visits to Beijing and Shanghai by Kerry Knoll in April 2010.

The Company is committed to pursue equity financing and seek joint venture partnerships to enable the current exploration and development program to continue.

This MD&A contains certain forward-looking statements related but not limited to the Company's operation, 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, 2009 WHICH ACCOMPANY THIS ANALYSIS AND, ALTERNATELY, ARE AVAILABLE ALONG WITH ALL THE COMPANY'S PUBLIC DOCUMENTS ON WWW.SEDAR.COM

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

FINANCIAL STATEMENTS

DECEMBER 31, 2009 and 2008

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AUDITORS' REPORT

To the Shareholders of
Darnley Bay Resources Limited:
(A Development Stage Company)

We have audited the balance sheets of Darnley Bay Resources Limited (The “Company”, A Development Stage Company) as at December 31, 2009 and 2008 and the statements of loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, April 30, 2010

CHARTERED ACCOUNTANTS
Licensed Public Accountants

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)
BALANCE SHEETS

DECEMBER 31

	2009	2008
ASSETS		
CURRENT		
Cash	\$ 3,965,696	\$ 64,588
Accounts receivable	131,823	133,448
Prepaid expenses	<u>8,527</u>	<u>-</u>
	4,106,046	198,036
MINERAL PROPERTY (note 3)	<u>671,340</u>	<u>439,475</u>
	<u>\$ 4,777,386</u>	<u>\$ 637,511</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (notes 5 and 11(j))	\$ 1,877,231	\$ 2,069,745
SHAREHOLDERS' DEFICENCY		
CAPITAL STOCK (note 6(b))	23,192,738	20,624,796
SHARES TO BE ISSUED (note 6(f))	-	84,130
SHARE PURCHASE WARRANTS (note 6(c))	1,691,100	-
CONTRIBUTED SURPLUS (note 8)	1,157,992	508,052
DEFICIT	(<u>23,141,675</u>)	(<u>22,649,212</u>)
	<u>2,900,155</u>	(<u>1,432,234</u>)
	<u>\$ 4,777,386</u>	<u>\$ 637,511</u>
Subsequent events and commitments (note 11)		
Going concern basis (note 1)		
Approved by the Board:		
(Signed) "Stephen Reford" _____, Director,		
(Signed) "Patricia Mannard" _____, Director		

The accompanying notes are an integral part of the financial statements.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEAR ENDED DECEMBER 31

	2009	2008
EXPENSES		
Office administration services	\$ 212,359	\$ 218,195
Project evaluation costs	113,475	157,862
Professional fees	71,159	98,849
Premises rent	58,165	59,121
Shareholder communication	62,333	62,966
Stock option compensation cost (note 6(e))	227,940	-
Interest expense	<u>221,899</u>	<u>45,129</u>
Loss before the under noted	(967,330)	(642,122)
Interest income	<u>3,465</u>	<u>9,868</u>
Loss before income taxes	(963,865)	(632,254)
Future income tax recovery (note 7(b))	<u>471,402</u>	<u>-</u>
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(492,463)	(632,254)
DEFICIT AT BEGINNING OF THE YEAR	(<u>22,649,212</u>)	(<u>22,016,958</u>)
DEFICIT AT END OF THE YEAR	(<u>\$ 23,141,675</u>)	(<u>\$ 22,649,212</u>)
Basic and diluted loss per share (note 2)	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Weighted average number of common shares outstanding	<u>52,987,500</u>	<u>48,134,381</u>

The accompanying notes are an integral part of the financial statements.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31

	2009	2008
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net loss for the year	(\$ 492,463)	(\$ 632,254)
Non-cash items:		
Stock option compensation cost	227,940	-
Future income tax recovery	(471,402)	-
Net changes in working capital balances:		
Decrease (increase) in accounts receivable	1,625	(16,755)
Increase in prepaid expenses	(8,527)	-
Increase (decrease) in accounts payable and accrued liabilities	(192,514)	227,069
Cash used in operations	<u>(935,341)</u>	<u>(421,940)</u>
CASH USED IN INVESTING ACTIVITIES:		
Increase in mineral property	<u>(231,865)</u>	<u>(246,974)</u>
Cash used in investments	<u>(231,865)</u>	<u>(246,974)</u>
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Issue of common shares	5,614,496	432,000
Common shares to be issued	-	84,130
Share issue costs	<u>(546,182)</u>	<u>-</u>
Cash provided by financing	<u>5,068,314</u>	<u>516,130</u>
INCREASE (DECREASE) IN CASH POSITION	3,901,108	(152,784)
CASH POSITION AT BEGINNING OF THE YEAR	<u>64,588</u>	<u>217,372</u>
CASH POSITION AT END OF THE YEAR	<u>\$ 3,965,696</u>	<u>\$ 64,588</u>
Supplementary disclosure of non-cash items:		
Shares issued for non-cash consideration:		
Issuance of common shares for debt	\$ -	\$ 57,000
Fair value of agent's options (note 6(d))	\$ 422,000	\$ -
Shares issuable at December 31, 2008, issued in 2009	\$ 84,130	\$ -
Tax effect of flow-through shares	\$ 471,402	\$ -

The accompanying notes are an integral part of the financial statements.
DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS:

The Company is in the business of exploring for metals and diamonds in the Northwest Territories, Canada. To date, the Company has not earned significant revenues and still is considered to be in the development stage. The Company's shares are listed on the TSX Venture Exchange.

For the year ended December 31, 2009, the Company incurred a loss of \$492,463 (2008 - \$632,254) and had an accumulated deficit of \$23,141,675 (2008 - \$22,649,212). As at December 31, 2009, the Company has working capital of \$2,228,815 compared to a working capital deficiency of \$1,871,710 in 2008. These circumstances may cast significant doubt as to the Company's ability to continue as a going concern and the appropriateness of the use of accounting principles applicable to a going concern.

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The business of mining and exploring for minerals involves a high degree of risk and there is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its mineral property interests.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, or the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate. These adjustments could be material.

The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the development of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES:

USE OF ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the continuing viability of mineral property interests, the determination of reclamation obligations, the recoverability of accounts receivable, the fair value of financial assets and liabilities, rates for depreciation on capital assets, and assumptions used in the determination of the fair value of stock based compensation. Actual results could differ from these estimates. Management believes that the estimates are reasonable.

MINERAL PROPERTY AND RELATED EXPENDITURES

Property acquisition costs and related direct exploration costs are deferred until the properties are placed into mineral production, sold or abandoned. These costs will be amortized on the units-of-production basis over the estimated useful life of the properties following the commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash and other consideration paid, and the fair market value of any common shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The recorded cost of mineral claims and deferred exploration and development costs represent costs incurred and are not intended to reflect present or future values.

The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

The Company reviews capitalized costs on its property interests on a periodic, or annual, basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review and the assessment of the ability to recover capitalized costs based

on technical, social and environmental issues. Administrative costs, other than for those that are charged to mineral property costs, are expensed as incurred. The proceeds of options granted on a mineral property are recorded as a reduction of the amounts recorded for mineral property costs and any excess is recorded in the statement of loss.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

SHARE CAPITAL

Common shares issued for non-monetary consideration are recorded at their fair market value based upon the price per share paid in the most recent prior sale of shares for cash. Costs incurred to issue common shares are deducted from share capital.

REVENUE RECOGNITION

Interest income is recognized on an accrual basis as it is earned.

ASSET RETIREMENT OBLIGATIONS

The Company recognizes fair value of a future asset retirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company concurrently recognizes a corresponding increase in the carrying amount of the related long-lived asset that is depreciated over the life of the asset. The fair value of the asset retirement obligation is estimated using the expected cash flow approach that reflects a range of possible outcomes discounted at a credit-adjusted risk-free interest rate. Subsequent to the initial measurement, the asset retirement obligation is adjusted at the end of each year to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Changes in the obligation due to the passage of time are recognized in income as an operating expense using the interest method. Changes in the obligation due to changes in estimated cash flows are recognized as an adjustment of the carrying amount of the long-lived asset that is depreciated over the remaining life of the asset. At December 31, 2009, the Company has not incurred or committed any asset retirement obligations relating to its exploration properties.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its

estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

STOCK-BASED COMPENSATION

The Company has a stock option plan, which is described in note 6(e). The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock-option at the date of grant. Stock options that vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over their vesting period. Stock option compensation is recognized as an expense with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

LOSS PER SHARE

Basic loss per share is computed by using the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to redeem common shares at the prevailing market value.

INCOME TAXES

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantially-enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Assuming the Company's operations remain at the exploration stage, such an allowance will continue to apply fully for the foreseeable future to all potential income tax assets. Accordingly, the Company's accounting policy for the future income taxes currently has no effect on the financial statements of the fiscal periods presented.

FINANCIAL ASSETS AND LIABILITIES

Assets or liabilities held-for-trading -

Financial instruments classified as assets or liabilities held for trading are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income (loss) in the period which the change occurs.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

FINANCIAL ASSETS AND LIABILITIES (continued)

Held-to-maturity investments, loans and receivables and other financial liabilities -

Financial instruments classified as loans and receivables, held-to-maturity investments and other financial liabilities are carried at amortized costs using the effective interest method. Interest income or expenses is included in net income (loss) over the expected life of the instrument.

Available-for-sale -

Financial instruments classified as available for sale are recorded at fair value at each balance sheet date and any change in fair value is recognized in other comprehensive income in the period in which these changes occur. Securities classified as available for sale and with no quoted market price in an active market are carried at cost. Available-for-sale securities are written down to fair value (impairment recognized in income) when it is necessary to reflect an other -than-temporary impairment. Upon derecognition, any accrued gains or losses in accumulated other comprehensive income are then recognized in net income (loss).

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Company designates its cash and cash equivalents as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost. Due to the short-term nature of these instruments, their carrying value approximates their fair value.

FINANCIAL INSTRUMENTS - RECOGNITION AND MEASUREMENT

Section 3855 requires that all financial assets, except those classified as held-to-maturity, and derivative financial instruments, must be measured at fair value. All financial liabilities must be measured at fair value when they are classified as held-for-trading; otherwise, they are measured at cost. Investments classified as available-for-sale are reported at fair market value based on quoted

market prices with unrealized gains or losses excluded from earnings and reported as other comprehensive income or loss.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

COMPREHENSIVE INCOME

This standard introduces new rules for the reporting and display of comprehensive income. Comprehensive income represents a change in shareholders' equity (net assets) of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gains and losses on certain derivative instruments, and foreign currency gains and losses related to self-sustaining foreign operations.

CAPITAL DISCLOSURES

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by the new Handbook section in note 10 to these financial statements.

FINANCIAL INSTRUMENTS - DISCLOSURE AND PRESENTATION

Sections 3862 and 3863 replace Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new section in note 9 to these financial statements.

FLOW-THROUGH SHARES

The Company may finance a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of these shares issues, the tax attributes of the related expenditures are renounced to subscribers. Share capital is reduced and future income tax liabilities

are increased by the estimated income tax benefits renounced by the Company to the subscribers, except to the extent that the Company has unrecorded loss carry forwards and tax pools in excess of book value available for deduction, then share capital is reduced and a future income tax recovery is recorded.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

RECENT ACCOUNTING PRONOUNCEMENTS

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's operating results or financial position.

MINING EXPLORATION COSTS

On March 27, 2009, the CICA approved EIC 174, "Mining Exploration Costs". This provides guidance on capitalization of exploration costs related to mining properties in particular and on impairment of long lived assets in general. The Company has applied this new abstract for the year ended December 31, 2009 resulting in no impact on the Company's financial statements.

GOODWILL AND INTANGIBLE ASSETS

Effective November 1, 2008, the Company adopted Section 3064 – Goodwill and Intangible Assets which replaced CICA Handbook sections 3062 and 3450, EIC 27 and part of Accounting Guideline 11. Under previous Canadian standards, more items were recognized as assets than under International Financial Reporting Standards ("IFRS"). The objectives of CICA 3064 are to reinforce the principle based approach to the recognition of assets only in accordance with the definition of an asset and the criteria for asset recognition and to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the definition and recognition criteria is eliminated. The portions in the new standard with respect to Goodwill remain unchanged. The provisions relating to the definition and initial recognition of

intangible assets intends to reduce the differences with IFRS in the accounting for intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets.

The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at and for the year ended December 31, 2009.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

RECENT ACCOUNTING PRONOUNCEMENTS (continued)

AMENDMENTS TO SECTION 1400 – GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to include additional requirements to assess and disclose an entity's ability to continue as a going concern. Section 1400 is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations as at December 31, 2009.

FAIR VALUE HIERARCHY AND LIQUIDITY RISK DISCLOSURE

In June 2009, the CICA issued an amendment to Handbook Section 3862 to provide improvements to fair value and liquidity risk disclosures. The amendment applies to the Company's fiscal year ending December 31, 2009. This adoption resulted in additional disclosure as provided below.

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. The fair value of short-term financial instruments approximates their carrying amounts due to the relatively short period to maturity. These include cash and cash equivalents, receivables and accounts payable and accrued liabilities. Equity investments classified as available for sale that do not have an active trading market are recorded at cost. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy included in GAAP. Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

	Level One	Level Two	Level Three
Cash			
	\$ 3,965,696	\$ -	\$ -
Accounts receivables	\$ -	\$ 131,823	\$ -
Accounts payable and accrued liabilities	\$ -	\$ 1,877,231	\$ -

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2009 AND 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") formally adopted the strategy of replacing financial reporting under Canadian GAAP with financial reporting under IFRS, for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011.

In February 2008, AcSB confirmed that publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011, with earlier adoption permitted. Accordingly, the conversion to IFRS will be applicable to the Company's reporting no later than the first quarter of 2011, with restatement of comparative information presented.

The conversion to IFRS could potentially have an impact on the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also have an impact on business activities, such as certain contractual arrangements, foreign translation and capital requirements. The Company is currently evaluating the future impact of IFRS on its financial statements and has initiated a preliminary IFRS transition plan with a proposed timeline for the execution and completion of the transition to IFRS. The transition plan was established following a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS on the Company's accounting and reporting processes, information systems, business processes and external disclosures. During 2009, the Company continues to focus its efforts on identifying specific Canadian GAAP and IFRS differences, selecting ongoing IFRS policies, determining any information technology issues and considering the impact of the transition to IFRS on internal control over financial reporting and business activities. External advisors will be retained, if necessary, to assist management with the transition.

3. MINERAL PROPERTY:

	Cumulative to December 31, 2007	2008 Additions	Cumulative to December 31, 2008	2009 Additions	Cumulative to December 31, 2009
Project management	\$ -	\$ 60,885	\$ 60,885	\$ 60,620	\$ 121,505
Consultants	-	22,191	22,191	16,349	38,540
Licenses and permits	-	163,898	163,898	64,745	228,643
Property access and expense	<u>192,501</u>	<u>-</u>	<u>192,501</u>	<u>90,151</u>	<u>282,652</u>
	<u>\$ 192,501</u>	<u>\$ 246,974</u>	<u>\$ 439,475</u>	<u>\$ 231,865</u>	<u>\$ 671,340</u>

See notes 1, 4, and 11 for additional information on mineral properties.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

4. AGREEMENTS:

JOINT VENTURE AGREEMENT WITH DIADEM RESOURCES LTD ("DIADEM")

Under an agreement (originally dated June 24, 2003) with Carnarvon Capital Corporation ("Carnarvon") and Diadem Resources Limited ("Diadem") the Company agreed to a joint venture diamond exploration program in a corridor near Paulatuk in the Inuvialuit Settlement Region ("Inuvialuit") in the Northwest Territories. The agreement encompassed mining claims held both in the names of either Darnley Bay Resources Limited or Diadem Resources Ltd. The principal terms, as amended from time to time, were as follows:

On November 29, 2007, Diadem agreed to raise and spend funds to explore for diamonds in the area north of 69 degrees 25 minutes latitude. By terms of this supplementary agreement, the earn-in amount reflected an additional \$1,000,000 of expenditures to be incurred during the extended period from September 1, 2007 through June 30, 2008 (previously December 31, 2007) and in addition to the approximately \$3.2 million that has been reported as expended by Diadem commencing with the 2005 calendar year. If the funds were spent, Diadem would have earned a 50% participating interest in the selected lands, with the Company holding the other 50%. Under the November 29, 2007 agreement, once Diadem had earned its interest, it would advance \$1 million toward the continuing joint venture on behalf of the Company that may be repaid, without interest, out of the Company's share of production from a diamond mine. The interests of Diadem and the Company would be subject to such equity rights as may be held by the Inuvialuit, and by such third parties as they may retain if land is acquired from third parties. If there was a decision to carry out a feasibility study on the lands selected by Diadem, it would have the right to fund the feasibility study, and if the property is placed into commercial production Diadem's interest would increase to 75% and the Company's interest would decrease to 25%.

At June 30, 2008, Diadem had not met all the requirements of the November 29, 2007 agreement (note 11 (l)).

AGREEMENTS WITH THE INUVIALUIT LAND CORPORATION ("INUVIALUIT")

On February 4, 2004, the Company/Diadem joint venture entered into an agreement with the Inuvialuit under which the Company/Diadem joint venture would enter into a Cooperation and Benefits Agreement with the Inuvialuit. The principal terms are as follows:

The agreement would cover an area in the Inuvialuit Settlement Region around Paulatuk of about 57,000 square kilometers (excluding the area around Paulatuk in which the Inuvialuit own the mineral rights and excluding the Tukut Nogait National Park).

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

4. AGREEMENTS (continued):

AGREEMENTS WITH THE INUVIALUIT LAND CORPORATION ("INUVIALUIT") (continued)

The agreement was for 5 years from January 1, 2004 with provisions for renewal and termination consistent with the joint venture's mining rights in the area. The Company/Diadem joint venture would be granted access to the Inuvialuit lands to conduct exploration, development and extraction operations for rough diamonds. The joint venture would be required to obtain all necessary permits and approvals, and would pay the fees and charges under the Inuvialuit Rules with a minimum amount payable each year of \$50,000.

The joint venture was to incur at least \$2 million of work by September 30, 2005. All costs to be expended under the terms of the agreement were committed to be expended by Diadem under the terms of the Joint Venture Agreement. On April 23, 2007, the Company paid \$100,000 to the Inuvialuit on behalf of Diadem. Repayment terms were outlined in the revised joint venture agreement of November 29, 2007. On July 13, 2007, the Inuvialuit confirmed that the Company remained in good standing with respect to the agreement.

The Inuvialuit was to receive a 2% diamond royalty on mining rights exploited by the joint venture. (The Inuvialuit could hold certain claims in the area and obtain a 15 year deferral of Crown royalties. If the Inuvialuit did so, in such cases the Inuvialuit would receive an additional 4% royalty while the deferral applies.) If the joint venture completes a positive feasibility, the Inuvialuit have the right to acquire up to a 10% participating interest by paying the corresponding percentage of the cost of preparing the feasibility study.

Although the Company intends on pursuing further work programs on the properties in accordance with the above agreements, due to uncertainty regarding the Company meeting its mineral property commitments, the Company wrote down its investment in the mineral properties during fiscal 2005. During 2007, 2008 and 2009 the Company incurred a continuing evaluation cost of future involvement in the project.

On May 8, 2007, the Company announced an agreement in principal with the Inuvialuit (subject to the ratification by the members of the Paulatuk Community Corporation) regarding the terms of a new base-metals/diamond concession in the 7(1)(a) lands where the Inuvialuit own the subsurface and surface rights.

The combined metals and diamonds concession agreement (the "Concession") was signed on December 22, 2009 for the 7(1)(a) lands to clarify the formal commitment. Prior to signing of the agreement, as a pre-condition, on December 29, 2009 the Company paid 50% (\$626,268) of its outstanding debt to the Inuvialuit Regional Corporation. According to the agreement, all activities and consequently all payments and required work commitments are divided into three stages:

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

4. AGREEMENTS (continued):

AGREEMENTS WITH THE INUVIALUIT LAND CORPORATION ("INUVIALUIT") (continued)

1. Exploration stage - valid for a 10 year period, and can be renewed for two more three year periods for \$150,000 for each renewal (adjusted for inflation). A contiguous 50% of the remaining land area of the Concession shall be dropped upon each extension, subject to any areas designated being excluded from the total land area from which 50% must be dropped. Start of the exploration stage is deemed to be the date of the signing of the agreement. Cash payments and work commitments in this stage are as follows:

	Cash payments	Work commitment
2010	\$ 50,000	\$ 2,000,000
2011	50,000	2,000,000
2012	50,000	2,000,000
2013	50,000	1,000,000
2014	50,000	1,000,000
2015	*125,000	1,000,000
2016	*125,000	1,000,000
2017	*125,000	1,000,000
2018	*125,000	1,000,000
2019	*125,000	1,000,000
	\$ 875,000	\$ 13,000,000

* plus applicable access fees.

In any year, the work commitment is reduced by the percentage of lands that have been designated as project areas and preceded to the second stage of activities. For each renewal period the Company has to incur \$1,000,000 in work commitments per year to maintain its concession rights. Any underperformed amount of work commitment in any year can be paid in cash.

2. Project definition stage – the Company defines project areas within the concession on which it will be conducting continuous exploration activities. The term is for 10 years with respect to metals from the time of designation and 6 years with respect to diamonds. The Company has an option to extend this stage for an additional 5 years for metals and 2 years for diamonds for \$150,000 for each extension. During the project definition stage, the annual fee is \$100,000 per year plus \$48.00 per square kilometer, adjusted for inflation, and the same fees as in Exploration stage apply to any lands that are not designated.

At this stage, the Company has to incur \$10 per acre in the first five years and \$20 per acre in subsequent years for minimum cumulative work of \$500,000 on each project.

DARNLEY BAY RESOURCES LIMITED
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

4. AGREEMENTS (continued):

AGREEMENTS WITH THE INUVIALUIT LAND CORPORATION ("INUVIALUIT") (continued)

3. Production stage – the Company is entitled to the issuance of the mining lease, if it will be able to start production within 36 month of the issuance of the lease. The mining lease is valid for 15 years with respect to metals and 10 years with respect to diamonds. The amount of annual fees to be paid will be determined at the time of issuance of the mining lease.

The Agreement is subject to 6% NSR for both diamonds and metals. During each year of the mining lease, the minimum amount of the royalty should be \$800,000.

The Inuvialuit Mining Corporation has an option to a 10% participating interest in any mining lease by reimbursing the Company the proportionate amount of costs that have been incurred during the project definition stage.

5. RELATED PARTY TRANSACTIONS:

During the year, a company controlled by the former Chief Executive Officer, Chairman and a director of the Company, charged \$48,000 (\$48,000 in 2008) for management fees, \$58,165 for rent (\$57,821 in 2008) and \$9,678 for offices services (\$9,323 in 2008). Management fees in the amount of \$57,750 (2008 - \$77,000) were charged by the Chairman, former Chief Executive Officer and director directly plus reimbursable travel, office and meeting expenses of \$1,918 (\$15,454 in 2008). The individual stepped down from the position of Chief Executive Officer on June 26, 2008.

Professional fees amounting to \$31,750 were charged by the Chief Executive Officer in 2009 and \$9,675 after June 26, 2008. Fees associated with deferred project development of \$46,684 were charged in 2009 (\$37,125 after June 26, 2008) and there were reimbursable travel expenses of \$13,819 in 2009 compared to \$2,086 recorded in the second half of 2008. On October 3, 2008, the CEO participated in a private placement of 200,000 units comprised of one common share at \$0.25 per share and a warrant for the purchase of an additional common share exercisable up to two years at \$0.40. On December 19, 2008 a further 84,000 share purchase units were acquired for \$0.12 with a

two-year warrant exercisable at \$0.24 and 67,000, \$0.15 flow through units were purchased for one share and a two-year \$0.30 warrant. Consulting fees amounting to \$nil (2008 - \$17,084) were charged by directors of the Company. On June 18, 2008, a director and consultant to the Company exercised 400,000 options at \$0.13.

Legal fees amounting to \$nil (2008 - \$42,908) were charged by a law firm of which a former director of the Company is a partner. The director resigned on June 26, 2008.

Corporate maintenance and accounting management fees amounting to \$45,000 (2008 - \$45,750) were charged by a director and officer of the Company.

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5. RELATED PARTY TRANSACTIONS (continued):

During the year, a Director of the Company charged consulting fees in the amount of \$7,735 and reimbursable expenses in amount of \$8,218 for services provided with regards to exploration activities of the Company.

As at December 31, 2009, accounts payable include \$741,856 (2008 - \$607,309) payable to the related parties mentioned above.

See note 11 (j) for additional related party information.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

6. CAPITAL STOCK:

a) Authorized: An unlimited number of common shares

b) Common shares issued:

	2009		2008	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	48,751,081	\$ 20,624,796	47,183,581	\$ 19,930,636
Issued for cash (note 5)	39,987,633	5,698,626	1,025,000	380,000
Issued for cash /exercise of options (note 5)	-	-	400,000	52,000
Issued for debt conversion	-	-	142,500	57,000
Fair value ascribed to warrants issued in Private placements (note 6(c))	-	(1,691,100)	-	-
Fair value of options exercised	-	-	-	205,160

Tax effect of flow-through shares	-	(471,402)	-	-
Share issue costs	-	(968,182)	-	-
Balance, end of the year	<u>88,738,714</u>	<u>\$ 23,192,738</u>	<u>48,751,081</u>	<u>\$ 20,624,796</u>

See note 11 for additional capital stock information.

c) Warrants:

During 2009, the Company issued 18,208,317 warrants as part of various private placements, bringing the total number of outstanding warrants to 19,900,983 as at December 31, 2009. 791,633 warrants that have been issued during the year ended December 31, 2009 entitle holders to purchase flow-through common shares of the Company.

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6. CAPITAL STOCK (continued):

c) Warrants:

At December 31, 2009, the following warrants were outstanding. The warrants entitle the holders to purchase the stated number of shares at the exercise price on or before the expiry date:

	Number of warrants	Exercise price	Expiry date
Outstanding, December 31, 2007	-	-	-
	825,000	\$ 2.00	April 14, 2010
	200,000	\$ 0.40	October 2, 2010
	534,000	\$ 0.24	January 20, 2010
	<u>133,666</u>	<u>\$ 0.30</u>	<u>January 20, 2010</u>
Outstanding, December 31, 2008	1,692,666		
	12,221,684	\$ 0.25	December 29, 2012
	1,170,000	\$ 0.20	April 19, 2013
	208,300	\$ 0.24	April 19, 2013
	1,550,000	\$ 0.20	May 20, 2013
	583,333	\$ 0.24	May 20, 2013
	<u>2,475,000</u>	<u>\$ 0.20</u>	<u>July 23, 2013</u>
Outstanding, December 31, 2009	<u>19,900,983</u>		

The fair value of each warrant was estimated on the date of measurement. Under Black-Scholes, the warrants issued in 2009 were valued at \$1,691,100 (2008 - \$nil) and recorded as share purchase warrants using the following assumptions at the measurement date:

2009 2008

Risk-free interest rate	1.57 – 2.48%	nil
Expected life	3 – 4 years	nil
Price volatility	100%	nil
Dividend yield	nil	nil

d) Agent's options:

On December 29, 2009, there were 3,333,333 agent's options granted. Each option entitles the agent to purchase a unit consisting of one common share and one half of one common share purchase warrant for \$0.15 up to December 29, 2012. Warrants received upon exercise of the agent's option are exercisable for three years at \$0.25.

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6. CAPITAL STOCK (continued):

d) Agent's options:

The fair value of each agent's option was estimated on the date of grant. Under Black-Scholes, the agent's options issued in 2009 were valued at \$422,000 (no agent's options were granted in the year ended December 31, 2008) and capitalized to share issue costs using the following assumptions at the measurement date:

	2009	2008
Risk-free interest rate	1.57%	nil
Expected life	3 years	nil
Price volatility	100%	nil
Dividend yield	nil	nil

See note 11 for additional stock option information

e) Stock option plan:

Under the Company's Incentive Stock Option Plan (the plan), the Company has granted options to its directors, officers and consultants, to purchase up to a total of 3,600,000 shares. The exercise price of the options is \$0.10 for 3,000,000 (expiring on August 5, 2011), \$0.15 for 300,000 (expiring on November 12, 2011) and \$0.32 for 300,000 (expiring on November 27, 2011). The Company maintains the plan for the benefit of directors, officers, consultants and other services providers in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company.

Under the plan, options are non-assignable and may be granted for a term not exceeding five years. The total number of common shares that may be reserved for issuance may not exceed 10% of outstanding common shares and may not exceed 5% for any one person. The exercise price of an option may not be lower than the discounted market price of the common shares on the TSX Venture Exchange. The options are non-transferable. Outstanding options may be adjusted by the Board in certain events, as to exercise price and number of common shares, to prevent dilution or enlargement. At the year end, the Company has reserved 8,873,871 stock options to be granted under the plan.

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6. CAPITAL STOCK (continued):

e) Stock option plan:

The following summarizes the director and consultant stock options that have been granted, exercised or forfeited during the years ended 2009 and 2008.

Options granted:

Common share options	Number	Weighted average price
Balance December 31, 2007	3,494,230	\$ 0.25
Granted	-	-
Forfeited or cancelled	-	-
Exercised	(400,000)	0.13
Balance, December 31, 2008	3,094,230	\$ 0.28
Granted	3,600,000	0.12
Forfeited or cancelled	(3,094,230)	0.28
Exercised	-	-
Balance, December 31, 2009	3,600,000	\$ 0.12

The fair value of each option is estimated on the date of grant. Under Black-Scholes, the options issued in 2009 were valued at \$227,940 (no options were granted in the year ended December 31, 2008) and expensed to loss, using the following assumptions at the measurement date:

	2009	2008
Risk-free interest rate	1.12% - 1.47%	nil
Expected life	2 years	nil
Price volatility	100%	nil
Dividend yield	nil	nil

See note 11 for additional stock option information.

f) Shares to be issued:

As at December 31, 2008 the Company was committed to issue 667,666 common shares by way of a subscription agreement. On January 20, 2009, these shares were issued.

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7. INCOME TAXES:

- a) At December 31, 2009, the Company has non-capital losses of \$4,195,335 that can be used to reduce future taxable income. These losses expire as follows:

2010	\$ 809,149
2011	559,902
2015	494,417
2016	340,546
2017	171,786
2027	293,517
2028	458,265
2029	<u>1,067,753</u>
	<u>\$ 4,195,335</u>

As at December 31, 2009 the tax effects of temporary timing differences that give rise to significant components of the future tax asset computed at current rates, were as follows:

Non-capital losses carry forward	\$ 1,384,461
Capital assets	15,465
Share issue costs	587,800
Mineral property	1,206,359
Less: Valuation allowance	<u>(3,194,085)</u>
Net asset	<u>\$ -</u>

- b) The Company's provision for income taxes differ from the amounts computed by applying the basic current rates to loss for the year before taxes, as shown in the following table:

	2009	2008
Statutory rate applied to loss for the year before income taxes	(\$ 318,075)	(\$ 208,644)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	75,220	-
Deductible share issue costs	(146,950)	-
Project evaluation costs	37,447	52,094
Change in valuation allowance through the year	194,492	-
Change in temporary differences during the year	(171,902)	-
Tax effect of renunciation of flow-through expenditures	(471,402)	-
Tax loss not benefited	<u>329,768</u>	<u>156,550</u>
Future income tax (recovery)	<u>(\$ 471,402)</u>	<u>\$ -</u>

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8. CONTRIBUTED SURPLUS:

Contributed surplus is comprised of the following:

	2009	2008
Balance, beginning of the year	\$ 508,052	\$ 713,212
Stock-based compensation cost (note 6 (e))	227,940	-
Fair value of Agent's compensation options (note 6 (d))	422,000	-
Exercise of stock options	<u>-</u>	<u>(205,160)</u>
Balance, end of the year	<u>\$1,157,992</u>	<u>\$ 508,052</u>

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS:

Fair value

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash, accounts receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to receivables included in current assets. The Company has no material concentration of credit risk arising from operations. Cash consists of bank deposits, which have been invested with a Canadian Chartered Bank, from which management believes the risk of loss to be remote. Management believes that credit risk with respect to receivables is minimal.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009, the Company has cash of \$3,965,696 (December 31, 2008- \$64,588) to settle accounts payable and accrued liabilities of \$1,877,231 (December 31, 2008- \$2,069,745).

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9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (continued):

Liquidity risk (continued)

The ability of the Company to continue to pursue its exploration activities is dependant on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and equity prices.

(a) Interest rate risk - The Company has cash and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade term deposit certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit of its bank.

(b) Price risk - the Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

(c) Commodity price risk - the Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

As at December 31, 2009, the carrying value amounts of the Company's financial instruments approximates their fair value.

10. CAPITAL MANAGEMENT:

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

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10. CAPITAL MANAGEMENT (continued):

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capability of the Company to carry out planned exploration and pay for administrative costs is dependant on its ability to secure additional equity or other financings. The Company will assess properties and seek to acquire properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

11. COMMITMENTS AND SUBSEQUENT EVENTS:

- a) On February 6, 2007, the Company entered into a five-year finders fee agreement. Under the terms of this agreement, DBR will pay the finder ten percent of amounts up to \$10 million and six percent of any additional funds raised through introductions to potential investors.
- b) On February 7, 2007, the Company entered into a finder's fee agreement with an individual.

The Company has agreed to pay ten percent, in cash, of any amounts paid by qualified investors introduced to the Company by the finder.

- c) On July 4, 2008, the Company entered into a five-year finder's fee agreement. The Company will pay fees on a downward scale from eight per cent (on the first \$10 million) to three percent (for amounts over \$15 million) on equity financing. In the case of joint venture financing, the fee scale will move from ten per cent (on the first \$300,000) to one and a half percent (for amounts over \$25 million).
- d) On March 10, 2009, the Company entered into a three-year finder's fee agreement. The Company will pay fees on a downward scale from eight per cent (on the first \$10 million) to three percent (for amounts over \$15 million) on equity financing. In the case of joint venture financing, the fee scale will move from ten per cent (on the first \$300,000) to one and a half percent (for amounts over \$25 million).
- e) On May 22, 2009, the Company entered into a one year finder's fee agreement with an individual. The finder will be paid eight percent on equity financing up to one million dollars.

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11. COMMITMENTS AND SUBSEQUENT EVENTS (continued):

- f) On July 16, 2009, the Company retained a financial advisor for a six month period. The advisor will be entitled to a percentage of any equity, debt or joint venture financing completed during the period as arranged by the advisor. Compensation will be on a sliding scale with a maximum of ten and minimum of two percent depending on the nature of the financing and may be paid by a combination of cash and warrants.
- g) On August 5, 2009, the Company entered into a two year finder's fee agreement. The Company will pay fees on a downward scale from six and a half per cent (on the first \$10 million) to three percent (for amounts over \$15 million) on equity financing. In the case of joint venture financing, the fee scale will move from ten per cent (on the first \$300,000) to one and a half percent (for amounts over \$25 million).
- h) On March 11, 2010, a consultant of the Company exercised 100,000 of his stock options and acquired 100,000 common shares of the Company.
- i) In conjunction with an agency agreement entered into by the Company on December 29, 2009, the agent has been granted a two year first right of refusal to lead manage future financings.
- j) On April 8, 2010, the TSX Venture exchange approved debt conversion agreements that have been signed by the Company with some of its creditors. Total amount of debt outstanding of \$718,466 has been converted into 3,041,361 common shares of the Company. \$521,049 of the

aforementioned debt conversion was with officers, directors, and a company controlled by a director of the Company.

- k) On April 27, 2010 Haywood Securities exercised 4,175 compensation options and the Company issued 4,175 common shares and 2,088 common share purchase warrants to the agent.
- l) At April 30, 2010, the Company and Diadem Resources Limited are currently negotiating future terms regarding the diamond exploration project (note 4).
- m) On April 8, 2010, the Company has extended the life of the warrants that were to expire on April 14, 2010 for an additional six month term. The new expiry date has been set as October 14, 2010 and the exercise price has been reduced from \$2.00 to \$0.60.

12. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform to the current year's presentation. These reclassifications did not affect prior year's net losses.