

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

FINANCIAL STATEMENTS

DECEMBER 31, 2010 and 2009

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(A Development Stage Company)

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I N D E X

	PAGE
INDEPENDENT AUDITORS' REPORT	1
BALANCE SHEETS	2
STATEMENTS OF INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND DEFICIT	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 - 24



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Darnley Bay Resources Limited:

We have audited the accompanying financial statements of Darnley Bay Resources Limited (the "Company"), which comprise the balance sheets as at December 31, 2010 and 2009, and the statements of income (loss), comprehensive income (loss) and deficit, and cash flows for each of the years then ended, and summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Darnley Bay Resources Limited as at December 31, 2010 and 2009 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "Edmund Cachia & Co. LLP"

Toronto, Ontario, April 29, 2011

CHARTERED ACCOUNTANTS  
Licensed Public Accountants

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

BALANCE SHEETS

DECEMBER 31

	ASSETS	
	2010	2009
CURRENT		
Cash	\$ 1,214,083	\$ 3,965,696
Accounts receivable	594,344	131,823
Advances (note 12)	221,949	-
Prepaid expenses and deposits	<u>133,973</u>	<u>8,527</u>
	2,164,349	4,106,046
MINERAL PROPERTY (note 3)	<u>5,709,011</u>	<u>671,340</u>
	<u>\$ 7,873,360</u>	<u>\$ 4,777,386</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities (note 5)	\$ 978,198	\$ 1,877,231

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 6(b))	25,739,681	23,192,738
SHARE PURCHASE WARRANTS (note 6(c))	2,525,759	1,691,100
CONTRIBUTED SURPLUS (note 8)	1,761,807	1,157,992
DEFICIT	( <u>23,132,085</u> )	( <u>23,141,675</u> )
	<u>6,895,162</u>	<u>2,900,155</u>
	<u>\$ 7,873,360</u>	<u>\$ 4,777,386</u>

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 INCOME (LOSS), COMPREHENSIVE INCOME (LOSS) AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31

	2010	2009
<b>EXPENSES</b>		
Office administration services	\$ 257,472	\$ 212,359
Project evaluation costs	139,850	113,475
Professional fees	88,886	71,159
Premises rent	60,196	58,165
Shareholder communication	119,216	62,333
Stock option compensation cost (note 6(e))	540,400	227,940
Interest expense	<u>19,254</u>	<u>221,899</u>
Income (loss) before the under noted	( 1,225,274)	( 967,330)
Interest income	<u>3,664</u>	<u>3,465</u>
Income (loss) before income taxes	( 1,221,610)	( 963,865)
Future income tax recovery (note 7(b))	<u>1,231,200</u>	<u>471,402</u>
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	9,590	( 492,463)
<b>DEFICIT AT BEGINNING OF THE YEAR</b>	( <u>23,141,675</u> )	( <u>22,649,212</u> )
<b>DEFICIT AT END OF THE YEAR</b>	( <u>\$ 23,132,085</u> )	( <u>\$ 23,141,675</u> )
Basic and diluted income (loss) per share (note 2)	<u>\$ 0.00</u>	( <u>\$ 0.01</u> )
Weighted average number of common shares outstanding	<u>95,384,391</u>	<u>52,987,500</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 YEARS ENDED DECEMBER 31

	2010	2009
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Net income (loss) for the year	\$ 9,590	(\$ 492,463)
Non-cash items:		
Stock option compensation cost	540,400	227,940
Future income tax recovery	( 1,231,200)	( 471,402)
Net changes in working capital balances:		
Decrease (increase) in accounts receivable	( 462,521)	1,625
Increase in advances	( 221,949)	-
Increase in prepaid expenses	( 125,446)	( 8,527)
Decrease in accounts payable and accrued liabilities	<u>( 180,567)</u>	<u>( 192,514)</u>
Cash (used in) operations	<u>( 1,671,693)</u>	<u>( 935,341)</u>
<b>CASH (USED IN) INVESTING ACTIVITIES:</b>		
Increase in mineral property	<u>( 5,037,671)</u>	<u>( 231,865)</u>
Cash (used) in investments	<u>( 5,037,671)</u>	<u>( 231,865)</u>
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES:</b>		
Issue of common shares	4,451,861	5,614,496
Share issue costs	<u>( 494,110)</u>	<u>( 546,182)</u>
Cash provided by financing	<u>3,957,751</u>	<u>5,068,314</u>
<b>INCREASE (DECREASE) IN CASH POSITION</b>	<b>( 2,751,613)</b>	<b>3,901,108</b>
<b>CASH POSITION AT BEGINNING OF THE YEAR</b>	<b><u>3,965,696</u></b>	<b><u>64,588</u></b>
<b>CASH POSITION AT END OF THE YEAR</b>	<b><u>\$ 1,214,083</u></b>	<b><u>\$ 3,965,696</u></b>
<b>Supplementary disclosure of non-cash items:</b>		
Shares issued for non-cash consideration:		
Issuance of common shares for debt	\$ 718,466	\$ -
Fair value of agent's options (note 6(d))	\$ 164,581	\$ 422,000
Shares issuable at December 31, 2008, issued in 2009	\$ -	\$ 84,130
Tax effect of flow-through shares	\$ 1,231,200	\$ 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, 2010 AND 2009

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, 2010, the Company had income of \$9,590 (2009 – loss of \$492,463) and had an accumulated deficit of \$23,132,085 (2009 - \$23,141,675). As at December 31, 2010, the Company had working capital of \$1,186,151 compared to \$2,228,815 in 2009. 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 mineral property 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.

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.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

USE OF ESTIMATES (continued)

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, valuation allowance recognized for future income taxes, and assumptions used in the determination of the fair value of options and warrants. 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 income (loss), comprehensive income (loss) and deficit.

SHARE CAPITAL

Common shares issued for non-monetary consideration are recorded at their fair market value based upon quoted market prices based on the Company's average share price before and after the transaction. Costs incurred to issue common shares are deducted from share capital.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

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, 2010, 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.

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 capital stock.

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. For the periods presented, diluted loss per share is not presented, as the effect of outstanding options and warrants is anti-dilutive.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

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.

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).

REVENUE RECOGNITION

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

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The Company designates its cash as held-for-trading, which is measured at fair value. Accounts receivable and advances 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.

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 Handbook section in note 10 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 share 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.

FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

Sections 3862 and 3863 of the CICA handbook place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The required disclosures are referred to in Note 9 to these financial statements.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

SHARE PURCHASE WARRANTS AND AGENT'S OPTIONS

Options and warrants issued to agents in connection with a financing are recorded at fair value using the Black-Scholes option pricing model and charged to share issue costs associated with the offering with the offsetting credit respectively to contributed surplus or warrants in shareholders' equity.

Warrants issued as part of a private placement unit are valued using the Black-Scholes model. The proceeds from the issue of units is allocated between share capital and warrants on a pro-rata basis based on the relative fair values. The related charge is allocated to the appropriate expense or asset category when issued for services or to equity when issued for cash.

Upon the exercise of warrants or agent's options, the amount relating to the award is transferred from warrants or contributed surplus respectively to share capital and the proceeds received are credited to share capital. When warrants expire, fair value allocated to them is transferred from warrants to contributed surplus.

FAIR VALUE HIERARCHY AND LIQUIDITY RISK DISCLOSURE

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, 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	\$ 1,214,083	\$ -	\$ -

FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal year beginning on or after January 1, 2011. Commencing with the interim period March 31, 2011 the Company will present restated comparative fiscal 2010 financial statements for annual and interim periods to be prepared in accordance with IFRS including the restatement of the opening balance sheet as at January 1, 2010.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued):

FUTURE ACCOUNTING CHANGES (continued)

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (continued)

A changeover plan has been established to convert to the new standards within the allotted timeline. The Company continues to evaluate the impact this will have on the Company's financial statements.

3. MINERAL PROPERTY:

	Cumulative to December 31, 2008	2009 Additions	Cumulative to December 31, 2009	2010 Additions	Cumulative to December 31, 2010
Project management	\$ 60,885	\$ 60,620	\$ 121,505	\$ 91,640	\$ 213,145
Consultants	22,191	16,349	38,540	137,943	176,483
Licenses and permits	163,898	64,745	228,643	39,888	268,531
Property access and exploration costs	192,501	90,151	282,652	4,768,200	5,050,852
	<u>\$ 439,475</u>	<u>\$ 231,865</u>	<u>\$ 671,340</u>	<u>\$ 5,037,671</u>	<u>\$ 5,709,011</u>

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

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 Ltd. ("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. 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%.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

4. AGREEMENTS (continued):

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

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.

On July 7, 2010, the Company and Diadem signed a memorandum of understanding regarding their future cooperation. Under this memorandum the following issues related to the cooperation of two companies have been resolved:

- Debt owing to the Company by Diadem has been capped at \$115,000 (received) and was payable in full on signing.
- The Company and Diadem shall further cooperate on creating a joint venture to perform exploration on Parry Peninsula, Northwest Territories
- Diadem has to spend \$2 million in exploration expenditures by June 30, 2011 on properties to be jointly explored in order to earn a 50%/50% interest in a future joint venture with the Company. In case Diadem fails to incur required expenditures, its interest in the joint venture would be reduced to 25%. However, if Diadem will remedy the situation by December 31, 2011, 50% interest would be reinstated.
- Once joint venture is formed, a cooperation agreement would be signed with the Inuvialuit Regional Corporation to set out terms of the exploration work to be performed by joint venture.
- All claims in the Parry Peninsula held by either of the two parties would be transferred to a joint venture.
- The joint venture shall reimburse the Company for all the costs it has incurred on Parry Peninsula Land during 2010, which is estimated to be \$328,000.

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 Tuktut Nogait National Park).

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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.

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:

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. The 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:

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

4. AGREEMENTS (continued):

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

	Cash payments	Work commitment	Work commitments met at December 31, 2010
2010	\$ 50,000 (fulfilled)	\$ 2,000,000	\$ 2,000,000
2011	50,000	2,000,000	2,000,000
2012	50,000	2,000,000	1,045,637
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	-
	<u>\$ 875,000</u>	<u>\$ 13,000,000</u>	<u>\$ 5,045,637</u>

\* 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.

3. Production stage – the Company is entitled to the issuance of the mining lease, if it will be able to start production within 36 months 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 a 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.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

5. RELATED PARTY TRANSACTIONS:

During the year, a company controlled by the Chairman and director of the Company, charged \$48,000 (\$48,000 in 2009) for management fees, \$60,196 for rent (\$58,165 in 2009) and \$7,277 for offices services (\$9,678 in 2009). Management fees in the amount of \$77,000 (2009 - \$57,750) were charged by the Chairman and director directly plus reimbursable office and meeting expenses of \$3,078 (\$1,918 in 2009).

Professional fees amounting to \$38,850 were charged by the Chief Executive Officer in 2010 and \$31,750 in 2009. Fees associated with deferred mineral property expense of \$111,390 were charged in 2010 (\$46,684 in 2009). There were reimbursable property expenses including travel charged by the individual in the amount of \$32,213 compared to \$13,819 in 2009 and corporate administration expenses totalling \$8,774 (\$nil in 2009).

Consulting fees amounting to \$46,154 (2009 - \$nil) were charged by directors of the Company.

Legal fees related to the issuance of shares during the year amounting to \$35,102 (2009 - \$nil) were charged by a law firm of which a director of the Company is a partner.

Corporate maintenance and accounting management fees amounting to \$78,450 (2009 - \$45,000) were charged by a director and officer of the Company.

During the year, a Director of the Company charged consulting fees in the amount of \$25,805 (2009 - \$7,735) and reimbursable expenses in amount of \$17,632 (2009 - \$8,218) for services provided with regards to exploration activities of the Company.

As at December 31, 2010, accounts payable include \$129,162 (2009 - \$741,856) payable to the related parties mentioned above.

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

See note 6 (b) for additional related party information regarding debt conversion.

6. CAPITAL STOCK:

a) Authorized:

An unlimited number of common shares

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

6. CAPITAL STOCK (continued):

b) Common shares issued:

	2010		2009	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	88,738,714	\$ 23,192,738	48,751,081	\$ 20,624,796
Issued for cash under private placements	10,625,000	4,250,000	39,987,633	5,698,626
Issued upon exercise of options for cash (see below)	100,000	10,000	-	-
Fair value of options exercised (note 8)	-	6,070	-	-
Issued upon exercise of warrants for cash	328,417	79,188	-	-
Fair value of warrants exercised (note 6(c))	-	20,940	-	-
Issued upon exercise of compensation options for cash	751,153	112,673	-	-
Fair value of compensation options exercised (note 8)	-	95,096	-	-
Fair value ascribed to warrants issued on exercise of compensation options (note 6(c))	-	( 81,568)	-	-
Issued for debt conversion (see below)	3,041,361	718,466	-	-
Fair value ascribed to warrants issued in private placements (note 6(c))	-	( 774,031)	-	( 1,691,100)
Tax effect of flow-through shares	-	( 1,231,200)	-	( 471,402)
Share issue costs	-	( 658,691)	-	( 968,182)
Balance, end of the year	<u>103,584,645</u>	<u>\$25,739,681</u>	<u>88,738,714</u>	<u>\$ 23,192,738</u>

Included in shares issued for cash during 2009 was the issuance of common shares for which cash proceeds of \$84,130 were received in 2008.

On April 8, 2010, the TSX Venture exchange approved debt conversion agreements that have been signed by the Company with some of its creditors. The 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.

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.

c) Warrants:

In August 2010, the Company issued 5,312,500 warrants as part of a private placement. During 2010, the Company had also issued 375,577 upon exercise of compensation options previously issued as a commission to brokers. 1,692,666 have expired during the year and 328,917 warrants have been exercised (291,667 of which have been used to purchase flow-through shares of the Company). These transactions have increased the total number of outstanding warrants to 23,567,977 as at December 31, 2010, including 499,966 warrants that entitle holders to purchase flow-through common shares of the Company.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

6. CAPITAL STOCK (continued):

c) Warrants (continued):

The following table summarizes warrants that have been issued, exercised or have expired during the years ended December 31, 2010 and 2009:

	Number of warrants	Exercise price	Expiry date
Outstanding, December 31, 2008	1,692,666	\$ 0.44	-
Warrants issued during the year	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>	\$ 0.20	July 23, 2013
Outstanding, December 31, 2009	19,900,983		
Warrants expired during the year	( 825,000)	\$ 2.00	October 14, 2010
	( 200,000)	\$ 0.40	October 2, 2010
	( 534,000)	\$ 0.24	January 20, 2010
	( 133,666)	\$ 0.30	January 20, 2010
Warrants exercised during the year	( 291,667)	\$ 0.24	May 20, 2013
	( 36,750)	\$ 0.25	December 29, 2012
Warrants issued during the year	375,577	\$ 0.25	December 29, 2012
	<u>5,312,500</u>	\$ 0.45	August 25, 2012
Outstanding, December 31, 2010	<u><u>23,567,977</u></u>		

At December 31, 2010, 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
	1,170,000	\$ 0.20	April 19, 2013
	208,300	\$ 0.24	April 19, 2013
	1,550,000	\$ 0.20	May 20, 2013
	291,666	\$ 0.24	May 20, 2013
	2,475,000	\$ 0.20	July 23, 2013
	12,560,511	\$ 0.25	December 29, 2012
	5,312,500	\$ 0.45	August 25, 2012
	<u><u>23,567,977</u></u>		

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

6. CAPITAL STOCK (continued):

c) Warrants (continued):

The fair value of each warrant was estimated on the date of measurement. Under Black-Scholes, the warrants issued in 2010 were valued at \$855,599 (2009 - \$1,691,100) and recorded as share purchase warrants using the following assumptions at the measurement date:

	2010	2009
Risk-free interest rate	1.25% – 1.82%	1.57% – 2.48%
Expected life	2 – 3 years	3 – 4 years
Price volatility	100%	100%
Dividend yield	nil	nil

The following table summarizes fair value attributable to warrants that have been issued, exercised or have expired during the years ended December 31, 2010 and 2009:

Balance December 31, 2008	\$	-
Granted		1,691,100
Expired		-
Exercised		-
Balance December 31, 2009		1,691,100
Granted		855,599
Expired		-
Exercised	(	20,940)
Balance December 31, 2010	\$	2,525,759

d) Agent's options:

On August 25, 2010, the Company has issued 1,062,000 agent's options. Each option entitles the agent to purchase a unit consisting of one common share and one half of one common share purchase warrant for \$0.40 up to August 25, 2012. Warrants received upon exercise of the agent's option are exercisable at \$0.45 until August 25, 2012.

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. During 2010, 375,577 of these agent's options have been exercised.

The fair value of each agent's option was estimated on the date of grant. Under Black-Scholes, the agent's options issued in 2010 were valued at \$164,581 (2009 - \$422,000) and capitalized to share issue costs using the following assumptions at the measurement date:

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

6. CAPITAL STOCK (continued):

d) Agent's options:

	2010	2009
Risk-free interest rate	1.60%	1.57%
Expected life	2 years	3 years
Price volatility	100%	100%
Dividend yield	nil	nil

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 5,250,000 shares (2009 – 3,600,000). The exercise price of the options is \$0.10 for 2,600,000 (expiring on August 5, 2011), \$0.15 for 300,000 (expiring on November 12, 2011), \$0.32 for 300,000 (expiring on November 27, 2011), \$0.27 for 300,000 (expiring July 26, 2012) and \$0.37 for 1,750,000 (expiring August 31, 2015).

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 propriety 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 10,358,465 stock options to be granted under the Plan.

The following summarizes the director, officer and consultant stock options that have been granted, exercised, expired or cancelled during the years ended 2010 and 2009.

	Number	Weighted average price
Balance, December 31, 2008	3,094,230	\$ 0.28
Granted	3,600,000	0.12
Expired or cancelled	(3,094,230)	0.28
Exercised	-	-
Balance, December 31, 2009	3,600,000	\$ 0.12
Granted	2,050,000	0.35
Expired or cancelled	(300,000)	0.10
Exercised	(100,000)	0.10
Balance, December 31, 2010	5,250,000	\$ 0.22

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

6. CAPITAL STOCK (continued):

e) Stock option plan:

The fair value of each option is estimated on the date of grant. Under Black-Scholes, the options issued in 2010 were valued at \$540,400 (2009 - \$227,940) and expensed to loss, using the following assumptions at the measurement date:

	2010	2009
Risk-free interest rate	1.60% - 2.05%	1.12% - 1.47%
Expected life	2 – 5 years	2 years
Price volatility	100%	100%
Dividend yield	nil	nil

7. INCOME TAXES:

- a) At December 31, 2010, the Company has non-capital losses of \$4,252,921 that can be used to reduce future taxable income. These losses expire as follows:

2011	\$ 559,902
2015	494,417
2016	340,546
2017	171,786
2027	293,517
2028	458,265
2029	1,067,753
2030	<u>866,735</u>
	<u>\$ 4,252,921</u>

As at December 31, 2010 the tax effects of temporary timing differences that give rise to significant components of the future tax asset (liabilities) computed at current rates 28.5% (2009 – 33%), were as follows:

	2010	2009
Non-capital losses carry forward	\$ 1,140,357	\$1,384,461
Capital assets	13,356	15,465
Share issue costs	315,741	587,800
Mineral property	( 195,058)	1,206,359
Less: Valuation allowance	<u>(1,274,396)</u>	<u>(3,194,085)</u>
Net asset	<u>\$ -</u>	<u>\$ -</u>

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

7. INCOME TAXES:

- 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:

	2010	2009
Statutory rate applied to loss for the year before income taxes	(\$ 348,159)	(\$ 318,075)
Increase (decrease) in taxes resulting from:		
Non-deductible stock-based compensation	154,014	75,220
Deductible share issue costs	( 92,732)	( 146,950)
Project evaluation costs	39,857	37,447
Change in valuation allowance through the year	( 1,919,689)	194,492
Change in temporary differences during the year	1,919,689	( 171,902)
Tax effect of renunciation of flow-through expenditures	( 1,231,200)	( 471,402)
Tax loss not benefited	<u>247,020</u>	<u>329,768</u>
Future income tax (recovery)	<u>(\$1,231,200)</u>	<u>(\$ 471,402)</u>

The future income tax recovery in each of the years ended December 31, 2010 and 2009 is generated by applying available non-capital losses and other deductible temporary differences not previously recognized to offset any future income tax liability generated through issuance of flow-through shares.

8. CONTRIBUTED SURPLUS:

Contributed surplus is comprised of the following:

	2010	2009
Balance, beginning of the year	\$ 1,157,992	\$ 508,052
Stock-based compensation cost (note 6 (e))	540,400	227,940
Fair value of Agent's compensation options (note 6 (d))	164,581	422,000
Exercise of Agent's compensation options (note 6(b))	( 95,096)	
Exercise of stock options (note 6(b))	<u>( 6,070)</u>	<u>-</u>
Balance, end of the year	<u>\$ 1,761,807</u>	<u>\$1,157,992</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.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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

**Fair value (continued)**

The fair value of cash, accounts receivable, advances 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 cash and 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, 2010, the Company has cash of \$1,214,083 (December 31, 2009 - \$3,965,696) to settle accounts payable and accrued liabilities of \$978,198 (December 31, 2009 - \$1,877,231). 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 as identified below:

(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 worthiness of its bank.

(b) Price risk - 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 currently has no exposure or price risk as it has no investments in equities.

(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. Such movements may influence the future course of direction of the Company; commodity price risk has no impact on the net income (loss) of the Company because it is currently not in production.

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

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 mineral 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.

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, 2010. The Company is not subject to externally imposed capital requirements.

11. COMMITMENTS:

- 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 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).
- c) 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).

DARNLEY BAY RESOURCES LIMITED  
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

11. COMMITMENTS:

- d) 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).
- e) 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.
- f) The Company entered into an agreement to lease a field camp in 2011 for minimum rental payments of \$90,000. See note 12.

12. ADVANCES:

Advances have been made by the Company to the Paulatuk Development Corporation ("PDC") for the purposes of a field camp purchase to be made by PDC. Advances are interest free with no specified terms of repayment.

Certain of the advances will be offset against minimum rent payable to PDC as they become due. The minimum rent payable for 2011 amounts to \$90,000 (see note 11(f)).

13. 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 loss.