

DARNLEY BAY RESOURCES LIMITED

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Management's Discussion and Analysis for the year-ended December 31, 2007

GENERAL

Darnley Bay Resources Limited was formed in 1993 to explore and develop an area of geophysical significance in the Northwest Territories of Canada. In partnership with the Inuvialuit Regional Corporation, base metal exploration fortuitously resulted in the discovery of diamonds and the area is now host to both metallic and non-metallic mineral deposit interests. The Company's objectives are to secure and maintain successful financing partnerships to continue exploration for both base metals and diamonds resulting in the development of a profitable mining camp.

SELECTED ANNUAL INFORMATION

	2007	2006	2005
Net loss (in thousands)	1,268	305	6,140
Loss per common share	0.03	0.01	0.16
Total assets (in thousands)	526	38	239
Shareholders' equity (in thousands)	(1,373)	(2,402)	(2,238)

BALANCE SHEET AND OPERATIONS

At December 31, 2007, assets totaled \$526,565 compared to \$38,338 at the 2006 year-end. This amount includes an increase in mineral property expense during the year of \$192,500 (nil in 2006). The Company has incurred a continuing evaluation cost of future involvement in the project. The current liability decreased to \$1,899,675 from \$2,440,678 at the 2006 year-end. The share capital increased to \$19,930,636 from \$18,147,232 in 2006 through the private placement of 4,994,309 common shares for \$835,100, the exercise of 3,305,770 options for \$449,750, a debt conversion for 93,750 shares valued at \$22,500, an agreement option grant of 500,000 shares for \$192,500 and the addition of the fair value of options granted of \$293,004. In 2006, there were 705,000 common shares issued through private placements for \$70,500 and 468,146 common shares issued through a debt conversion valued at \$70,222 resulting in an increase in capital stock of \$140,722. The share issue cost in 2007 was \$9,450 (nil in 2006). The existing stock options resulted in a year-end stock-based compensation expense of \$713,212 and \$199,030 in 2006. The Company reported a net loss at December 31, 2007 of \$1,268,356 compared to \$305,410 in 2006. 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, 2007, the Company had cash resources of \$217,372 compared to \$35,655 at the 2006 year-end. There were 8,300,079 shares issued for \$1,284,850 during the year and 705,000 shares issued for \$70,500 in 2006. The Company has a working capital deficit of \$1,565,611 compared to \$2,402,341 at year-end 2006 and an accumulated deficit of \$22,016,958 (\$20,748,602 at the 2006 year-end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors. During the year, a \$22,500 debt was converted to shares (\$70,222 in 2006). Further debt settlement is planned where allowable. On April 15, 2008, an amount of \$330,000 was received through private placements of 825,000 common shares.

The Company's current funding objective is to support a base metal exploration program that will include a review of the available geological and geophysical data relating to the area of interest and to drill the intrusive, and potential sulphide deposit, at its shallowest point. To enable the Company to carry out its plan, additional funds are now being sought. The Company's ability to raise the capital resources to undertake this objective is dependent on the venture capital market, metal prices and the ongoing relationship with the Inuvialuit Regional Corporation (the "IRC") allowing access to the property for the purpose of base metal exploration. The Company is in partnership with Diadem Resources Ltd. to ensure the continuation of the diamond exploration program and the fulfillment of the obligations with the IRC.

SUMMARY OF QUARTERLY RESULTS

<i>For the quarter ended</i>	<i>Dec. 31</i>	<i>Sep. 30</i>	<i>Jun. 30</i>	<i>Mar. 31</i>
	<i>2007</i>	<i>2007</i>	<i>2007</i>	<i>2007</i>
Net loss (in thousands)	1,268	276	126	174
Loss per common share	0.03	0.01	0.01	0.01
Total assets (in thousands)	526	469	621	671
Shareholders' equity (deficiency) (in thousands)	(1,373)	(1,590)	(1,536)	(2,340)
<i>For the quarter ended</i>	<i>Dec. 31</i>	<i>Sep. 30</i>	<i>Jun. 30</i>	<i>Mar. 31</i>
	<i>2006</i>	<i>2006</i>	<i>2006</i>	<i>2006</i>
Net loss (in thousands)	305	469	229	102
Loss per common share	0.01	0.01	0.001	0.001
Total assets (in thousands)	38	210	159	237
Shareholders' equity (in thousands)	(2,402)	(2,487)	(2,466)	(2,340)

ANALYSIS OF MINERAL PROPERTY EXPENDITURES

	2007	2006
Project management	-	-
Project consulting fees	-	-
Property access and agreement costs	<u>192,500</u>	<u>-</u>
	192,500	-

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

	2007	2006
Project evaluation and management services	167,653	113,864
Stock based compensation	807,186	-
Accounting services	44,125	49,120
Premises rent	75,807	46,307
Audit fees	32,150	24,475
Legal fees	65,076	97,731
Office services & supplies	39,798	32,158
Administration services	103,520	40,587
Stock transfer/exchange fees	41,050	21,719
Shareholder communication	18,747	19,151
Interest	7,476	53,533
Miscellaneous	<u>-</u>	<u>1,068</u>
	1,402,588	499,713

COMMON SHARES ISSUED

Common shares issued at the year-end 2007 were 47,183,581 (38,289,752 at the year-end 2006). During the year, 4,560,672 shares were issued through private placements at \$0.15 per share, 250,000 at \$0.20 and 183,637 at \$0.55 (in 2006, there were 705,000 shares issued at \$0.10 per share). There was a debt conversion resulting in the further issue of 93,750 shares at \$0.24 (in 2006, 468,146 shares were issued at \$0.15 through the conversion of debt). In 2005 share purchase options were granted to directors, officers and consultants at an exercise price of \$0.13 (3,600,000) and \$0.10 (100,000) expiring on November 4, 2009 and in 2007, there were 1,580,000 options granted at \$0.25 expiring on March 20, 2009 and 300,000 expiring on May 31, 2009, 800,000 at \$0.35 expiring on June 12, 2009 and 300,000 at \$0.45 expiring on October 16, 2009 in accordance with the Company's Stock Option Plan (see note 6c of the interim financial statements). During the year, there were 2,830,770 options exercised at \$0.13, 100,000 at \$0.10, 220,000 at \$0.15 and 155,000 at \$0.25 (in 2006, there were 500,000 options forfeited by a former director of the Company, 220,000 options were granted at an exercise price of \$0.15 and 400,000 were granted at \$0.13 for a total at the year-end of 3,820,000). At the year-end there were 3,494,230 options granted at a weighted average price of \$0.25. The Company issued 500,000 shares to Carnarvon Capital Corporation on October 3, 2007 at \$0.385 per share when the Darnley Bay/Diadem diamond joint venture met a \$2 million exploration expenditure target. The Company has 41,866 shares in escrow. On April 15, 2008, an additional 825,000 units for one share and one share purchase warrant were purchased through unbrokered private placements at \$0.40 per unit. The warrants are

exercisable for one year at \$1.00 per share and for a second year (up to April 15, 2010) for \$2.00 per share.

ACCOUNTING POLICIES

The Company's accounting methods 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, 2007.

The recovery of amounts capitalized as Mineral Property expenditures is dependent upon the discovery of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to explore and develop potential ore reserves, future profitable production, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. At the 2005 year end, the carrying value of the mineral exploration property was considered unrecoverable and written down to \$1 due to uncertainties in financing. In 2006 and 2007, the Company continued to retain an interest in its property and looks to future funding opportunities and ongoing exploration for both base metals and diamonds.

The Company uses the fair value method of accounting for all stock options awarded. Compensation expense is recognized based on the fair value of the option on the date of the grant and is expensed over the vesting period of the option (see note 6c of the 2007 year end statement)

RELATED PARTY TRANSACTIONS

Technical and administrative support is received from directors and officers of the Company. In the absence of financial resources to pay for these services, the allowable issuance of common shares for debt is undertaken. During the year, amounts charged for management fees by La Prairie Ltd. (controlled by Leon La Prairie, CEO/director) were \$48,000 (\$48,000 in 2006). Mr. La Prairie charged \$77,000 for consulting services (2006 - \$63,500).

Accounting services were provided in the amount of \$25,500 during 2006 by the Company's former CFO, Richard La Prairie. La Prairie received 93,750 shares through debt conversion at \$0.24 per share, he received 468,146 shares through a debt conversion at \$0.15 per share in 2006. Additional shares or cash will be issued to eliminate a balance of \$72,276 owing to La Prairie.

William Allen, director, provided legal services to the Company during the year in the amount of \$65,076 (97,731 in 2006). Patricia Mannard provided corporate maintenance and accounting management services in the amount of \$44,125 (\$23,620 in 2006). John Dowsett, a director, provided geophysical and project development services in the amount of \$9,825 (\$13,175 in 2006). George Kent, a director, provided geological

consulting services in the amount of \$5,821 (\$3,860 in 2006). As at September 30, 2006, accounts payable to the above total \$465,687 (2006 - \$753,502).

During the year, options were exercised by Leon La Prairie (1,000,000 at \$0.13), Allen (800,000 at \$0.13), Mannard (500,000 at \$0.13), Richard La Prairie (300,000 at \$0.13), Dowsett (230,770 at \$0.13) and Kent (100,000 at \$0.10). Leon La Prairie, CEO, was granted 1,000,000 options exercisable at \$0.25 up to March 20, 2009 and Mannard, was granted 500,000 options with the same terms. Peter Telford, a director appointed during the year, was granted 300,000 options at \$0.45 exercisable on or before October 16, 2009.

COMMITMENTS

Note 4 of the financial statements for the year ended December 31, 2007 covers both the governing agreements with the Inuvialuit Land Corporation and the joint venture agreement with Diadem Resources Ltd. for exploration of diamonds.

Effective November 26, 2003 the Company entered into an agreement to form a joint venture with Diadem Resources Ltd., formerly an agreement held with Carnarvon Capital Corporation, to operate diamond exploration in an area near Paulatuk in the Northwest Territories. The earn in requirements and project area were amended on November 29, 2007 and Diadem has until June 30, 2008 to meet the new commitment to gain further participation rights. Diadem has not met earn in requirements outlined in the agreement at the time of this report.

The joint venture entered into a letter agreement with the Inuvialuit Regional Corporation allowing access to the property that lies within the Inuvialuit Settlement Region. The Company's joint venture partner has, at the time of this report, not confirmed that the conditions of the agreement have been met in full however; the Company has received confirmation of its good standing in a letter dated July 13, 2007.

CORPORATE GOVERNANCE

On February 22, 2007, the Company filed its Corporate Governance Policy document with the TSX Venture Exchange and on www.sedar.com.

RISKS AND UNCERTAINTIES

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

OUTLOOK

The ongoing strength in metal prices and the influx of major mining companies participating in diamond exploration in the area surrounding our interests in the Northwest Territories has bolstered financing possibilities. Renewed interest from the investment community and continuing support from the Inuvialuit Regional Corporation and other local participants is encouraging. The Company anticipates the commencement of diamond target drilling by its joint venture partner in 2008. A base metal exploration schedule is in place to further define the property's potential. The exploration program is contingent upon the receipt of funds through equity financing or joint ventures on terms most favourable for our shareholders and the finalization of a new base-metal concession agreement with the Inuvialuit Regional Corporation.

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

THE MANAGEMENT'S DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 WHICH ACCOMPANY THIS ANALYSIS AND, ALTERNATELY ARE AVAILABLE ALONG WITH ALL THE COMPANY'S PUBLIC DOCUMENTS ON WWW.SEDAR.COM