

April 30, 2009

**DARNLEY BAY RESOURCES LIMITED** - Management's Discussion and Analysis  
for the year ended December 31, 2008.

GENERAL

Darnley Bay Resources Limited was formed in 1993 to explore and develop an area of geophysical significance in the Northwest Territories of Canada, located 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 so as to continue exploration for base/precious metals and diamonds, resulting in the development of a profitable mining camp.

SELECTED ANNUAL INFORMATION

	2008	2007	2006
Net loss (in thousands)	632	1,268	305
Loss per common share	0.01	0.03	0.01
Total assets (in thousands)	638	526	38
Shareholders' equity (in thousands)	(1,432)	(1,373)	(2,402)

BALANCE SHEET AND OPERATIONS

At December 31, 2008 assets totalled \$637,511 compared to \$526,565 at the 2007 year-end. This amount includes a cumulative mineral property expense at the year end of \$439,475 (\$192,500 in 2007). The current liability increased to \$2,069,745 from \$1,899,675 at the 2007 year-end. The share capital increased to \$20,624,796 from \$19,930,636 in 2007 through the private placement of 1,025,000 common shares (4,994,309 in 2007) for \$380,000 (\$835,100 in 2007), the exercise of 400,000 options (3,305,770 in 2007) for \$52,000 (\$449,750 in 2007), a debt conversion for 142,500 shares (93,750 in 2007) valued at \$57,000 (\$22,500 in 2007) and the addition of the fair value of options granted of \$205,160 (\$293,004 in 2007). There was no share issue cost in 2008 (\$9,450 in 2007). The existing stock options resulted in a year-end stock-based compensation expense of \$nil and \$807,186 in 2007. The Company reported a net loss at December 31, 2008 of \$632,254 compared to \$1,268,356 in 2007. 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, 2008, the Company had cash resources of \$64,588 compared to \$217,372 at the 2007 year-end. There were 1,425,000 shares issued for \$432,000 during the year and 8,300,079 shares issued for \$1,284,850 in 2007. The Company has a working capital deficit of \$1,871,709 compared to \$1,565,611 at year-end 2007 and an accumulated deficit of \$22,649,212 (\$22,016,958 at the 2007 year-end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors. During the year, a \$57,000 debt was converted to shares (\$22,500 in 2007). Further debt settlement is planned where allowable. On April 20, 2009, an amount of \$141,996 was received through private placements of 1,378,300 common shares.

The Company's current funding objective is to support a base metal exploration program and fulfill its obligations to the Inuvialuit Regional Corporation as agreed upon in principle. The Company has completed a full review and evaluation of the exploration history of the area in support of the current direction for geophysical analysis and a drilling program. At the same time, the Company is working to ensure the continuation of diamond exploration. 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>Sep. 30</i>	<i>Jun. 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)	658	523	542	426
Shareholders' equity (deficiency) (in thousands)	(1,448)	(1,457)	(1,382)	(1,545)
<i>For the three month period 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)	992	150	152	(26)
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)

#### ANALYSIS OF MINERAL PROPERTY EXPENDITURES

	2008	2007
Project management	60,885	-
Project consulting fees	22,191	-
Licences and permits	163,899	
Property access and agreement costs	<u>-</u>	<u>192,500</u>
	246,975	192,500

#### ANALYSIS OF CORPORATE AND GENERAL EXPENSES

	2008	2007
Project evaluation and management services	157,862	167,653
Stock based compensation	-	807,186
Administration services	102,000	103,520
Accounting services	45,750	44,125
Premises rent	59,121	75,807
Legal fees	63,049	65,076
Audit fees	35,800	32,150
Office support services & supplies	73,226	39,798
Stock transfer/exchange fees	40,774	41,050
Shareholder communication	19,411	18,747
Interest	45,129	7,476
Miscellaneous	<u>-</u>	<u>-</u>
	642,122	1,402,588

#### COMMON SHARES ISSUED

Common shares issued at the year-end 2008 were 48,751,081 (47,183,581 at the year-end 2007). During the year, 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 (in 2007, there were 4,560,672 shares issued at \$0.15 per share, 250,000 at \$0.20 and 183,637 at \$0.55). There was a debt conversion resulting in the further issue of 142,500 shares at \$0.40 (in 2007, there were 93,750 shares issued at \$0.24 through the conversion of debt).

At December 31, 2008, there were outstanding share purchase options granted to directors, officers and consultants including 300,000 at \$0.45 (expiring on October 16, 2009), 800,000 at \$0.35 (expiring on June 12, 2009), 1,500,000 and 225,000 at \$0.25 (expiring on March 20 and May 31, 2009) and 269,230 at \$0.13 (expiring on November 4, 2009) in accordance with the Company's Stock Option Plan (see note 6c of the annual financial statements). During the year, there were 400,000 options exercised at \$0.13 (in

## COMMON SHARES ISSUED continued

2007, 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). At the year-end there were 3,094,230 options (3,494,230 at the end of 2007) granted at a weighted average price of \$0.28 (\$0.25 in 2007). 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 March 20, 2009, there were 1,500,000 options at \$0.25 that expired. On April 20, 2009, an additional 1,170,000 units for one share and one share purchase warrant were purchased through unbrokered private placements at \$0.10 per unit. The warrants are exercisable up to April 19, 2013 for \$0.20. On the same date, there were 208,300 flow through units sold at \$0.12 per share with an option to purchase an extra flow through share for four years up to April 19, 2013 for \$0.24.

## ACCOUNTING POLICIES

The Company's accounting is based upon Canadian Generally Accepted Accounting Principles (GAAP) applicable to resource issuers, which are applied on a consistent basis.

These are outlined in full detail in note 2 of Company's audited financial statements for the year ended December 31, 2008.

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. The carrying value of the mineral exploration property was considered unrecoverable and written down to \$1 due to uncertainties in financing at the end of 2005. The Company continues to retain interest in its property and looks to future funding opportunities and ongoing exploration for both base/precious 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 2008 audited year end statement).

## ADOPTION OF NEW ACCOUNTING POLICY

Effective October 1, 2006, the Company adopted the new recommendations of CICA Handbook Section 1530, "Comprehensive Income" and Section 3251, "Equity". These sections establish standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and losses related to available-for-sale investments in a statement of comprehensive income. There was no impact on the financial statements in the current period.

## ADOPTION OF NEW ACCOUNTING POLICY continued

On January 1, 2008, the Company introduced policy to disclose management of capital as recommended in CICA Handbook Section 1535 and the nature and extent of risk arising from financial instruments and management of that risk from Sections 3862 and 3863.

## 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 2007), rent and office services amounts were \$57,821 (\$74,525 in 2007) and \$9,323 (\$9,039 in 2007) respectively. Mr. La Prairie charged \$77,000 for consulting services (2007 - \$77,000) as CEO up to June 26, 2008 and then as Chairman. Reimbursable expenses including travel, office and meeting costs for 2008 totalled \$15,454 (\$10,175 in 2007).

On June 26, 2008, Stephen Reford became a director and was appointed CEO of the Company. He charged \$9,675 in professional fees and \$37,125 in services related to deferred project development in the second half of the year. Reimbursable travel expenses amounted to \$2,086 in the same period. 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 the six month period (\$65,076 in 2007). Patricia Mannard was appointed Chief Financial Officer on June 26, 2008 and provided corporate maintenance and accounting management services in the amount of \$45,750 in 2008 and \$44,125 in 2007. The former CFO, Richard La Prairie, received 93,750 shares through a debt conversion at \$0.24 in 2007. Additional shares or cash will be issued to eliminate a balance of \$94,035 owing to R. La Prairie. John Dowsett, a director, provided geophysical and project development services in the amount of \$2,950 (\$9,825 in 2007). George Kent, a director, provided geological consulting services in the amount of \$5,837 (\$5,821 in 2007) 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 2007). On June 26, 2008, Donald Yamkowy was elected as a director and, during the second six months of the year, invoiced the Company for \$4,297 in consulting fees related to project development. As at December 31, 2008, accounts payable to the above total \$623,436 (2007 - \$465,687).

## RELATED PARTY TRANSACTIONS continued

At December 31, 2008, the above related parties held share purchase options. L. La Prairie holds 1,000,000 options exercisable at \$0.25 up to March 20, 2009 and Mannard has 500,000 options with the same terms. Dowsett has 269,230 options for \$0.13 exercisable up to November 4, 2009 and Peter Telford has an option to purchase 300,000 shares at \$0.45 up to October 16, 2009. Stephen Reford and Donald Yamkowy (former consultants to the Company and now directors) each hold 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, 2008 cover the status of agreements with the Inuvialuit Land Corporation and Diadem Resources Ltd. (“Diadem”) for exploration of base metals, diamonds and other commitments.

Effective November 26, 2003, the Company entered into an agreement to form a joint venture with Diadem, 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 reset the deadlines for earn-in (June 30, 2008) and other requirements including a loan repayment (March 31, 2008). On June 30, 2008, all the terms of the agreement and its amendments had not been met and the companies continue to negotiate a future relationship favourable for their shareholders.

The Company and Diadem entered into a letter agreement with the Inuvialuit Regional Corporation allowing access to the property that lies within the Inuvialuit Settlement Region. The agreement expired on January 1, 2009.

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 9 of the Interim Financial Statements for the period ended December 31, 2008 and to date.

## RISKS AND UNCERTAINTIES

The inherent risks which most profoundly affect the Company’s activities are metal prices, market demand and the ability of the Company to obtain venture capital necessary to establish a resource and, in the case that an economic ore reserve is determined, to develop the prospect. Further, the Company is relying on the Inuvialuit Regional Corporation to allow property access for both projects.

## CORPORATE GOVERNANCE

On February 22, 2007, the Company filed its Corporate Governance Policy document with the TSX Venture Exchange and on [www.sedar.com](http://www.sedar.com). The Company maintains its commitment to achieve full compliance with the policy.

## OUTLOOK

The global financial crisis of 2008-09 commenced in earnest during the reporting period, and has continued unabated. The freeze-up of the credit markets and concurrent downturn in commodity prices has severely impacted junior exploration companies in Canada with respect to financing. The Company has implemented a series of cost-saving measures to preserve capital while maintaining its regulatory obligations. Nevertheless, the Company perseveres with financing so as to carry out its planned exploration and drilling activities in 2009. The ongoing support from the Inuvialuit Regional Corporation (IRC), the community of Paulatuk and other local participants is encouraging. The purpose of the exploration is to locate metal and diamond targets for a comprehensive drilling program. The exploration program is contingent upon the receipt of funds through equity financing or joint venture partnerships on terms most favourable for our shareholders.

Some of the highlights from the 2008 reporting period include:

- The Company completed negotiations with the IRC for a new Letter Agreement that governs exploration and development in the 7(1)(a) lands, totalling 185,320 hectares. These lands cover the majority of the Darnley Bay gravity and magnetic anomaly that is available for exploration. Signature of the agreement is contingent on payment of outstanding access and environmental fees to the IRC.
- The Company applied to the Mining Recorder in Yellowknife NT for two prospecting permits, totalling 28,390 hectares. They cover the remainder of the Darnley Bay gravity and magnetic anomaly that is available for exploration, including half of a high-priority gravity target and shallow magnetic targets. The permits were awarded to the Company in February 2009.
- The Company and its consultants developed an alternative model for the source of the Darnley Bay Anomaly, which is traditionally thought to be a mafic to ultramafic intrusive with associated Ni-Cu-PGE deposits. The alternative is an iron oxide-copper-gold (IOCG) deposit model, developed due to the Anomaly's tectonic setting, age relationships and geophysical signatures that resemble Olympic Dam in Australia, considered the world's richest metal deposit.
- A permit to carry out exploration on the 7(1)(a) and selected portions of the 7(1)(b) lands near Paulatuk, NT was granted to the Company on September 4, 2008, after submission of its permit application to the Environmental Impact Screening Committee of the Inuvialuit Land Administration in June 2008. The permit incorporated the execution of airborne geophysical surveys, geological prospecting and sampling, and studies of water sources for winter drilling. To date, the work has not been carried out due to lack of funds.
- Diadem Resources Ltd. provided the Company with the report on ground magnetic surveys carried out over claims on the Parry Peninsula in April 2008, as part of its earn-in obligations towards a 50/50 joint venture on diamond exploration for the Franklin Project northwest of Paulatuk NT. The report delineated new kimberlite targets for drilling. Diadem filed the necessary paperwork and fees with the Mining Recorder's Office in Yellowknife, to maintain all claims on the Parry Peninsula in good standing.
- The Company and Diadem discussed the next phase of exploration on the Franklin Project, pursuant to the agreements previously executed by the two

## OUTLOOK continued

- companies. If a joint venture is concluded between the two companies, Diadem is obligated to expend the first \$2 million on the planned drill program. It is pursuing financing for that purpose.
- Stephen Reford was introduced as the Company's new CEO & President at the Annual Meeting in June 2008. Leon La Prairie remains with the Company as Chairman of the Board of Directors. Patricia Mannard was appointed CFO. Donald Yamkowy was appointed to the Board of Directors.
  - William Allen and George Kent resigned from the Board of Directors.
  - The Company raised \$464,130 through private placements, including \$45,046 in flow-through funds, and \$52,000 through the exercise of options by a director.

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

- The Company raised \$141,996 through private placements, including \$24,996 in flow-through funds, between April 6 and April 28, 2009.
- The President took advantage of a personal trip to Australia to visit BHP-Billiton's Olympic Dam IOCG deposit, meeting with the mine geologists, touring the surface workings and collecting samples underground.

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

THE MANAGEMENT'S DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2008 WHICH ACCOMPANY THIS ANALYSIS AND, ALTERNATELY, ARE AVAILABLE ALONG WITH ALL THE COMPANY'S PUBLIC DOCUMENTS ON [WWW.SEDAR.COM](http://WWW.SEDAR.COM)

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