

May 3, 2010

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

GENERAL

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

SELECTED ANNUAL INFORMATION

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

BALANCE SHEET AND OPERATIONS

At December 31, 2009, assets totaled \$4,777,386 compared to \$637,511 at year end December 31, 2008. This amount includes a cumulative mineral property expense at the year end of \$671,340 (\$439,475 in 2008). The current liability decreased to \$1,877,231 from \$2,069,745 at the 2008 year-end. The share capital increased to \$23,192,738 from \$20,624,796 in 2008 through the private placement of 39,987,633 common shares (1,025,000 in 2008) for \$5,698,626 (\$380,000 in 2008) less \$1,691,100 representing the fair value of warrants, \$471,402 for the tax effect of flow-through shares and \$968,182 in share issue cost. In 2008, there were 400,000 options exercised for \$52,000, a debt conversion for 142,500 shares valued at \$57,000 and the addition of the fair value of options exercised of \$205,160. There was no share issue cost in 2008. The stock options granted in the current period resulted in stock-based compensation expense of \$227,940 (2008 - \$nil) and agent's options issued resulted in share issue costs in the amount of \$422,000 (\$nil in 2008). The Company reported a net loss at December 31, 2009 of \$492,463 compared to \$632,254 in 2008. The ongoing corporate and general expenses required to run a public company continue to be monitored closely.

LIQUIDITY AND CAPITAL RESOURCES

The Company is an exploration and development company and has no revenue. At December 31, 2009, the Company had cash resources of \$3,965,696 compared to \$64,588 at the 2008 year-end. There were 39,987,633 shares issued for \$5,698,626 during the year and 1,425,000 shares issued for \$432,000 in 2008. The Company has working capital of \$2,228,815 compared to a working capital deficit of \$1,871,709 at year-end 2008 and an accumulated deficit of \$23,141,675 (\$22,649,212 at the 2008 year-end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors. On April 8, 2010, the TSX Venture Exchange approved the debt conversion of \$718,466 to 3,041,361 common shares. In 2008, a \$57,000 debt was converted to 142,500 common shares of the Company. Further debt settlement is planned where allowable. On March 11, 2010, there were 100,000 options exercised for 100,000 common shares and on April 27, 2010, there were 4,175 agent's compensation options exercised for 4,175 common shares and 2,088 common share purchase warrants.

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

SUMMARY OF QUARTERLY RESULTS

<i>For the three month period ended</i>	<i>Dec. 31</i>	<i>Sept. 30</i>	<i>June 30</i>	<i>Mar. 31</i>
	<i>2009</i>	<i>2009</i>	<i>2009</i>	<i>2009</i>
Net loss (in thousands)	(36)	147	274	107
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	4,777	959	883	592
Shareholders' deficiency (in thousands)	2,900	(1,364)	(1,447)	(1,539)
 <i>For the three month period ended</i>	 <i>Dec. 31</i>	 <i>Sept. 30</i>	 <i>June 30</i>	 <i>Mar. 31</i>
	 <i>2008</i>	 <i>2008</i>	 <i>2008</i>	 <i>2008</i>
Net loss (in thousands)	141	116	219	172
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	637	523	542	426
Shareholders' deficiency (in thousands)	(1,432)	(1,457)	(1,382)	(1,545)

ANALYSIS OF MINERAL PROPERTY EXPENDITURES

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

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

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

COMMON SHARES ISSUED

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

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

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

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

ACCOUNTING POLICIES

The Company's accounting policies are based upon Canadian Generally Accepted Accounting Principles (GAAP) applicable to resource issuers, which are applied on a consistent basis. These are outlined in full detail in note 2 of Company's audited financial statements for the year ended December 31, 2009.

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

The Company uses the fair value method of accounting for all stock options awarded. Each year, the compensation expense is recognized based on the fair value of the option on the date of the grant and is expensed over the vesting period of the option (see note 6(e) of the 2009 audited year end statement).

NEW ACCOUNTING STANDARDS

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

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and

the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. The application of this new standard had no impact on the Company's operating results or financial position.

Mining exploration costs

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

Goodwill and intangible assets

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

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

Amendments to section 1400 – general standards of financial statement presentation

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

Fair value hierarchy and liquidity risk disclosure

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

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

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

International Financial Reporting Standards ("IFRS")

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

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

The conversion to IFRS could potentially have an impact on the Company's accounting policies, information technology and data systems, internal control over financial reporting, and disclosure controls and procedures. The transition may also have an impact

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

RELATED PARTY TRANSACTIONS

Technical and administrative support is received from directors and officers of the Company. In the absence of financial resources to pay for these services, the allowable issuance of common shares for debt is undertaken.

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

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

William Allen provided legal services to the Company until he retired as a director of the Company on June 26, 2008. Legal fees were \$42,907 in 2008. Patricia Mannard was appointed Chief Financial Officer on June 26, 2008 and provided corporate maintenance and accounting management services in the amount of \$45,000 in 2009 and \$45,750 in 2008. John Dowsett, a director, provided geophysical and project development services in the amount of \$2,950 in 2008. George Kent provided geological consulting services in the amount of \$5,837 up to December 31, 2008 when he resigned as a director. Mr. Kent exercised 400,000 options at \$0.13 during the year. Peter Telford charged \$4,000 for professional services in 2008 (\$nil in 2009). On June 26, 2008, Donald Yamkowy was

elected as a director and in 2009 charged the Company \$7,735 in project expenses and \$8,218 in reimburseable expenses. During the second six months of 2008, Yamkowy invoiced the Company for \$4,297 in consulting fees related to project development. As at December 31, 2008, accounts payable to the above total \$741,856 (2008 - \$607,309).

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

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

COMMITMENTS

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

Effective November 26, 2003, the Company entered into an agreement to form a joint venture with Diadem Resources Ltd., formerly an agreement held with Carnarvon Capital Corporation, to operate diamond exploration in an area near Paulatuk in the Northwest Territories. On November 29, 2007 the agreement was revised to set the earn-in requirement deadline of June 30, 2008. At the time of this report, the terms of a future arrangement with Diadem Resources Ltd. are being negotiated but have not been resolved.

The joint venture entered into a letter agreement with the Inuvialuit Regional Corporation allowing access to the property that lies within the Inuvialuit Settlement Region. On January 1, 2009, this agreement expired. The Company has been assured by the Inuvialuit Regional Corporation that the agreement can be renewed on substantially the same terms. The Company continues to hold an interest in the Inuvialuit Settlement Region with active prospecting permits.

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

RISKS AND UNCERTAINTIES

The inherent risks, which most profoundly affect the Company's activities, are metal prices and the ability of the Company to obtain venture capital necessary in the case that an economic ore reserve is established. Further, the Company is relying on the Inuvialuit Regional Corporation to allow property access for both projects. Also see the financial risk factors in the interim financial statements for the period ended December 31, 2009 (note 9).

CORPORATE GOVERNANCE

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

OUTLOOK

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

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

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

- The Company raised \$5 million through private placements of flow-through shares and common share units, lead by Haywood Securities Inc.
- The Company engaged Haywood Securities Inc. of Toronto, Canada as its agent.
- The Company completed arrangements to pay all its debts to the Inuvialuit Land Corporation in three tranches between 2009 and 2011.
- The Company and the Inuvialuit Regional Corporation entered into a new Letter Agreement for a Combined Metals and Diamond Concession for Paulatuk 7(1)(a) Lands on December 22, 2009.
- The Company announced the appointment of Mr. Kerry J. Knoll to its Board of Directors on November 18, 2009. Mr. Knoll is a well-known figure in the mining industry, having co-founded several successful companies over more than two

- decades. His financing skills are a particular asset to the Company.
- The Company announced the appointment of Mr. Mark Bennett to its Board of Directors on December 22, 2009. Mr. Bennett is a lawyer with Cassels Brock, practicing in the area of corporate and securities law with an emphasis on mergers and acquisitions and corporate finance in the mining sector. His legal skills are a particular asset to the Company.
 - In December 2009, the Company announced a series of share-for-debt conversions with several creditors.

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

- The Company was issued sixteen prospecting permits in the Paulatuk area, covering approximately 2,412 km². The Company now holds a contiguous block of 4,557 km² (1,126,100 acres), incorporating the mineral concession over the Paulatuk 7(1)(a) lands and eighteen prospecting permits on the adjacent 7(1)(b) and Crown lands. It also holds mineral claims over its kimberlite pipes and diamond targets on the Parry Peninsula.
- The Company carried out a consultation in Paulatuk and completed the environmental permitting process for airborne geophysical surveys over the majority of its land holdings.
- The company contracted Geotech Ltd. to carry out a VTEM time-domain electromagnetic and magnetic survey over a portion of its land holdings, comprising 2,750 line-km at 400 m line spacing. The objective was to locate conductive rocks and minerals that may be indirect or direct responses from metal deposits and kimberlite pipes. The survey was completed on March 23, 2010. Preliminary results were posted on the Company's website.
- The company contracted Sander Geophysics Limited to carry out an AIRGrav gravity and magnetic survey over a portion of its land holdings, comprising 6,190 line-km at 500 m line spacing. The objective was to locate dense rocks and minerals that may be indirect or direct responses from metal deposits. The survey was completed on April 3, 2010. Preliminary results were posted on the Company's website.
- The Company engaged Aurora Geosciences to manage and undertake its ground-based activities in 2010, to include drilling, sampling, prospecting and ground geophysics.
- The Company engaged Kavik-Axys Inc. to assist with permit applications and environmental procedures related to ground-based activities. They undertook consultations with all six Inuvialuit communities in February-March, 2010. On April 19, 2010, Kavik-Axys submitted the Company's Project Description for the proposed 2010-2012 drill and exploration program to the Inuvialuit Environmental Impact Screening Committee. The Company's application is scheduled to be heard on June 3, 2010.
- The Company entered into discussions with several agencies from Paulatuk, the Inuvialuit, the territorial and federal governments with respect to employment and service opportunities in Paulatuk, with associated funding. Certain proposals are under development.

- The Company commenced a higher profile marketing campaign in Canada and China, including participation at the PDAC Convention in March 2010 and visits to Beijing and Shanghai by Kerry Knoll in April 2010.

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

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

www.darnleybay.com TSX Venture Exchange Symbol DBL