

August 28, 2007

DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis
For the interim period ended June 30, 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. 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 base metals and diamonds resulting in the development of a profitable mining camp.

BALANCE SHEET AND OPERATIONS

At June 30, 2007, assets totaled \$621,247 compared to \$38,338 at year end, December 31, 2006. A payment of \$100,000 for access fees was advanced to the Company's joint venture partner in the three month period increasing accounts receivable. During the first half of 2007, the Company has not capitalized any mineral property expense. There is a continuing evaluation cost of future involvement in the project. The current liability decreased to \$2,157,613 from \$2,440,678 at year end 2006. There were 250,000 shares issued in the three month period and a total of 7,741,442 for the year for a net increase in capital stock of \$1,183,650 (nil in 2006). The current stock option disbursement incurred a stock-based compensation expense of \$7,882 compared to \$199,030 at the year ended December 31, 2006 (nil in 2005). The Company reported a loss for the three and six month periods of \$151,987 and \$126,528 compared to \$126,515 and \$228,783 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 June 30, 2007, the Company had cash resources of \$501,908 resulting from the exercise of stock options and private placements of shares compared to \$35,655 at year end December 31, 2006. The Company has a working capital deficit of \$1,536,367 compared to \$2,402,341 at year end 2006 and an accumulated deficit of \$20,875,130 (\$20,748,602 at year end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors plus a debt settlement plan that includes conversion to common shares where allowable is being tabulated.

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. A full review and evaluation of the exploration history of the area will support geophysical analysis, geophysical direction and a drilling program. At the same time, the Company is in partnership with Diadem Resources Ltd. to ensure the continuation of

LIQUIDITY AND CAPITAL RESOURCES continued

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 quarter ended</i>	<i>Jun. 30</i> <i>2007</i>	<i>Mar. 31</i> <i>2007</i>	<i>Dec. 31</i> <i>2006</i>	<i>Sep. 30</i> <i>2006</i>
Net loss (in thousands)	126	174	305	469
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	621	671	38	201
Shareholders' equity (deficiency) (in thousands)	(1,536)	(2,340)	(2,402)	(2,487)
<i>For the quarter ended</i>	<i>Jun. 30</i> <i>2006</i>	<i>Mar. 31</i> <i>2006</i>	<i>Dec. 31</i> <i>2005</i>	<i>Sep. 30</i> <i>2005</i>
Net loss (in thousands)	152	102	5,847	59
Loss per common share	0.001	0.001	0.001	0.002
Total assets (in thousands)	159	237	239	6,813
Shareholders' equity (deficiency) (in thousands)	(2,466)	(2,340)	(2,238)	3,489

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

	<i>June 30,</i> <i>2007</i>	<i>June 30,</i> <i>2006</i>	<i>March 31,</i> <i>2007</i>	<i>March 31,</i> <i>2006</i>
Project evaluation and management services	32,521	34,337		25,878
Stock based compensation	-	-	7,882	-
Accounting services	12,600	14,620	10,500	19,500
Premises rent	16,561	13,801	16,561	10,351
Audit fees	15,550	17,650	16,600	6,825
Legal fees	13,245	-	35,084	-
Office services & supplies	10,484	6,482	6,009	4,640
Administration services	24,120	8,000	25,500	5,184
Stock transfer/exchange fees	14,627	5,497	12,683	4,463
Shareholder communication	8,180	4,536	6,751	2,592
Interest	1,706	21,554	4,870	22,548
Miscellaneous	<u>2,393</u>	<u>38</u>	<u>1,108</u>	<u>287</u>
	151,987	126,515	173,570	102,268

COMMON SHARES AND OPTIONS ISSUED

Common shares issued at June 30, 2007 were 46,031,194; there were 38,289,752 at the 2006 year end. In the three month period, 250,000 shares were issued at \$0.20 and there were 4,810,672 shares issued through private placements and 2,930,770 shares issued through the exercise of options in the six month period (468,146 shares were issued through debt conversion in the three month period in 2006). There were 300,000 options granted at \$0.25 expiring on May 31, 2009 and 800,000 granted at \$0.35 expiring on June 15, 2009 (3,700,000 in 2006) in accordance with the Company's Stock Option Plan (see note 6 b of the interim financial statements). At the time of this report, an additional 183,637 shares were issued at \$0.55 and 93,750 were approved for debt conversion at \$0.24 plus 20,000 options were exercised at \$0.15 and 80,000 options were exercised at \$0.25. The Company will make 500,000 shares available to Carnarvon Capital Corporation when the Darnley Bay/Diadem diamond joint venture meets a \$2 million exploration expenditure target. The Company has 41,866 shares in escrow.

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, 2006.

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 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 5c of the 2006 annual statement).

ADOPTION OF NEW ACCOUNTING POLICY

On January 1, 2007, the Company adopted CICA Handbook Sections 1530, "Comprehensive Income", Section 3251 "Equity", Section 3855, "Financial Instruments - Recognition and Measurement", Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3865, "Hedges." Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

ADOPTION OF NEW ACCOUNTING POLICY continued

Under adoption of these new standards, the Company designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost. Note 3 of the June 30, 2007 interim statements offers additional detail.

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. In the three and six month periods ended June 30, 2007, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, CEO/director) were \$34,123 and \$64,958 (\$23,735 and \$47,095 in 2006). Mr. La Prairie charged \$19,250 and \$38,500 for consulting services (2006 - \$12,000 and \$25,000). Accounting services were provided in the amount of \$6,000 in the three month and \$25,500 in the six month period of 2006 by the former CFO, Richard La Prairie. William Allen, director, provides legal services to the Company. Legal fees were \$13,245 in the three month period and \$48,329 in the six month period (nil in 2006). Patricia Mannard provided corporate maintenance and accounting management services in the amount of \$12,600 and \$23,300 in the three and six month periods (\$5,000 and \$8,620 in 2006). John Dowsett, a director, provided geophysical and project development services in the amount of \$1,500 and \$4,325 (\$2,600 and \$6,500 in 2006). George Kent, a director, provided geological consulting services in the amount of \$1,719 in the three month period (\$1,719 and \$2,548 in the three and six month periods in 2005). As at June 30, 2006, accounts payable to the above totals \$234,098 (2006 - \$754,233).

In the period covered by this report and following the year-end, 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 July 31, 2009 and Mannard, acting CFO, was granted 500,000 options with the same terms.

COMMITMENTS

Note 3 of the financial statements for the year ended December 31, 2006 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

COMMITMENTS continued

Territories. 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 (“IRC”) allowing access to the property that lies within the Inuvialuit Settlement Region. The IRC has, at the time of this report, confirmed that the conditions of the agreement have been met.

A debt settlement arrangement has been made with a former officer of the Company. The balance of amounts owing can be paid in cash at any time or be converted to shares, as permitted, on an annual schedule at the then market price. The former CFO is retained as a consultant to the Company.

The Company has entered into a contract with an individual to act as Vice President of Corporate Development. Compensation consists of \$1,500 per week and eligibility to participate in the Company’s stock option plan. Two additional consultants were engaged for project management and development on an as needed basis in the period covered by this report (see note 7 of the interim financial statements for the period ended June 30, 2007).

The Company has retained an agent to assist in raising funds for exploration. The agent will receive a ten percent commission and broker’s warrants on the funds raised. In addition, there are a number of finder’s fee arrangements that range from eight to ten percent commissions on financing through the introduction to potential investors. Details of these agreements are outlined in note 7 of the interim financial statements dated June 30, 2007.

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 both diamond and base-metal exploration projects.

OUTLOOK

The recent rally 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 and other local participants is encouraging. The Company anticipates the commencement of diamond target drilling by its joint venture partner. A strategic review of base metal exploration options is ongoing to further define the property’s potential. In order to act upon the recommendations set forth in the review

OUTLOOK continued

and to build on our achievements, we are actively seeking investor participation in the form of equity financing or joint ventures on terms most favourable for our shareholders.

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, 2006 AND THE INTERIM STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2007 WHICH ACCOMPANY THIS ANALYSIS AND, ALTERNATELY ARE AVAILABLE ALONG WITH ALL THE COMPANY'S PUBLIC DOCUMENTS ON WWW.SEDAR.COM

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