

August 28, 2008

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

BALANCE SHEET AND OPERATIONS

At June 30, 2008, assets totaled \$542,261 compared to \$526,565 at year end December 31, 2007. There was interest applied to a payment of \$100,000 for access fees advanced to the Company's joint venture partner in the three month period increasing accounts receivable. During the three month period, the Company added \$79,043 in mineral property expense for a total, including expenses from 2007, of \$271,544. There is a continuing evaluation cost of future involvement in the projects. The current liability increased to \$1,924,610 from \$1,899,675 at year end 2007. There were 1,225,000 shares issued in the three month period for a net increase in capital stock in the six month period of \$382,000 (\$1,183,650 in 2007). The current stock option disbursement incurred a stock-based compensation expense of \$713,212 at the year ended December 31, 2007. The Company reported a loss for the three and six month periods of \$219,425 and \$391,239 compared to \$151,987 and \$126,528 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 June 30, 2008, the Company had cash resources of \$135,729 remaining from the exercise of stock options and private placements of shares this year compared to \$501,908 in the same period in 2007 and \$217,372 at year end December 31, 2007. The Company has a working capital deficit of \$1,653,893 compared to \$1,565,611 at year end 2007 and an accumulated deficit of \$22,408,197 (\$22,016,958 at year end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors and, at the time of this report, a creditor has received shares for their debt resulting in the reduction of \$54,150 from the current accounts payable and the issue of 142,500 common shares.

LIQUIDITY AND CAPITAL RESOURCES (continued)

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 the current direction for geophysical analysis and a drilling program. At the same time, the Company is in a partnership with Diadem Resources Ltd. 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>Jun. 30</i> <i>2008</i>	<i>Mar. 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>	<i>Sep. 30</i> <i>2007</i>
Net loss (in thousands)	219	172	1,268	276
Loss per common share	0.01	0.01	0.03	0.01
Total assets (in thousands)	542	426	526	469
Shareholders' equity (deficiency) (in thousands)	(1,382)	(1,545)	(1,373)	(1,590)
<i>For the three month period 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)

ANALYSIS OF MINERAL PROPERTY EXPENSE

Permitting and agreement costs

<i>For the three month period ended</i>	<i>June 30,</i> <i>2008</i>	<i>June 30,</i> <i>2007</i>	<i>March 31,</i> <i>2008</i>	<i>March 31,</i> <i>2007</i>
Travel	55,623	-	-	-
Project management	9,900	-	-	-
Project consulting fees	4,000	-	-	-
Site communications	9,470	-	-	-
Licences and use permits	<u>50</u>	=	=	=
	79,043	-	-	-

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

<i>For the three month period ended</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>	<i>March 31, 2008</i>	<i>March 31, 2007</i>
Project evaluation and management services	42,300	32,521	50,765	30,022
Administration services	25,500	24,120	25,500	25,500
Office services/supplies/relocation	19,733	10,484	29,613	6,009
Legal fees	18,600	13,245	24,307	35,084
Audit fees	17,175	15,550	10,725	16,600
Premises rent	14,673	16,561	13,801	16,561
Accounting services	12,000	12,600	11,250	10,500
Stock transfer/exchange fees	27,831	14,627	8,343	12,683
Shareholder communication	16,238	8,180	2,360	6,751
Stock based compensation	-	-	-	7,882
Interest	20,299	1,706	(6,346)	4,870
Miscellaneous	<u>5,076</u>	<u>2,393</u>	<u>1,496</u>	<u>1,108</u>
	219,425	151,987	171,814	173,570

COMMON SHARES ISSUED

Common shares issued at June 30, 2008 were 48,408,581, at December 31, 2007 there were 47,183,581 and 46,031,194 were issued at June 30, 2007. In the three month period there were private placements for 825,000 units at \$0.40 comprised of one share and one warrant. The warrant price is \$1.00 in the first year and \$2.00 in the second year after April 15, 2008. In the same period in 2007, there were 250,000 shares issued at \$0.20 and in the six month period, 4,810,672 shares issued through private placements. In the three month period 2008, two creditors agreed to convert their debt to a total of 221,448 common shares (78,948 at \$0.38 and 142,500 at \$0.40). After the period, there were 142,500 shares issued for debt at \$0.40 and the additional debt conversion was withdrawn. In the three month period, there were 400,000 options exercised at \$0.13 and 2,930,770 shares issued through the exercise of options in the six month period in 2007.

Outstanding share purchase options granted to directors, officers and consultants include 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) and are in accordance with the Company's Stock Option Plan (see note 8c of the interim financial statements). 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, 2007.

ACCOUNTING POLICIES (continued)

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 6c of the 2007 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.

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. In the three and six month periods ended June 30, 2008, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, CEO/director) were \$28,848 and \$57,821 (\$34,123 and \$64,958 in 2007). Mr. La Prairie charged \$19,250 and \$38,500 for consulting services in the periods in 2008 and 2007. William Allen, director, provides legal services to the Company. Legal fees were \$18,600 in the three month period and \$42,907 in the six month period (\$13,245 and \$48,329 in 2007). Patricia Mannard provided corporate maintenance and accounting management services in the amount of \$12,000 and \$23,250 in the three and six month periods (\$12,600 and \$23,300 in 2007). John Dowsett, a director, provided geophysical and project development services totaling \$1,750 in the six month period (\$1,500 and \$4,325 in 2007). George Kent, a director, provided geological consulting services in the amount of \$1,719 in the three month period in 2007. As at June 30, 2008, accounts payable to the above totals \$236,428 (2007 - \$234,098).

RELATED PARTY TRANSACTIONS (continued)

At June 30, 2008, the above related parties held share purchase options. La Prairie, CEO, holds 1,000,000 options exercisable at \$0.25 up to July 31, 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. On June 26, 2008, consultants Stephen Reford and Donald Yamkowy became directors and 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, 2007 cover the governing agreements with the Inuvialuit Land Corporation and Diadem Resources Ltd. for 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 the agreement and its amendments have not been met.

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. At the time of this report, it is the Company's understanding that the conditions of the agreement have been met.

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 June 30, 2008.

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 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 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. The Company maintains its commitment to achieve full compliance with the policy.

OUTLOOK

The ongoing strength in metal prices and the influx of other mining companies participating in exploration in the area surrounding our interests in the Northwest Territories have bolstered financing possibilities. Continuing interest from the investment community and ongoing 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/early 2009. A base metal exploration program is in place based on the Strategic Review conducted in 2007 that incorporates current geophysical modeling techniques. During the reporting period, the Company held a public meeting in Paulatuk, where its Concession Agreement with the Inuvialuit Regional Corporation was ratified by the community. The Company commenced preparation of its permit application to undertake base metal exploration in 2008, for submission to the Environmental Impact Screening Committee of the Inuvialuit Land Administration in June. The purpose of the exploration is to locate base metal targets for a comprehensive drilling program scheduled to commence early in 2009. The exploration program is contingent upon the receipt of funds through equity financing or joint venture partnerships 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, 2007 AND THE INTERIM STATEMENTS FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2008 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