

May 30, 2007

**DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis**  
For the three month period ended March 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. 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 March 31, 2007, assets totaled \$670,640 compared to \$38,338 at year end December 31, 2006. During the first quarter of 2007 and 2006, 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 \$2,195,768 from \$2,440,678 at year-end 2006. There were 7,491,442 shares issued in the period for a net increase in capital stock of \$1,241,930 (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 first quarter of \$173,570 compared to \$102,268 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 March 31, 2007, the Company had cash resources of \$661,277 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 \$1,525,129 compared to \$2,402,341 at year-end 2006 and an accumulated deficit of \$20,922,172 (\$20,748,602 at year end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors.

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 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 quarter ended</i>	<i>Mar. 31</i> <i>2007</i>	<i>Dec. 31</i> <i>2006</i>	<i>Sep. 30</i> <i>2006</i>	<i>Jun. 30</i> <i>2006</i>
Net loss (in thousands)	174	305	469	152
Loss per common share	0.001	0.01	0.01	0.001
Total assets (in thousands)	671	38	201	159
Shareholders' equity (deficiency) (in thousands)	(2,340)	(2,402)	(2,487)	(2,466)
<i>For the quarter ended</i>	<i>Mar. 31</i> <i>2006</i>	<i>Dec. 31</i> <i>2005</i>	<i>Sep. 30</i> <i>2005</i>	<i>Jun. 30</i> <i>2005</i>
Net loss (in thousands)	102	5,847	59	152
Loss per common share	0.001	0.001	0.002	0.004
Total assets (in thousands)	237	239	6,813	6,731
Shareholders' equity (deficiency) (in thousands)	(2,340)	(2,238)	3,489	3,547

## ANALYSIS OF CORPORATE AND GENERAL EXPENSES

	<i>March 31, 2006</i>	<i>March 31, 2005</i>
Project evaluation and management services	30,022	25,878
Administration services	25,500	5,184
Accounting services	10,500	19,500
Premises rent	16,561	10,351
Audit fees	16,600	6,825
Legal fees	35,084	-
Stock based compensation	7,882	-
Office services & supplies	6,009	4,640
Stock transfer/exchange fees	12,683	4,463
Shareholder communication	6,751	2,592
Interest	4,870	22,548
Miscellaneous	<u>1,108</u>	<u>287</u>
	173,570	102,268

## COMMON SHARES ISSUED

Common shares issued at March 31, 2007 were 45,781,194, there were 38,289,752 at the year end and 37,116,606 issued in the three-month period in 2006. There were 4,560,672 shares issued at \$0.15 through private placements and 2,830,770 shares issued through the exercise of options at \$0.13 and 100,000 options exercised at \$0.10. Share purchase options were granted to directors, officers and consultants at an exercise price of

## COMMON SHARES ISSUED (continued)

\$0.25 (1,580,000) expiring on March 30, 2009. There are 220,000 options remaining at \$0.15 and 669,230 at \$0.13 expiring on November 4, 2009 and in accordance with the Company's Stock Option Plan (see note 6b of the interim financial statements). 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.

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 March 31, 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 month period ended March 31, 2007, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, CEO/director) were \$30,835 and \$23,360 in 2006. Mr. La Prairie charged \$19,500 for consulting services (2006 - \$13,000). Accounting and corporate maintenance services were provided in the amount of \$10,500 in 2007 by the Company's acting CFO and secretary, Patricia Mannard (corporate maintenance services totaled \$960 in 2006) and accounting services totaled \$19,500 in the period in 2006 by the Company's former CFO, Richard La Prairie. William Allen, director, provides legal services to the Company. Legal fees were \$35,084 in the period and nil in 2006. John Dowsett, director, provided geophysical consulting services in the amount of \$2,825 (nil in 2006). As at March 31, 2007, accounts payable to the above total \$502,180 (2006 - \$651,585).

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 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 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 and the Company has not received any notice of default as required by the agreement.

## 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 projects.

## OUTLOOK

The ongoing 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 including third party interest in the diamond exploration 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 base metal exploration schedule is in place to further define the property's potential upon the receipt of exploration funding. We will be seeking additional financing for this initiative and to build on our achievements through 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 THREE MONTH PERIOD ENDED MARCH 31, 2007 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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