

May 30, 2009

DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis
For the three month period ended March 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.

BALANCE SHEET AND OPERATIONS

At March 31, 2009, assets totaled \$591,829 compared to \$637,511 at year end December 31, 2008. This amount includes an accumulated mineral property expense of \$460,118 at the period end and \$429,475 at the year end. In the same interim period in 2008, there was a continuing evaluation cost of future involvement in the project and at the year end a concession agreement cost of \$192,500 was incurred. The current liability increased slightly to \$2,131,246 from \$2,069,745 at year end 2008. There were no shares issued in the three month period in 2008 and there were 667,666 shares subscribed for in December, 2008 and issued in the three-month interim period in 2009 for a net increase in capital stock of \$84,130. The current stock option disbursement incurred a stock-based compensation expense of \$508,052 at the year ended December 31, 2008. The Company reported a loss for the first quarter of \$107,183 compared to \$171,814 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 March 31, 2009, the Company had cash resources of \$2,960 remaining from the exercise of stock options and private placements of shares in 2008 and compared to \$64,588 at year end December 31, 2008. The Company has a working capital deficit of \$1,999,535 compared to \$1,871,709 at year end 2008 and an accumulated deficit of \$22,756,395 (\$22,649,212 at year end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors and providing shares for debt conversions where allowable. Further, private placements of 1,378,300 shares on April 20 and 2,133,333 shares on May 26, 2009 increased the cash position by \$366,996 at the time of this report.

LIQUIDITY AND CAPITAL RESOURCES continued

The Company's current funding objective is to support a metal exploration program and fulfill its obligations to the Inuvialuit Regional Corporation as agreed upon in principle. 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 quarter ended</i> | <i>Mar. 31</i> <i>2009</i> | <i>Dec. 31</i> <i>2008</i> | <i>Sep. 30</i> <i>2008</i> | <i>Jun. 30</i> <i>2008</i> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Net loss (in thousands) | 107 | 141 | 116 | 219 |
| Loss per common share | 0.01 | 0.01 | 0.01 | 0.01 |
| Total assets (in thousands) | 592 | 658 | 523 | 542 |
| Shareholders' equity (deficiency) (in thousands) | (1,539) | (1,432) | (1,457) | (1,382) |

| <i>For the quarter ended</i> | <i>Mar. 31</i> <i>2008</i> | <i>Dec. 31</i> <i>2007</i> | <i>Sep. 30</i> <i>2007</i> | <i>Jun. 30</i> <i>2007</i> |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Net loss (in thousands) | 172 | 992 | 150 | 152 |
| Loss per common share | 0.01 | 0.03 | 0.01 | 0.01 |
| Total assets (in thousands) | 426 | 526 | 469 | 621 |
| Shareholders' equity (deficiency) (in thousands) | (1,545) | (1,373) | (1,590) | (1,536) |

ANALYSIS OF MINERAL PROPERTY EXPENSE

Project development, permitting and agreement costs

| <i>For the three month period ended</i> | <i>March 31,</i> <i>2009</i> | <i>March 31,</i> <i>2008</i> |
|---|---------------------------------|---------------------------------|
| Project management | 19,009 | - |
| Project consulting fees | 756 | - |
| Travel | 828 | - |
| Licences and permits | <u>50</u> | <u>-</u> |
| | 20,643 | - |

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

| | <i>March 31,</i> <i>2009</i> | <i>March 31,</i> <i>2008</i> |
|--|---------------------------------|---------------------------------|
| Project evaluation and management services | 25,250 | 50,765 |
| Administration services | 24,000 | 25,500 |
| Accounting services | 11,250 | 11,250 |
| Premises rent | 14,740 | 13,801 |
| Audit fees | - | 10,725 |
| Legal fees | 3,690 | 24,307 |
| Office services, supplies and relocation expense | 9,588 | 29,613 |
| Stock transfer/exchange fees | 10,631 | 8,343 |
| Shareholder communication | 5,588 | 2,360 |
| Interest | 1,512 | (6,346) |
| Miscellaneous | <u>934</u> | <u>1,496</u> |
| | 107,183 | 171,814 |

COMMON SHARES ISSUED

Common shares issued at March 31, 2009 were 49,418,747 and at December 31, 2008 were 48,751,081 and there were 47,183,581 issued in the three-month period in 2008. In the three month period, there were 534,000 common shares issued at \$0.12 and 133,666 flow-through shares issued at \$0.15 that were subscribed for in December 2008. Holders of the \$0.12 shares 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. On April 20, 2009, the Company concluded a private placement of share purchase units. Each \$0.10 unit consisted of one common share and one four-year share purchase warrant priced at \$0.20. There were 1,170,000 units issued with proceeds of \$117,000. In addition, 208,300 flow-through share purchase units were purchased for \$0.12 with a flow through share purchase warrant available for four years at \$0.24 for additional proceeds of \$24,996. On May 26, the Company received final approval on a private placement of 1,550,000 non flow-through shares at \$0.10 with a \$0.20 warrant to purchase an additional common share for four years and 583,333 flow through shares at \$0.12 with a \$0.24 warrant to purchase an additional flow-through share for four years. The total proceeds were \$225,000. 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), 225,000 at \$0.25 (expiring on 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 8b 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.

ACCOUNTING POLICIES continued

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 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,d 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.

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.

Further, the Company has outlined the methods for recognition and measurement of financial instruments (Section 3855), assessing going concern (Section 1400) in note 2 of the audited year end statement for 2008 as well as anticipating the future changes related to goodwill and intangible assets (Section 3064) and adoption of IFRS in 2011.

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, 2009, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, CEO/director) were \$28,445 and \$28,973 in 2008. Mr. La Prairie charged \$19,500 for consulting services (2008 - \$19,500). Stephen Reford, CEO and President of the Company as of June 2008, charged \$19,009 in project management and \$827 for travel to the property in the period. Accounting and corporate

RELATED PARTY TRANSACTIONS continued

maintenance services were provided by the Company's corporate secretary, Patricia Mannard, in the amount of \$11,250 (\$11,250 in 2008). William Allen, former director, provided legal services to the Company amounting to \$24,307 in the period in 2008. John Dowsett, director, provided geophysical consulting services in the amount of \$1,200 in 2008 and George Kent, former director, provided geological consulting services in the amount of \$1,216 in 2008. As at March 31, 2009, accounts payable to the above total \$623,610 (2008 - \$517,463).

At the time of this report, the above related parties held share purchase options. Reford has an option to purchase 500,000 shares at \$0.35 up to June 12, 2009, Dowsett holds 269,230 options for \$0.13 exercisable up to November 4, 2009, Peter Telford has an option to purchase 300,000 shares at \$0.45 up to October 16, 2009 and Don Yamkowsky, director since June 2008, has an option on 300,000 shares at \$0.35 up to June 12, 2009.

COMMITMENTS

Notes 4 and 11 of the financial statements for the year ended December 31, 2008 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.

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 continues to hold an interest in the Inuvialuit Settlement Region with active prospecting permits.

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 initial Corporate Governance Policy document with the TSX Venture Exchange and on www.sedar.com. The policy is

CORPORATE GOVERNANCE continued

amended each year and appears as part of the Management Information Circular for 2008.

OUTLOOK

The global financial crisis of 2007-08 has continued into 2009. 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 current reporting period include:

- 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 Diadem discussed the next phase of exploration on the Franklin Project, pursuant to the agreements previously executed by the two 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.
- 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 purpose of the visit was to compare Olympic Dam to the characteristics of the Darnley Bay Anomaly and its tectonic setting.

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, in April, 2009.
- The Company raised \$225,000 through private placements, including \$70,000 in flow-through funds, in May 2009.
- The Company commenced environmental permitting and contract negotiation, to undertake ground geophysical surveys and geological prospecting in its two prospecting permits during the summer 2009 exploration season, followed by drilling of the primary target(s). It currently has sufficient financing to carry out

OUTLOOK continued

the permitting and survey/prospecting program.

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 AND THE INTERIM STATEMENTS FOR THE THREE MONTH PERIOD ENDED MARCH 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