

May 31, 2010

DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis
For the three month period ended March 31, 2010

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, 2010, assets totaled \$4,370,950 compared to \$4,777,386 at year end December 31, 2009. This amount includes an accumulated mineral property expense of \$1,657,813 at the period end and \$671,340 at the year end. The current liability decreased to \$859,912 from \$1,877,231 at year end 2009. There were 100,000 shares issued on the exercise of options and 3,041,361 shares to be issued through a debt conversion for an increase in capital stock of \$737,176. 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 \$1,157,992 and share purchase warrants have a value of \$1,691,100 at the year ended December 31, 2009. The Company reported a loss for the first quarter of \$126,293 compared to \$107,183 in 2009. 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, 2010, the Company had cash resources of \$2,523,814 remaining from the private placements of shares in 2009 and compared to \$3,965,696 at year end December 31, 2009. The Company has working capital in the amount of \$1,853,225 compared to \$2,228,815 at year end 2009 and an accumulated deficit of \$23,267,968 (\$23,141,675 at year end). The Company significantly reduced liabilities through debt conversions where allowable resulting in the issue of 3,041,361 shares. Further, there were 100,000 options exercised at \$0.10 in the period. In 2009, 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. 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>Mar. 31</i> <i>2010</i>	<i>Dec. 31</i> <i>2009</i>	<i>Sept. 30</i> <i>2009</i>	<i>June 30</i> <i>2009</i>
Net loss (in thousands)	126	(36)	147	274
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	4,371	4,777	959	883
Shareholders' deficiency (in thousands)	3,511	2,900	(1,364)	(1,447)
<i>For the three month period ended</i>	<i>Mar. 31</i> <i>2009</i>	<i>Dec. 31</i> <i>2008</i>	<i>Sept. 30</i> <i>2008</i>	<i>June 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	637	523	542
Shareholders' deficiency (in thousands)	(1,539)	(1,432)	(1,457)	(1,382)

ANALYSIS OF MINERAL PROPERTY EXPENSE

Project development, permitting and agreement costs

<i>For the three month period ended</i>	<i>March 31,</i> <i>2010</i>	<i>March 31,</i> <i>2009</i>
Project management	22,397	19,009
Project consulting fees	84,597	756
Property access and expense (travel)	23,508	828
Geophysical surveys	855,937	-
Licences and permits	<u>34</u>	<u>50</u>
	986,473	20,643

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

	<i>March 31, 2010</i>	<i>March 31, 2009</i>
Project evaluation and management services	28,750	25,250
Administration services	24,240	24,000
Accounting services	11,250	11,250
Premises rent	14,938	14,740
Audit fees	-	-
Legal fees	16,977	3,690
Office services, supplies and relocation expense	11,029	9,588
Stock transfer/exchange fees	4,771	10,631
Shareholder communication	14,338	5,588
Interest	-	1,512
Miscellaneous	-	934
	<u>126,293</u>	<u>107,183</u>

COMMON SHARES ISSUED

Common shares issued at March 31, 2010 were 91,880,075 and at December 31, 2009 were 88,738,714 and there were 49,418,747 issued in the three-month period in 2009. In the three month period, there were 100,000 common share issued through the exercise of \$0.10 options and a debt conversion of \$718,466 was approved and 3,041,361 shares were issued on April 8, 2010. On April 8, there was a repricing to \$0.60 and extension to October 14, 2010 of the existing \$2.00 warrants. On April 27, and May 11, the Company's agent exercised 4,175 and 25,000 compensation options resulting in the issue of 2,088 and 12,500 share purchase warrants exercisable up to December 29, 2012 at \$0.25. On May 12, the agent exercised 20,000 warrants at \$0.25 resulting in the issue of 20,000 common shares. In the first three-months of 2009, 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 2,900,000 at \$0.10 (expiring on August 5, 2011), 300,000 at \$0.15 (expiring on November 12, 2011) and 300,000 at \$0.32 (expiring

COMMON SHARES ISSUED continued

on November 27, 2011) and are in accordance with the Company's Stock Option Plan (see note 8d of the interim financial statements). The Company has 41,866 shares in escrow.

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

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.

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

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

NEW ACCOUNTING STANDARDS continued

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.

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.

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	\$ -

FUTURE ACCOUNTING CHANGES

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. On March 31, 2010, there was a debt to insiders of \$521,049 approved for conversion. In the three month period ended March 31, 2010, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, Chair/director) were \$28,649 and \$28,445 in 2009. Mr. La Prairie charged \$19,250 for consulting services (2009 - \$19,500). Stephen Reford, CEO and President of the Company, charged \$18,450 (\$19,009 in 2009) in project management, \$2,700 in executive administration (nil in 2009) and \$23,542 in reimbursable project expenses (\$827 for travel to the property in 2009). Accounting and corporate maintenance services were provided by the Company’s corporate secretary, Patricia Mannard, in the amount of \$11,250 (\$11,250 in 2009). As at March 31, 2010, accounts payable to the above total \$110,719 (\$623,610 in 2009).

RELATED PARTY TRANSACTIONS continued

At the time of this report, the above related parties held share purchase options. Reford, La Prairie and Mannard have options to purchase 600,000 shares at \$0.10 up to August 5, 2011. An additional 900,000 options are available to three directors with the same terms. There are 300,000 options at \$0.15 expiring on November 12, 2011 and 300,000 at \$0.32 expiring on November 27, 2011 available to the remaining two directors.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements as at March 31, 2010 or as of the date of this report.

COMMITMENTS

Notes 4 and 11 of the financial statements for the year ended December 31, 2009 cover the 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 to finders and the Company's agent.

On December 29, 2009, the Company renewed terms with the Inuvialuit Land Corporation for access to the property.

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 but was confirmed to be renewable. 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 amended each year and appears as part of the Management Information Circular for 2009.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate under Multilateral Instrument ("MI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification includes a 'Note to Reader' stating that the CEO and CFO do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in MI 52-109.

OUTLOOK

The closing of the \$5 million financing on December 29, 2009 allowed the Company to initiate its strategy to locate deposits of metals and diamonds in the Paulatuk, Northwest Territories area during the current quarter. Two airborne geophysical surveys commenced to improve the resolution and coverage over the Darnley Bay Anomaly and adjacent areas. New prospecting permits were acquired to incorporate the margins of the Darnley Bay Anomaly in the Company's land package and to reacquire ground that showed good potential for hosting kimberlite pipes from previous exploration.

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 March 31, 2010 include:

- 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.

OUTLOOK continued

- 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 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.
- 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.

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

- Sander Geophysics Limited completed the AIRGrav gravity and magnetic survey on April 3, 2010. Preliminary results were posted on the Company's website.
- 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.
- Kerry Knoll visited potential investors in Beijing and Shanghai during April 2010.
- The Company continued its preparation for the drilling and exploration program, and the involvement of the Inuvialuit in the program, with ongoing discussion, meetings and travel to Paulatuk and Inuvik by Company personnel. Analysis of the new airborne survey data was initiated to locate the highest priority targets for ground follow-up and drilling.

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 INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2010 THAT ARE AVAILABLE ALONG WITH ALL THE COMPANY'S PUBLIC DOCUMENTS ON WWW.SEDAR.COM

www.darnleybay.com TSX Venture Exchange Symbol DBL