

November 28, 2008

**DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis**  
For the interim period ended September 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, located 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 so as to continue exploration for base metals and diamonds, resulting in the development of a profitable mining camp.

BALANCE SHEET AND OPERATIONS

At September 30, 2008, assets totaled \$522,885 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 nine month period increasing accounts receivable. During the three month period, the Company added \$116,274, increasing the nine month total to \$195,317, in mineral property expense for a total, including expenses from 2007, of \$387,818. There is a continuing evaluation cost of future involvement in the projects. The current liability increased to \$1,979,928 from \$1,899,675 at year end 2007. There were 200,000 shares issued in the three month period for a net increase in capital stock in the nine month period of \$439,000 (\$1,279,150 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 \$131,693 and \$522,933 compared to \$149,660 and \$276,188 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 September 30, 2008, the Company had cash resources of \$10,430 remaining from the exercise of stock options and private placements of shares this year compared to \$349,444 in the same period in 2007 and \$217,372 at year end December 31, 2007. At the time of this report an additional \$50,000 was raised through the private placement of shares. The Company has a working capital deficit of \$1,844,861 compared to \$1,565,611 at year end 2007 and an accumulated deficit of \$22,539,891 (\$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, the Company is waiting

## LIQUIDITY AND CAPITAL RESOURCES (continued)

for the final approval on a \$400,000 debt conversion that will result in the issue of 1,600,000 common shares.

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>Sep. 30</i> <i>2008</i>	<i>Jun. 30</i> <i>2008</i>	<i>Mar. 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>
Net loss (in thousands)	523	219	172	1,268
Loss per common share	0.01	0.01	0.01	0.03
Total assets (in thousands)	523	542	426	526
Shareholders' equity (deficiency) (in thousands)	(1,457)	(1,382)	(1,545)	(1,373)
 <i>For the three month period ended</i>	 <i>Sep. 30</i> <i>2007</i>	 <i>Jun. 30</i> <i>2007</i>	 <i>Mar. 31</i> <i>2007</i>	 <i>Dec. 31</i> <i>2006</i>
Net loss (in thousands)	276	126	174	305
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	469	621	671	38
Shareholders' equity (deficiency) (in thousands)	(1,590)	(1,536)	(2,340)	(2,402)

### ANALYSIS OF MINERAL PROPERTY EXPENSE

#### Permitting and agreement costs

<i>For the three month period ended</i>	<i>Sept 30,</i> <i>2008</i>	<i>Sept. 30,</i> <i>2007</i>	<i>June 30,</i> <i>2008</i>	<i>June 30,</i> <i>2007</i>
Travel	-	-	55,623	-
Project management	32,635	-	9,900	-
Project consulting fees	22,002	-	4,000	-
Site communications	-	-	9,470	-
Property access	61,637	-	-	-
Licences and permits	<u>-</u>	<u>=</u>	<u>50</u>	<u>=</u>
	116,274	-	79,043	-

## ANALYSIS OF CORPORATE AND GENERAL EXPENSES

<i>For the three month period ended</i>	<i>Sept. 30, 2008</i>	<i>Sept. 30, 2007</i>	<i>June 30, 2008</i>	<i>June 30, 2007</i>
Project evaluation and management services	37,605	68,218	42,300	32,521
Administration services	27,000	24,000	25,500	24,120
Office services/supplies	15,890	10,730	19,733	10,484
Legal fees	10,800	5,416	18,600	13,245
Audit fees	7,900	-	17,175	15,550
Premises rent	15,973	16,561	14,673	16,561
Accounting services	11,250	10,900	12,000	12,600
Stock transfer/exchange fees	2,920	7,642	27,831	14,627
Shareholder communication	8,442	5,508	16,238	8,180
Stock based compensation	-	-	-	-
Interest	(8,015)	585	20,299	1,706
Miscellaneous	<u>1,928</u>	<u>100</u>	<u>5,076</u>	<u>2,393</u>
	131,693	149,660	219,425	151,987

## COMMON SHARES ISSUED

Common shares issued at September 30, 2008 were 48,551,081 (46,608,581 in the same period in 2007) and at December 31, 2007 there were 47,183,581. In the three month period there was a debt conversion in the amount of \$57,000 resulting in the issue of 142,000 common shares (93,750 shares were issued by debt conversion in 2007). In the nine 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 36,364 shares issued through private placement at \$0.55. There were 400,000 options exercised at \$0.13 up to September 30, 2008 compared to 220,000 shares issued at \$0.15 and 80,000 at \$0.25 through option exercise in 2007. After the period, there were 200,000 shares issued through a private placement of common share units at \$0.25. Each unit included one share purchase warrant exercisable for \$0.40 up to October 3, 2010.

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.

## ACCOUNTING POLICIES (continued)

These are outlined in full detail in note 2 of Company's audited financial statements for the year ended December 31, 2007.

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 nine month periods ended September 30, 2008, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, Chairman/director) were \$28,832 and \$86,653 (\$30,301 and \$95,259 in 2007). Mr. La Prairie charged \$19,250 and \$57,750 for consulting services in the periods in 2008 and 2007. Stephen Reford, CEO, charged the Company \$27,900 in the three month period (Reford was elected a director on June 26, 2008). William Allen provided legal services to the Company until he retired as a director of the Company on June 26, 2008. Legal fees were \$42,907 in the nine month period (\$5,416 and \$53,745 in 2007). Patricia Mannard provided corporate maintenance and accounting management services in the amount of \$11,250 and \$34,750

## RELATED PARTY TRANSACTIONS (continued)

in the three and nine month periods (\$10,900 and \$34,200 in 2007). John Dowsett, a director, provided geophysical and project development services totaling \$1,750 in the nine month period (\$5,500 and \$9,825 in 2007). George Kent, a director, provided geological consulting services in the amount of \$2,156 in the three month period and \$3,580 in the nine month period (\$3,640 and \$5,357 in 2007). Donald Yamkowy, elected a director on June 26, 2008, charged the Company \$4,165 in the three month period. As at September 30, 2008, accounts payable to the above totals \$562,912 (2007 - \$221,171).

At September 30, 2008, the above related parties held share purchase options. La Prairie 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. Stephen Reford and Donald Yamkowy (former consultants to the Company and now directors) 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. ("Diadem") for exploration of diamonds and other commitments.

Effective November 26, 2003, the Company entered into an agreement to form a joint venture with Diadem, 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 reset the deadlines for earn-in (June 30, 2008) and other requirements including a loan repayment (March 31, 2008). At the time of this report, all the terms of the agreement and its amendments have not been met.

The Company and Diadem 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 September 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](http://www.sedar.com). The Company maintains its commitment to achieve full compliance with the policy.

## OUTLOOK

During the reporting period, the Company reports the following activities:

- A permit to carry out exploration on the 7(1)(a) and selected portions of the 7(1)(b) lands near Paulatuk, NT was granted to the Company on September 4, 2008, after submission of its permit application to the Environmental Impact Screening Committee of the Inuvialuit Land Administration in June 2008. The permit incorporated the execution of airborne geophysical surveys, geological prospecting and sampling, and studies of water sources for winter drilling. To date, the work has not been carried out due to lack of funds.
- Diadem Resources Ltd. provided the Company with the report on ground magnetic surveys carried out over claims on the Parry Peninsula in April 2008, as part of its earn-in obligations towards a 50/50 joint venture on diamond exploration northwest of Paulatuk, NT. Diadem filed the necessary paperwork and fees with the Mining Recorder's Office in Yellowknife, to maintain all claims on the Parry Peninsula in good standing. The report delineated new kimberlite targets for drilling.
- The Company notified Diadem Resources Ltd. that it had not fulfilled all of its obligations at June 30, 2008, as stated in the most recent agreement between the two companies. In particular, a debt to the Company of \$100,000 plus interest remains outstanding, and clarification of certain exploration expenditures was requested.

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

- The Company initiated private placements for common shares and warrants, and for flow-through shares and warrants, with a closing date of December 17, 2008.
- The Company attended the Yellowknife Geoscience Forum, and made a technical presentation on November 20, 2008.
- Agents of the Company attended the China Mining Congress & Expo in Beijing, November 11-13, 2008, and discussed partnerships with interested Chinese mining companies.

The global financial crisis of 2008 commenced in earnest during the reporting period, and has continued unabated. 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. Nevertheless, the Company perseveres with financing so as to carry out its planned exploration activities in 2009. The ongoing support from the Inuvialuit Regional Corporation, the community of Paulatuk and other local participants is encouraging. The purpose of the exploration is to locate metal 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.

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 NINE MONTH PERIOD ENDED SEPTEMBER 30, 2008 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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