

November 28, 2009

DARNLEY BAY RESOURCES LIMITED - Management's Discussion and Analysis
For the interim period ended September 30, 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 September 30, 2009, assets totaled \$958,799 compared to \$637,511 at year end December 31, 2008. During the three month period, the Company added \$35,309 (\$116,274 in 2008), increasing the nine month total to \$141,544 (\$195,317 in 2008), in mineral property expense for a total \$581,019 (\$387,818 in 2008) compared to \$439,475 at year end. The current liability increased to \$2,323,196 from \$2,069,745 at year end. There were 6,654,299 shares issued in the nine month period for a net increase in capital stock in the nine month period of \$679,426 (\$439,000 in 2008). The stock option disbursement incurred an annually calculated stock-based compensation expense of \$508,152 at December 31, 2008. The Company reported a loss for the three and nine month periods of \$146,562 and \$527,459 compared to \$131,693 and \$522,933 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 September 30, 2009, the Company had cash resources of \$247,359 generated from private placements of shares this year compared to \$10,430 in the same period in 2008 and \$64,588 at year end December 31, 2008. The Company has a working capital deficit of \$1,985,416 compared to \$1,871,709 at year end 2008 and an accumulated deficit of \$23,176,671 (\$22,649,212 at year end). The Company is actively working to reduce liabilities through ongoing negotiations with primary creditors where allowable. Further, private placements of 1,378,300 shares on April 20 and 2,133,333 shares on May 26 plus an additional 2,475,000 on July 23 have increased the cash position by \$614,496 in the nine-month period.

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 three month period ended</i>	<i>Sept. 30</i> <i>2009</i>	<i>June 30</i> <i>2009</i>	<i>Mar. 31</i> <i>2009</i>	<i>Dec. 31</i> <i>2008</i>
Net loss (in thousands)	147	274	107	141
Loss per common share	0.01	0.01	0.01	0.01
Total assets (in thousands)	959	883	592	637
Shareholders' equity (deficiency) (in thousands)	(1,364)	(1,447)	(1,539)	(1,432)

<i>For the three month period ended</i>	<i>Sept. 30</i> <i>2008</i>	<i>June 30</i> <i>2008</i>	<i>Mar. 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>
Net loss (in thousands)	116	219	172	992
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)

ANALYSIS OF MINERAL PROPERTY EXPENSE

Permitting and agreement costs

<i>For the three month period ended</i>	<i>Sept. 30,</i> <i>2009</i>	<i>Sept. 30,</i> <i>2008</i>	<i>June 30,</i> <i>2009</i>	<i>June 30,</i> <i>2008</i>
		-		
Project management	10,350	32,635	9,000	9,900
Project consulting fees	7,492	22,002	2,040	4,000
Travel	-	-	-	-
Property access	17,467	61,637	74,551	65,093
Licences and use permits	<u>-</u>	<u>-</u>	<u>-</u>	<u>50</u>
	35,309	116,274	85,591	79,043

ANALYSIS OF CORPORATE AND GENERAL EXPENSES

<i>For the three month period ended</i>	<i>Sept. 30, 2009</i>	<i>Sept. 30, 2008</i>	<i>June 30, 2009</i>	<i>June 30, 2008</i>
Project evaluation and management services	35,600	37,605	15,000	42,300
Administration services	25,800	27,000	25,500	25,500
Office services/supplies	15,468	15,890	17,396	19,733
Legal fees	5,775	10,800	3,218	18,600
Audit fees	4,150	7,900	21,550	17,175
Premises rent	15,477	15,973	15,477	14,673
Accounting services	11,250	11,250	11,250	12,000
Stock transfer/exchange fees	3,156	2,920	21,602	27,831
Shareholder/investor communication	29,477	8,442	11,702	16,238
Interest	409	(8,015)	129,132	20,299
Miscellaneous	<u>-</u>	<u>1,928</u>	<u>1,887</u>	<u>5,076</u>
	146,562	131,693	273,714	219,425

COMMON SHARES ISSUED

Common shares issued at September 30, 2009 were 55,405,380 and at December 31, 2008 were 48,751,081 and there were 48,551,081 issued at September 30, 2008. In the three month period there were 2,475,000 shares issued at \$0.10 added to the 791,633 flow-through shares issued at \$0.12 and 2,720,000 common shares issued at \$0.10 issued in the nine-month period and 133,666 flow-through shares also issued in the nine month period at \$0.15 that were subscribed for in December 2008 and issued in January, 2009. Holders of the \$0.12 shares issued first three months of the year 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. The \$0.10 shares issued in April, May and July 2009 entitle the holder to purchase an additional share for \$0.20 up to April 20, May 20 and July 23, 2013, similarly, the \$0.12 shares entitle their holder to exercise the attached warrant for flow-through shares at \$0.24 on or before April 20 and May 20, 2013. In 2008, 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 addition, 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), there were 142,500 shares issued for debt at \$0.40 and the additional debt conversion was withdrawn.

In the nine month period, there were 2,525,000 share purchase options granted to directors, officers and consultants that expired and there were 3,000,000 issued at \$0.10 compared to the exercise of 400,000 options at \$0.13 in the nine month period in 2008. Outstanding options at September 30, 2009 include 300,000 at \$0.45 and 269,230 at \$0.13. At the time of this report the \$0.45 and \$0.13 options had expired and there were 300,000 at \$0.15 issued expiring on November 12, 2011 in accordance with the

COMMON SHARES ISSUED (continued)

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, 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 metals and diamonds.

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 c and 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 and nine month periods ended September 30, 2009, amounts charged for management fees, office services and rent by La Prairie Ltd. (controlled by Leon La Prairie, CEO/director) were \$29,157 and \$86,759 (\$28,832 and \$86,653 in 2008). Mr. La Prairie charged \$19,250 and \$57,750 for consulting services in 2009 and 2008 in the three and nine month periods and \$1,290 in meeting expense and \$581 in office expenses in the nine-month period of 2009. Stephen Reford, CEO and President of the Company as of June 2008, charged \$20,700 in project and executive management in the three month period and \$57,700 in the nine month period plus \$8,941 and \$9,768 for travel to the property in the three and nine month periods. Patricia Mannard provided corporate maintenance and accounting management services in the amount of \$11,250 and \$33,750 in the three and nine month periods (\$11,250 and \$34,750 in 2008). William Allen, former director, provided legal services to the Company amounting to \$18,600 and \$42,907 in the three and nine month periods in 2008. John Dowsett, director, provided geophysical consulting services in the amount of \$1,750 in 2008 and George Kent, former director, provided geological consulting services in the amount of \$1,216 in 2008. As at September 30, 2009, accounts payable to the above total \$427,928 (2008 - \$562,912).

At September 30, 2009, the above related parties held share purchase options. Dowsett has 269,230 options at \$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 August 5, 2009, there were 600,000 two year options at \$0.10 issued to Reford, La Prairie and Mannard and 300,000 to Dowsett, Telford and Don Yamkowy (director since June, 2008). On November 12, 2009, an additional 300,000 options at \$0.15 were issued to a new director of the company to be exercised within two years.

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. have not been resolved.

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

COMMITMENTS (continued)

January 1, 2009, this agreement expired. The Company continues to hold an interest in the Inuvialuit Settlement Region with active prospecting permits.

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, 2009.

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 the Inuvialuit Regional Corporation to allow property access for both projects. Also see the financial risk factors in the interim financial statements for the period ended September 30, 2009 (note 5).

CORPORATE GOVERNANCE

On February 22, 2007, the Company filed its Corporate Governance Policy document with the TSX Venture Exchange and which can be viewed on www.sedar.com. The policy is amended annually and appears as an appendix to the Company's Management Information Circular. The Company maintains its commitment to achieve full compliance with the policy.

OUTLOOK

The global financial crisis of 2007-08 has continued into 2009. However, it appears that the equity and credit markets have started to thaw for financing of junior exploration companies in Canada. The Company has implemented a series of marketing and financing initiatives in China, the United States and Canada 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 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 raised \$247,500 through private placements.
- The Company engaged CIM Securities, LLC of Centennial, Colorado as its exclusive financial advisor in the United States.
- The Company engaged SummitRG Business Development Services (Canada) and its Chinese partner New Tigers Consulting, to seek joint venture partners and investors in China.
- The Company undertook a consultation with the Paulatuk Hunters and Trappers

OUTLOOK (continued)

Committee for its 2009 exploration program in August 2009. It subsequently submitted the revisions of its 2008 project description to the Environmental Impact Screening Committee of the Joint Secretariat – Inuvialuit Renewable Resource Committees. The objective of this process was to obtain the permit necessary to carry out its geophysical survey and geological prospecting program.

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

- The Company continued the environmental permitting process with the Inuvialuit authorities. After several discussions with these authorities and the Company's survey contractor, it became apparent that logistical difficulties make the February-April 2010 period a more suitable timeframe to carry out the planned geophysical surveys. This will also allow the Company to raise additional funds to expand the program.
- The Company announced the appointment of Mr. Kerry J. Knoll to its Board of Directors on November 18, 2009. Mr. Knoll is a well-known figure in the mining industry, having co-founded several successful companies over more than two decades. His financing skills are a particular asset to the Company.

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 AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2009 WHICH ACCOMPANY THIS ANALYSIS AND, ALTERNATELY, ARE AVAILABLE ALONG WITH ALL THE COMPANY'S PUBLIC DOCUMENTS ON WWW.SEDAR.COM