



FORM 51-102F1
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE FOUR MONTHS ENDED DECEMBER 31, 2004
As of April 18, 2005

SKYE RESOURCES INC.

INTRODUCTION

This Management Discussion and Analysis (the “MD&A”) contains references to Skye Resources Inc. (“Skye” or the “Company”) using words like “we” “us” “our” and similarly we refer to the reader using words like “you” and “your”.

We have prepared the MD&A with reference to National Instrument 51-102 “Continuous Disclosure Obligations” of the Canadian Securities Administrators (“NI 51-102”). We announced on November 23, 2004 that we were changing our year end from August 31 to December 31. This MD&A covers the four month transition period between the year ended August 31, 2004 and December 31, 2004 (the “Transition Period”), is prepared as of April 18, 2005, and should be read in conjunction with our audited consolidated financial statements for the period ended December 31, 2004. Unless otherwise stated, all amounts in this MD&A and in the audited financial statements are expressed in Canadian dollars. We report our financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. Please also refer to the Cautionary Statement at the end of this MD&A.

We are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “SKR”.

Additional information about Skye, including our continuous disclosure materials such as our annual and quarterly financial statements, is available through the SEDAR website at <http://www.sedar.com>.

OVERVIEW

We are a development stage resource company with the objective of building a profitable nickel company. Our strategy is to:

- Assemble a small, seasoned, technically sophisticated management team;
- Acquire the rights to good quality lateritic nickel deposits;
- Develop an improved leaching process; and
- Apply best practices in community relations and environmental management

On September 30, 2004, we entered into a Share Purchase Master Agreement (the “Master Agreement”) with Inco Limited (“Inco”) pursuant to which we completed on December 15, 2004 the conditional acquisition from Inco of a 70% interest in Exploraciones y Explotaciones Mineras Izabal S.A. (which changed its name to Compañía Guatemalteca de Níquel, S. A. effective January 2005 and is referred to throughout this text as “CGN”). CGN is a Guatemalan company which holds exploration licenses covering certain nickel properties in eastern Guatemala and also owns a pyrometallurgical nickel processing plant and related facilities that have been closed for over 20 years. From 1977 to 1980 CGN operated the pyrometallurgical plant at the site which produced a nickel matte for export. Since the plant shutdown, no mining activity has taken place on the CGN property. The acquisition of CGN is more fully described under Results of Operations.

Upon signing the Master Agreement with Inco, a scoping study by Hatch Ltd. ("Hatch") was initiated and on February 28, 2005 we received their preliminary assessment report investigating both smelting and atmospheric leaching process options for our CGN nickel laterite project (hereafter named "Fenix"). Based on that report, we initiated a feasibility study for a ferro-nickel operation at Fenix involving the refurbishment and expansion of the existing plant to produce 45 million pounds of nickel annually. We are also continuing pilot plant testing of our proprietary atmospheric leaching process to produce an intermediate nickel/cobalt product from nickel laterites such as those found at the Fenix project.

For the period ended December 31, 2004 we reported a loss of \$1,558,701 (loss per share of \$0.13) compared to a loss of \$ 3,845,552 (loss per share of \$0.38) for the year ended August 31, 2004. The loss for the period is principally related to salaries, non-cash stock based compensation costs, expenditures associated with acquiring the 70% interest in CGN and development costs of our atmospheric leach process to treat nickel laterite material. As at December 31, 2004, we had working capital of \$6,290,868 of which \$4,792,000 was attributable to warrants exercised during the Transition Period. Subsequently, on March 24, 2005, we closed a \$32 million private placement. As at March 31, 2005 we had a cash balance of \$35,311,000.

Financial results are more fully described under "Selected Financial Information" and "Summary of Quarterly Results".

The Nickel Market

Nickel usage can be broken down into certain sectors as follows: approximately 65% is used in the manufacturing of stainless steels, approximately 20% is used to produce other steel and non-ferrous alloys, approximately 9% is used in electro-plating, and the balance is used in the production of coins and nickel chemicals. Nickel is generally produced and used in the form of ferro-nickel, nickel oxides or as pure nickel metal. Nickel is readily recycled and large tonnages of secondary or "scrap" nickel is used to supplement newly mined production. Nickel production, which is a capital intensive and metallurgically complex business, had, prior to the mid 1960's, been concentrated in the hands of a few large producers. Over the next two decades many new producers entered the market resulting in production being wide-spread geographically with 29% produced in the former Soviet Union, 21% produced in the Americas, 16% in Europe, 15% in Australia, 14% in Asia and 5% in Africa.

Profitability in the nickel business is closely linked to the price of nickel. Since 1979, when nickel prices first began to be set on the London Metal Exchange (as opposed to being set by the producers), the price of nickel has been very volatile driven by cycles of imbalance in supply and demand. In the 1990s following the collapse of the Soviet Union, the market was flooded with new and scrap Russian nickel discouraging investment in new production. In 2004 dollars, nickel prices from 1994-2003 averaged approximately US\$3.65/lb compared with an approximate average long term price in 2004 dollars of US\$4.72/lb. Since early 2003, nickel prices have been rising and have recently reached levels above US\$7.00/lb - driven by the boom in China combined with strong growth in the West. Nickel prices were above historical levels for 2004 and we expected that trend to continue throughout 2005. Demand for nickel remains strong in Asia and the United States but prices beyond the US\$7.00/lb. witnessed in the first quarter of 2005 are expected to meet increasing resistance from the substitution of cheaper alternatives, increased supplies of scrap and a rise in production. One significant source of new production will be Inco's Voisey's Bay project in Labrador which is expected to come on stream in 2005 and reach full output by 2006.

SELECTED FINANCIAL INFORMATION

	Four months ended Dec. 31		Years ended Aug. 31	
	2004	2004	2004	2003
Total Revenue	\$ 26,056	\$ 71,946	\$ 1,869	
Loss before discontinued operations and extraordinary items	\$ 1,558,701	\$ 3,845,552	\$ 107,864	
per share and diluted per share	\$ 0.13	0.38	0.02	
Net Loss	\$ 1,558,701	\$ 3,845,552	\$ 107,864	
per share and diluted net loss per share	\$ 0.13	0.38	0.02	
Total Assets	\$ 16,896,504	\$ 4,877,148	\$ 130,786	
Total long-term financial liabilities	-	-	-	
Cash dividends declared per share	N/A	N/A	N/A	

For the fiscal period ended August 31, 2003 we did not own an interest in any resource property nor were we in the process of acquiring one. Effective October 2002, we were designated an inactive company by the TSX-V and were later transferred to the NEX board until such time as we met the TSX-V Tier II listing requirements. On November 27, 2003 we announced the signing of a letter of intent with Inco concerning the acquisition of CGN and on December 24, 2003 we closed a \$6,000,000 private placement. Subsequent to closing the private placement our listing was transferred from the NEX board to Tier II of the TSX-V.

As a development stage resource company we earn no operating income and our only source of revenue is interest income. Consequently, there was an increase in revenue between August 31, 2003 and August 31, 2004 directly attributable to the additional interest we earned on the December 24, 2003 proceeds of the private placement. The same private placement also accounted for the substantial increase in total assets for the period. Similarly, we earned no operating income during the Transition Period and our interest income for the period was \$29,880 off-set by exchange losses of \$3,824. Total assets at December 31, 2004 were \$16,896,504 representing an increase of \$12,019,356 over the year ended August 31, 2004. The increase net of cash expenses is accounted for by two contributing factors: the acquisition of CGN with a book value of \$9,189,909 and the exercise of \$4,792,000 of warrants.

The substantial increase in net loss and net loss per share from August 31, 2003 to August 31, 2004 was principally caused by non-cash stock-based compensation expense, the cost of building a management team of senior executives, costs related to acquiring CGN and costs related to developing an atmospheric sulfuric acid leach process. During the Transition Period, a loss of \$1,558,701 occurred with approximately 73% being accounted for by four categories: Salary and employee benefits (28.1%); Exploration and development (18.7%); Stock Compensation (13.9%); and Consulting (12.3%). General and administrative expenses for the period were \$110,359 or approximately 7% of total expenses.

RESULTS OF OPERATIONS

Since entering into a non-binding letter of intent with Inco on November 27, 2003, significant time and resources were committed in reaching the Master Agreement with them for their interest in CGN. On September 30, 2004 we announced that we had reached such an agreement with them and that we would conditionally acquire their 70% interest in CGN on December 15, 2004. The remaining 30% of CGN continues to be owned by the Government of Guatemala.

In consideration of conditionally acquiring Inco's 70% interest in CGN, we issued to Inco 1,888,101 Skye common shares, together with 198,665 common share purchase warrants exercisable at \$3 per share, and 5,098 common share purchase warrants exercisable at \$2 per share (all of which warrants expired on December 24, 2004). Pursuant to the Master Agreement we have a 5-year option period to evaluate the technical and economic feasibility of CGN developing a nickel mining and processing project in the area covered by CGN's exploration licenses. If we exercise the option to proceed with the project, a subsequent closing will occur at which time we will pay Inco U.S. \$3.5 million and issue approximately 1.75 million additional common shares (collectively the "Additional Consideration") to Inco in consideration for certain surface rights it holds through affiliates in Guatemala. The Additional Consideration is payable once we have fulfilled a number of conditions during the option period, including the preparation of a feasibility study and the completion of financings to raise an aggregate of \$20 million less the proceeds from the exercise of outstanding warrants (Note: this latter condition was subsequently satisfied on March 24, 2005 – see "Capital Resources" below). In addition, Inco retained the right to receive certain payments based on the tonnages of ore mined from the concessions and, if a ferro-nickel plant is operated, will also receive certain payments on any ferro-nickel produced based on a net smelter return formula. Inco also agreed to market any finished nickel products, and will have certain rights to refine any intermediate nickel products of CGN. If certain conditions are not met by us during the option period or we elect not to exercise our option to proceed with the project, Inco will have the right to reacquire its interest in CGN for a nominal cost.

In recognition of Geostar Metals Inc. ("Geostar") providing assistance in connection with the CGN acquisition, we agreed to pay Geostar \$75,000 and issue 500,000 of our common shares upon our acquiring CGN. Subject to that agreement, we issued to Geostar the 500,000 shares with 90,350 shares subject to a statutory hold period expiring April 16, 2005 and 409,650 shares subject to an additional contractual resale restriction expiring December 16, 2005.

One of the conditions to be satisfied prior to closing the acquisition of Inco's 70% interest in CGN was the Government of Guatemala issuing new exploration licenses covering certain nickel concessions held by CGN. On December 13, 2004, new exploration licenses were issued by the Government replacing the Niquegua exploitation concession which was originally issued in 1965 for an initial 40 year term and two smaller concessions issued in 1974. The new licenses are for an initial three year period (renewable on application for up to two additional periods of two years each). Upon approval of an environmental impact study, the licenses would, subject to the filing of an application and receipt of approval from the Ministry of Energy & Mines, be converted into exploitation licenses, which would have a 25 year term, with a right of renewal for an additional 25 year period. In connection with the granting of the exploration licenses, we made payments of approximately \$800,000 to the Government of Guatemala and \$160,000 to the Municipality of El Estor to settle certain claims for royalties levied on previous operations.

We have also made significant progress in developing an atmospheric sulfuric acid leach process which may be able to treat CGN's mineralized material. Provisional U.S. patents have been filed and extensive laboratory testing has been undertaken at SGS Lakefield Research. Under the Master Agreement, we have agreed to grant Inco the right to use at its own facilities on commercial terms, any process developed by us and used at the Fenix project.

Two technical reports have been prepared on the CGN property in accordance with National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101"). The first report was dated December 2, 2003 (filed on Sedar December 15, 2003) and prepared by Amec E&C Services Limited ("AMEC") by two "qualified persons", Dominique François Bongarçon Ph.D. and Brian Montpellier P.Eng.. AMEC reviewed certain existing data and reclassified the saprolite resource as follows:

Resource	Dry Metric Tonnes 000's	Nickel %
Measured	5,580	2.11
Indicated	<u>8,041</u>	1.92
Measured + Indicated	13,621	1.99
Inferred	17,393	1.74

The second report dated September 23, 2004 (filed on Sedar October 14, 2004) was prepared by Golightly Geoscience by "qualified persons" J. Paul Golightly and titled *Exmibal Nickel Project: Nickel Laterite Deposits of the Lake Izabal Region, Guatemala: Initial Assessment of activity required to re-evaluate the Resources*. This technical report reclassifies mineral resources in addition to those reviewed and reclassified by AMEC in its technical report dated December 2, 2003.

The aggregate of these two estimates, which are reported as at September 23, 2004, are as follows:

Resource	Dry Metric Tonnes 000's	Nickel %	Cobalt %
Saprolite			
Measured	14,292	1.91	Not determined
Indicated	<u>48,995</u>	1.82	Not determined
Measured + Indicated	63,287	1.84	Not determined
Inferred	57,458	1.66	Not determined
Limonite			
Inferred	24,465	1.31	0.103

We also received a preliminary assessment report titled *FENIX Preliminary Assessment*, dated February 28, 2005, from Hatch Ltd. prepared in accordance with NI 43-101 by a "qualified persons" Frank Porretta, P.Eng. and independent consultant Jan Sajer, P.Eng. The preliminary assessment report investigated both smelting and atmospheric leaching process options for our

CGN Fenix nickel laterite project. Based on this report, we initiated a feasibility study for a ferro-nickel operation at Fenix involving the refurbishment and expansion of the existing plant to produce 45 million pounds of nickel annually. We are also continuing pilot testing of our proprietary atmospheric leaching process to produce an intermediate nickel/cobalt product from nickel laterites such as found at the Fenix project.

Risks

Mineral exploration and mining activities are speculative by their nature and involve a high degree of risk, including the following:

Exploration and Development Risk. The exploration and development business is inherently risky and few projects actually become operating mines. CGN does not have proven or probable mineral reserves and substantial expenditures on exploration, development of metallurgical processes and a feasibility study are required to prove mineral reserves.

Development Stage Company. We are a development stage company with no history of operating revenues or pre-tax profits. There can be no assurance that our operations will be profitable in the future.

Master Agreement with Inco. There is no guarantee that we will satisfy all the conditions during the five year option period of the agreement and thereafter be in a position to exercise the option and complete the acquisition.

Exploitation Licenses. There is no guarantee that the newly issued exploration licenses can be converted into exploitation licenses by meeting certain terms including preparation of an acceptable environmental impact study. Without the exploitation licenses the Fenix project would not proceed.

Nickel Prices. The future price of nickel dictates the economics of any nickel project. Nickel prices have historically fluctuated widely and there is no guarantee that future nickel prices will be sufficiently high to allow for an adequate return on Fenix or justify its development.

Foreign Property. CGN is located in Guatemala and as such is susceptible to certain risks including currency fluctuations, political or financial instability, exchange controls, aboriginal issues, changes in mining regulations, export controls, changes in permit and licensing requirements, delays in the issuance of permits, embargos, expropriation, and environmental issues all of which may adversely impact our business.

Environmental Risk. Mining and minerals processing activities have a potential impact on the quality of air and water and on the current and future use of land and water resources. We will strive to be leaders in the protection of the environment and will employ best practices but there is no guarantee of success.

Community Risk. Our exploration and mining operations will have an impact on the communities in which they are situated and depend for their success on the support of those communities. We are committed to consulting and working constructively with local communities on such issues as safety and health, opportunities for local people and

long term sustainability but there is no guarantee of receiving the support of these communities.

Financing. Exercising the option, constructing the mine and beginning operations will require substantial financial resources. There is no guarantee that we will find the necessary financial resources to complete the Fenix project.

Competition. We compete with many other resource companies that are engaged in the search for and acquisition of mineral resource properties and experienced personnel to manage and operate these properties. Most of our competitors are more established and better financed than we are and therefore there is no guarantee that we will be successful in acquiring other properties and capable personnel necessary to develop a successful operation.

Technical Risk. There is no certainty that the hydrometallurgical process we have been developing will work or that we will receive the necessary permits to use it at Fenix or elsewhere. We have filed provisional US patents for our hydrometallurgical processes but there is no guarantee that implementation of such processes will not infringe, or be alleged to infringe, an existing patent.

Energy Cost. Mining and processing operations are energy intensive and sensitive to the high cost of energy. The economics of Fenix could be compromised as a result of continued high energy costs, particularly as they relate to the ferro-nickel option.

SUMMARY OF QUARTERLY RESULTS

	Transition Period Sept. 1, 2004 to Dec. 31, 2004	Year Ended August 31 Quarterly Results 2003/2004				Year Ended August 31 Quarterly Results 2002/2003		
		Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	\$ 26,056	\$ 23,528	\$ 27,306	\$ 19,902	\$ 1,210	\$ 520	\$ 447	\$ 434
Loss before extraord. items	1,558,701	1,657,363	718,402	1,384,684	85,103	58,837	14,516	23,000
per share	0.13	0.17	0.06	0.14	0.01	0.01	-	-
Net Loss	1,558,701	1,657,363	718,402	1,384,684	85,103	58,837	14,516	23,000
per share	\$ 0.13	\$ 0.17	\$ 0.06	\$ 0.14	\$ 0.01	\$ 0.01	\$ -	\$ -

During the year ended August 31, 2003 we had no business operations and incurred minimal expenses to maintain the Company. Starting in late Quarter 1 of the year ended August 31, 2004, we began building a management team and incurring expenditures to reach agreement with Inco on CGN. Fluctuations between quarters in the 2004 year relate mainly to the expensing of stock based compensation.

During the Transition Period we acquired CGN, raised additional financing through the exercise of outstanding warrants and continued development of our atmospheric sulfuric acid leach process. Financial information with respect to the Transition Period is presented in greater detail under the previous heading of "Selected Financial Information".

LIQUIDITY AND CAPITAL RESOURCES

We estimate that we will incur costs of approximately \$30-35 million prior to completion of the feasibility study which is now underway. The general categories of expenditures include the feasibility study, a pilot plant program, an exploration program, an environmental impact study, community consultations and our corporate and administration costs.

We have entered into certain employment contracts with four of our senior officers resulting in an aggregate annual compensation of approximately \$700,000. In addition to their annual remuneration payable under these contracts, bonuses and stock options may also be paid or granted at the sole discretion of the Board of Directors. Also, on achieving certain milestones, three of these officers may be issued up to 900,000 common shares of which 101,800 shares were issued (31,800 of such shares remain subject to regulatory approval) and 58,200 incentive stock grants cancelled on April 18, 2005 subsequent to our receiving the Hatch Ltd. preliminary assessment report.

Our cash and cash equivalents balance as of March 31, 2005 was approximately \$35,311,000 compared with \$7,206,580 at December 31, 2004. The significant increase is related to a subsequent financing we closed on March 24, 2005 of 7.82 million units at a price of \$4.10 per unit, representing total gross proceeds of approximately \$32 million. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price of \$5.75 per share until March 24, 2007.

As at April 18, 2005 we had 3,910,000 warrants outstanding with an exercise price of \$5.75 per share, all of which expire on March 24, 2007. If all warrants are exercised prior to expiry, we will receive an additional \$22,482,500. We also have 1,635,000 stock options outstanding at April 18, 2005 with a weighted average exercise price of \$3.58 per share. Subsequent to the date of the audited financial statements for the period ended December 31, 2004, the Board of Directors granted options to purchase an additional 605,000 shares at an exercise price of \$3.20 per share for five years which, when added to the 1,635,000 outstanding stock options reduces the weighted average price to \$3.47 per share on a combined total of 2,240,000 stock options. The stock options expire between November 27, 2008 and April 19, 2010 (see "Outstanding Shares" below for more details).

Our current cash balance is adequate to fund planned expenses related to the feasibility study, the pilot plant, the exploration program and our corporate and administrative costs over the next twelve months. However, to continue development of the Fenix project after achieving these milestones, we will need to raise additional funds by way of an offering and/or through the exercise of outstanding warrants and options. However, the availability of these funds is not guaranteed and will be contingent upon a number of factors including the condition of the capital markets at the time they are required.

TRANSACTIONS WITH RELATED PARTIES

During the Transition Period, the Company paid or accrued \$14,000 for office and administrative expenses to a company with directors in common and \$17,600 for rent to a company with directors in common. It also paid \$75,000 in cash and issued 500,000 of the Company's common shares to Geostar in connection with the completion of the Master Agreement that at the time of the contractual arrangement was not a related party but which, on December 31, 2004, became a related party with a director in common. The Company originally entered into an agreement with Geostar whereby Geostar would receive \$100,000 and 500,000 common shares of the Company. On December 14, 2004 that agreement was amended to lower the cash component to \$75,000. The agreement and the amendment were made in recognition of Geostar introducing the Company to Inco and providing assistance and support in negotiating the acquisition of the CGN shares and its Fenix property.

FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, receivables and accounts payable. The carrying values of these financial instruments approximate their fair values because of their short maturity. Cash and cash equivalents are exposed to credit risk but these amounts are placed with a major Canadian bank where the risk is minimal. The Company is not exposed to interest rate risk due to the short term maturity of the financial instruments.

OUTSTANDING SHARES

As of the date of this MD&A we had the following common share, warrants and agent warrants outstanding:

Common Shares Outstanding	23,235,005
(includes 101,800 shares approved for issuance as described above - see Liquidity and Capital Resources)	

Options:

Expiring	Exercise Price	Outstanding
November 27, 2008	0.68	100,000
December 9, 2008	3.30	690,000
January 2, 2009	4.25	235,000
January 28, 2009	5.25	75,000
March 4, 2009	4.65	185,000
July 13, 2009	3.05	50,000
December 1, 2009	3.24	50,000
December 17, 2009	3.60	200,000
February 25, 2010	4.38	50,000
April 19, 2010	3.20	<u>605,000</u>
		2,240,000

Warrants:

March 24, 2007	5.75	3,910,000
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CAUTIONARY STATEMENT

This document may contain or refer to certain forward-looking statements relating but not limited to our expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as “anticipate”, “believe”, “expect”, “goal”, “plan”, “intend”, “estimate”, “may” and “will” or similar words suggesting future outcomes, or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. Forward-looking information may include reserve and resource estimates, estimates of future production, unit costs, costs of capital projects and timing of commencement of operations, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to, failure to establish estimated resources and reserves, the grade and recovery of ore which is mined varying from estimates, capital and operating costs varying significantly from estimates, delays in obtaining or failures to obtain required governmental, environmental or other project approvals, inflation, changes in exchange rates, fluctuations in commodity prices, delays in the development of projects and other factors. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from expected results. You should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the forward-looking statements. You are cautioned not to place undue reliance on forward-looking information. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. We are under no obligation to publicly update or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law.