

SKYE RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005

(audited)

AUDITORS' REPORT

To the Shareholders of
Skye Resources Inc.

We have audited the consolidated balance sheets of Skye Resources Inc. as at December 31, 2005, December 31, 2004 and August 31, 2004 and the consolidated statements of operations and deficit and cash flows for the year ended December 31, 2005, the four month period ended December 31, 2004 and the year ended August 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005, December 31, 2004 and August 31, 2004 and the results of its operations and its cash flows for the year ended December 31, 2005, the four month period ended December 31, 2004 and the year ended August 31, 2004 in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

February 21, 2006

A Member of SC INTERNATIONAL

SKYE RESOURCES INC.

Consolidated Statements of Operations and Deficit

For the Year ended December 31, 2005, the Four Months Ended December 31, 2004
and the Year Ended August 31, 2004

(Expressed in thousands of Canadian Dollars, except per share amounts)

	Year ended December 31 2005	Four months ended December 31 2004	Year ended August 31 2004
Revenue:			
Interest and other Income	\$ 413	\$ 26	\$ 72
Expenses:			
Fenix development costs	10,763	-	-
Exploration	7,836	297	21
Process technology	4,598	102	370
General and administrative	4,405	961	1,836
Amortization	78	5	14
Stock-based compensation (note 7)	1,201	220	1,676
	28,881	1,585	3,917
Loss for the period	28,468	1,559	3,845
Deficit, beginning of period	9,826	8,267	4,422
Deficit, end of period	\$ 38,294	\$ 9,826	\$ 8,267
Basic and diluted loss per share	\$ 1.33	\$ 0.13	\$ 0.38
Weighted average number of common shares outstanding	21,442,729	11,811,553	10,060,464

See notes to the consolidated financial statements

SKYE RESOURCES INC.

Consolidated Statements of Cash Flow

For the Year ended December 31, 2005, the Four Months Ended December 31, 2004

and the Year Ended August 31, 2004

(Expressed in thousands of Canadian Dollars)

	Year ended December 31 2005	Four months ended December 31 2004	Year ended August 31 2004
Cash provided by (used for):			
Operating activities:			
Loss for the period	\$ (28,468)	\$ (1,559)	\$ (3,845)
Items not affecting cash			
Amortization	78	5	14
Stock-based compensation	1,201	220	1,676
Shares issued for services (note 7(a))	326	74	-
Changes in non-cash working capital balances:			
Receivables	(17)	(388)	(52)
Prepaid expenses	(57)	(8)	(22)
Accounts payable and accrued liabilities (note 12)	3,617	641	709
Cash used in operating activities	(23,320)	(1,015)	(1,520)
Financing activities:			
Exercise of warrants	-	4,792	593
Exercise of options	-	-	10
Private placement	32,062	-	6,000
Share issue costs	(2,179)	-	(396)
Cash provided by financing activities	29,883	4,792	6,207
Investing activities:			
Equipment	(392)	(1)	(44)
Purchase of mineral properties	-	(1,339)	-
Cash used in investing activities	(392)	(1,340)	(44)
Increase in cash and cash equivalents	6,171	2,437	4,643
Cash and cash equivalents, beginning of period	7,207	4,770	127
Cash and cash equivalents, end of period	\$ 13,378	\$ 7,207	\$ 4,770

Supplementary Cash Flow Information (note 12)

See notes to the consolidated financial statements