



FORM 51-102F1
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE SIX MONTHS ENDED JUNE 30, 2005
as of August 11, 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 six month period between the period ended December 31, 2004 and June 30, 2005, is prepared as of August 11, 2005. This MD&A should be read in conjunction with our consolidated financial statements for the period ended December 31, 2004 (audited) and the six months ended June 30, 2005 (unaudited), and the MD&A for the period ended December 31, 2004. Unless otherwise stated, all amounts in this MD&A and in the unaudited 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:

- 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.

Skye is making excellent progress in implementing this strategy. The management team was initially assembled in early 2004, and we continue to strengthen it to meet the expanding needs of the Company. Having entered into a letter of intent in December 2003, we closed our acquisition of Fenix in December 2004 and completed a preliminary assessment on the project in March 2005. We have now initiated the feasibility study. We filed a provisional patent for our proprietary atmospheric leaching process for nickel laterites in June 2004 and are now undertaking pilot plant testing using samples from Fenix. We have created and are providing initial funding to a community association which is focused on initiating sustainable community development in the entire region which would be impacted by the Fenix project.

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”). The acquisition of CGN is more fully described in Note 6 to the Company’s annual financial statements for the transition period ended December 31, 2004 and in the MD&A for the same period, both of which are available on Sedar at <http://www.sedar.com>. 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. Built at a cost of US\$238 million in 1977, CGN operated the pyrometallurgical plant at the site intermittently between 1977 and 1980 producing a nickel matte for export. Since the plant shutdown, no mining activity has taken place on the CGN property.

Upon signing the Master Agreement with Inco, we initiated preparation of the preliminary assessment by Hatch Ltd. (“Hatch”) and other consultants and on February 28, 2005 we received the preliminary assessment report investigating both smelting and atmospheric leaching process options for CGN’s nickel laterite project (hereinafter named “Fenix”). Based on that report, we have initiated a feasibility study for a ferro-nickel operation at Fenix involving the refurbishment and expansion of the existing plant to produce up to 50 million pounds of nickel in a ferro-nickel product 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. In April 2005, we began our exploration drilling program on the CGN property with the aim of validating selected existing resource data as well as conducting in-fill drilling to bring other saprolite material to at least the indicated category of resource classification. – see the “Results of operations” section below.

On March 24, 2005 we completed a private placement of 7,820,000 Units at \$4.10 each to realize gross proceeds of approximately \$32,000,000 – see the “Liquidity and capital resources” section below. As a development stage resource company we earn no operating income and our only source of revenue is interest income.

For the six months ended June 30, 2005 we reported a loss of \$11,052,000 (basic and diluted loss per share of \$0.56) compared to a loss of \$2,103,000 (basic and diluted loss per share of \$0.19) for the six months ended May 31, 2004. The loss for the period is principally related to Fenix development costs, exploration activities, development costs of our atmospheric leach process to treat nickel laterite material, general and administrative costs and non-cash stock-based compensation expense. As at June 30, 2005, we had working capital of \$25,981,000 derived mainly from net proceeds of \$29,889,000 from the above-mentioned private placement. As at August 10, 2005 we had a cash balance of \$25,326,000.

Financial results are more fully described under “Results of operations” and “Summary of quarterly results” sections.

The following discussion, analysis and financial review comprise nine main sections:

1. Results of operations
2. Summary of quarterly results
3. Liquidity and capital resources
4. Financial condition
5. Outlook
6. Risks

7. Transactions with related parties
8. Financial instruments
9. Outstanding shares, options and warrants
10. Cautionary statement

RESULTS OF OPERATIONS

We received a preliminary assessment report titled *FENIX Preliminary Assessment*, dated February 28, 2005, from Hatch Ltd. prepared by “Qualified Persons” (for the purposes of National Instrument 43-101, *Standards of Disclosure for Mineral Projects*) T. Armstrong, P. Eng.; B. Krysa, P. Eng.; C. McKenzie P. Eng, P. Geol. for Skye Resources (Section 3), J. Sajer, P. Eng. (Section 4), F. Porretta, P. Eng. (Approvals) that was filed on March 10, 2005. The estimates of measured, indicated and inferred resources referenced in the Hatch preliminary assessment are based on historical resource estimates that were reviewed and re-classified by independent Qualified Persons as filed in Technical Reports dated (1) December 2, 2003 entitled “Technical Report – Exmibal Nickel Project”, by Qualified Person Brian Montpellier, P. Eng., of AMEC E&C Services Limited, filed December 15, 2003, and (2) September 23, 2004 entitled “Exmibal Nickel Laterite Deposits of the Lake Izabal Region, Guatemala”, by Qualified Person Dr. J. Paul Golightly, P. Geo. of Golightly Geoscience Ltd, filed October 14, 2004. The estimates are based in each case on the assumptions and methods, and are subject to the limitations and qualifications, described in such Technical Reports. All three of the reports were filed with the British Columbia and Alberta Securities Commissions through SEDAR on the dates indicated.

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 referred to above for a ferro-nickel operation at Fenix involving the refurbishment and expansion of the existing plant to produce up to 50 million pounds of nickel annually. As required under National Instrument 43-101, the reader is cautioned that the Hatch Ltd. preliminary assessment is preliminary in nature, includes inferred mineral resources considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary assessment will be realized.

On May 11, 2005, we received a letter from the British Columbia Securities Commission informing us that a recent routine review of our public filings concluded the Hatch and Golightly technical reports on the Fenix project were not in the form required by National Instrument 43-101. The Company worked with the British Columbia Securities Commission, Hatch and the other authors and revised reports were filed with the British Columbia and Alberta Securities Commissions through SEDAR in compliance with National Instrument 43-101 on August 9, 2005. The re-filed preliminary assessment was prepared by Qualified Persons T. Armstrong, P. Eng.; B. Krysa, P. Eng.; J. Paul Golightly, P. Geo. of Golightly Geoscience Ltd (Sections 3.1, 4.1, 6 to 16, 19, 21, 22.1, 23); J. Sajer, P. Eng. (Section 20.1), and F. Porretta, P. Eng. (Approvals). The conclusions in the preliminary assessment report did not change. A revised version of the Golightly report was also re-filed on August 9, 2005. The Technical Reports can be found in the Company's filings at <http://www.sedar.com> and on its website at www.skyeresources.com.

The Company retained Hatch Ltd as the prime contractor to prepare a feasibility study on the Fenix project. Work is underway by Hatch but the related cost-reimbursable contract with Hatch for an estimated cost of \$6,246,000 has not yet been signed. The overall cost of the feasibility

study is estimated to be approximately \$8,000,000. A positive result and a successful financing of the project are two of several essential steps in the process to achieve production from the operation of a nickel mine and associated mineral processing facilities on the Fenix property – see “Risks” section below.

Under the Master Agreement, a condition to Skye exercising its option is the completion by Skye and Inco of a baseline environmental review of the Properties to identify the environmental liabilities existing at December 15, 2004. Under the terms of a revised timetable agreed in principle with Inco Limited, in part to allow time to collect more samples than had been planned and in part to conduct a thorough analysis of the data arising from that sampling, this review is expected to be completed in late 2005.

The Company has entered into a contract with Boart Longyear Ltd. for a diamond drilling program on CGN’s Fenix property in Guatemala. The program is now expected to total between 35,000 and 45,000 metres, of which about 4,000 metres are in the nature of holes placed to twin previously drilled holes to validate selected existing resource data. The remaining holes are sited to bring other saprolite material to at least the indicated category of resource classification. At a budgetted cost of \$9,100,000 including the drilling, the planned exploration program is designed to improve our confidence in the estimated resource on the CGN property and provide necessary data and documentation in support of our feasibility study currently underway. \$2,231,000 was incurred during the six months period ended June 30, 2005 (\$Nil in the six months ended May 31, 2004). The target for the completion of this exploration program is early 2006. Initial drilling results have been reported by news release dated August 3, 2005 and filed on the Sedar website at <http://www.sedar.com>.

The Company is currently carrying out environmental and social impact assessments to comply with the Equator Principles which would require the Fenix project to meet standards set both by Guatemalan regulations and by the World Bank. The assessments are being overseen by Klohn Crippen Consultants Limited (supported by Consultoría y Tecnología Ambiental, S.A., a Guatemalan environmental consulting company). The budgetted cost for this work is \$2,000,000. Under Guatemalan law, three key permits are required. The first is the conversion of the existing exploration licenses into exploitation licenses, which will allow mining again on the Fenix property. The second key permit will allow the resumption of activities at the smelter which is located adjacent to the existing licenses, and the third permit will be required for expansion of the existing facilities, and the construction of any associated power plant.

The Guatemalan authorities have agreed that, upon the filing of the environmental studies required to support the applications for these permits in the latter part of this year, they will consider them in a thorough but timely manner. If the applications are approved, the necessary permits will be issued in a timeframe which would allow Skye to move forward quickly once the feasibility study is complete in the second quarter of 2006.

Skye has also focused on understanding and responding to community issues and concerns. We have created and are providing initial funding to a community association which is focused on initiating sustainable community development in the entire region which would be impacted by the Fenix project.

The first phase of a two-phase pilot program to develop Skye’s proprietary atmospheric leaching process for the production of a mixed nickel-cobalt hydroxide intermediate product was completed as planned during the quarter ended June 30, 2005. The work was carried out at SGS Lakefield Research Ltd. and we are encouraged by the initial results. Plans for the second phase

of pilot tests, involving integrated operation of the pilot plant through to the targeted intermediate product, were advanced. New bulk samples from the Fenix Project for the second phase of piloting were taken and shipped to Canada in June. Sample blending and preparation will be completed in August and the second phase of testing should begin in September. The target for the completion of this pilot testing program is late 2005 at a cost of \$5,000,000, of which \$2,346,000 has been incurred to June 30, 2005. In the same period, an additional \$355,000 was incurred on earlier phases of the process technology program and patent related costs.

A provisional patent covering our proprietary atmospheric leaching process for nickel laterites, such as found at the Fenix project, has been filed in the USA. Under the Master Agreement, we have agreed to grant Inco the right to use at its own facilities on terms described in a Technology Agreement entered into as of December 15, 2004, any process developed by us and used at the Fenix project.

The Company was active in raising the necessary funds to finance the cost of the on-going exploration and development activities at Fenix. On March 24, 2005, the Company closed a private placement of 7.82 million units at a price of \$4.10 per unit; representing total gross proceeds of \$32,060,000 – see “Liquidity and capital resources” section below. The costs associated with the placement were \$2,171,000. The Company also concluded a private placement in the six month period ending May 31, 2004. On that occasion the gross proceeds were \$6,000,000 from the issue of 3 million units at a price of \$2.00 per unit, each unit consisted of one common share and one-half of a common share purchase warrant, and the share issue costs amounted to \$396,000.

Other operations in the six months ended May 31, 2004 related to negotiations with Inco on the Letter of Intent that led to the Master Agreement to acquire Inco’s interest in CGN – see the “Overview” section above.

Revenue

There was an increase in revenue of \$190,000 to \$237,000 during the six months ended June 30, 2005 versus the six months ended May 31, 2004 directly attributable to the additional interest we earned on higher average cash balances held during the current period. That higher average is mostly attributable to the cash proceeds of \$4,792,000 received in December 2004 following the exercise of stock purchase warrants by holders of the Company’s warrants and the net proceeds of \$29,889,000 from the private placement in March 2005 mentioned above.

Fenix development costs

During the six months ended June 30, 2005 we incurred \$3,164,000 solely for development costs at Fenix versus \$Nil in the comparative period ended May 31, 2004. In the three months ended June 30, 2005, Fenix development costs were \$2,356,000 versus \$Nil in the second quarter ended May 31, 2004. These costs relate to the environmental baseline study, the environmental and social impact assessments, the scoping study, the feasibility study and costs to maintain the Guatemala City and Fenix site offices and personnel. (see “Results of operations” section above)

Exploration

During the six months ended June 30, 2005 we incurred \$2,231,000 in exploration costs versus \$Nil in the comparative period ended May 31, 2004. All exploration related to the Fenix mineral property acquired by the Company in December 2004. In the three months ended June 30, 2005,

exploration costs were \$2,062,000 versus \$Nil in the second quarter ended May 31, 2004. (see "Results of operations" section above)

Process technology

Process technology costs amounted to \$2,701,000 in the six months ended June 30, 2005 comprising \$2,346,000 for the pilot plant testing currently underway and an additional \$355,000 on earlier phases of the process technology program and patent related costs. (see "Results of operations" section above) During the six months ended May 31, 2004, \$164,000 was spent on the initial phase of the research program.

General and administrative costs

General and administrative costs for the six months ended June 30, 2005 rose to \$2,506,000; an increase of \$1,577,000 versus the comparative period ended May 31, 2004. The increase was due primarily to accrued bonuses for the calendar year 2005, incentive stock grants to Officers (see below) and higher salary costs due to the hiring of two vice-presidents in February 2004. In the three months to June 30, 2005 a total of \$1,641,000 was incurred compared with spending of \$460,000 in the three months ended May 31, 2004. The increase was mainly due to accrued bonuses for the calendar year 2005, incentive stock grants to Officers (see below), higher salary costs and professional fees.

In April 2005, the Board authorized the issuance of 101,800 common shares to three Officers in respect of incentive stock grants contained in their employment contracts. Pursuant to these contracts the Company was obligated to issue 160,000 common shares upon approval by the Board of the Hatch Ltd. preliminary assessment. The obligation to issue 58,200 of those shares was cancelled in consideration of the Company making cash payments for income-tax-withheld. At the date of this MD&A, 740,000 incentive stock grants remain outstanding conditional upon the completion of other stated events such as completion of a feasibility study in relation to the Fenix project.

Amortization

Amortization for the half year period ended June 30, 2005 was \$14,000 or \$5,000 more than the comparable period ending May 31, 2004 due to an increase in depreciable capital assets in the first half of 2005. These assets were acquired when the company leased, furnished and equipped its offices during the quarter ending June 30, 2005.

Stock-based compensation expense

During the six months ended June 30, 2005, we issued 870,000 stock purchase options to a combination of Directors, employees and consultants of the Company. Those issues and the vesting of options from seven earlier issues resulted in a stock-based compensation expense for the period of \$673,000 based on the Black-Scholes option-pricing model. In the six months ended May 31, 2004, we issued 1,185,000 stock purchase options to Directors, employees and consultants and the resultant stock-based compensation expense for the period was \$1,048,000.

SUMMARY OF QUARTERLY RESULTS

In the current quarter and the six months to June 30, 2005, we have been working on the preliminary assessment, the environmental base line study, the exploration program, the environmental and social impact assessments, community relations initiatives, the feasibility study, completing a financing and continuing the development of our proprietary atmospheric leach process. The increase in Fenix development costs to \$2,356,000 and exploration spending to \$2,062,000 this quarter were the chief reasons for the higher loss of \$7,201,000. Over the previous quarters, our expenses have been increasing, principally as a result of Fenix development costs, exploration activity, stock-based compensation and the costs of negotiations with Inco to acquire CGN, firstly on the letter of intent and subsequently on the Master Agreement – see the “Overview” section above.

	Year Ending December 31 - Quarterly Results		Transition Period Four Months Sept. 1, 2004 - Dec. 31, 2004	Year Ended August 31 - Quarterly Results				
	2005			2003/2004			2002/2003	
	Q2	Q1		Q4	Q3	Q2	Q1	Q4
Total Revenue	\$ 185,000	\$ 52,000	\$ 26,000	\$ 24,000	\$ 27,000	\$ 20,000	\$ 1,000	\$ 1,000
Loss before extraordinary items	7,201,000	3,851,000	1,559,000	1,657,000	718,000	1,385,000	85,000	59,000
per share	0.31	0.24	0.13	0.17	0.06	0.14	0.01	0.01
Net Loss	\$ 7,201,000	\$ 3,851,000	\$ 1,559,000	\$ 1,657,000	\$ 718,000	\$ 1,385,000	\$ 85,000	\$ 59,000
per share	\$ 0.31	\$ 0.24	\$ 0.13	\$ 0.17	\$ 0.06	\$ 0.14	\$ 0.01	\$ 0.01

During the four-month transition period to December 31, 2004, we acquired CGN, initiated the preliminary assessment, raised additional financing through the exercise of outstanding warrants and continued development of our atmospheric leach process. The additional funds also contributed to an increase in interest revenue in the six months to June 30, 2005 when compared with previous periods.

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 2003/2004 year relate mainly to the expensing of stock-based compensation.

LIQUIDITY AND CAPITAL RESOURCES

We estimate that we will incur further costs after June 30, 2005 of approximately \$20 to 22 million prior to completion of the feasibility study in the second quarter of 2006. The general categories of expenditures include the feasibility study, the process technology pilot plant program, an exploration program, the environmental and social impact assessments, community

consultations and our corporate and administration costs. Skye has funded all of the costs associated with the Fenix project since commencement of the preliminary assessment in 2004.

We have entered into certain employment contracts with five of our senior officers resulting in an aggregate annual compensation of approximately \$935,000. In addition to their annual remuneration payable under these contracts, bonuses and stock options may also be paid or granted at the discretion of the Board of Directors. Also, on achieving certain milestones, three of these officers may be issued up to 740,000 common shares (see – “Results of operations” section under the sub-heading of “General and administrative costs”).

Our cash and cash equivalents balance as of June 30, 2005 was \$29,102,000 compared with \$7,207,000 at December 31, 2004. The significant increase is related to a financing that 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 (a total of 3,910,000 whole warrants). Each whole warrant entitles the holder to purchase one additional common share at a price of \$5.75 per share until March 24, 2007. The net proceeds of the private offering of \$29,889,000 are recorded as share capital (\$25,087,000) and contributed surplus (\$4,802,000).

The same 3,910,000 warrants are outstanding at August 11, 2005 with an exercise price of \$5.75 per share. If all warrants are exercised prior to expiry, we will receive an additional \$22,482,500. At June 30, 2005, we also had 2,455,000 stock purchase options outstanding with a weighted average exercise price of \$ 3.43 per share. The stock options expire between November 27, 2008 and May 31, 2010 – see “Outstanding shares, options and warrants” section below for more details.

Our current cash balance is adequate to fund planned expenses that relate to the exploration program, the environmental and social impact assessment, the feasibility study, and a pilot plant and research program. However, to continue development of the Fenix project beyond the feasibility study, 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.

FINANCIAL CONDITION

The Company’s financial condition at June 30, 2005 improved substantially over the most recently completed financial period end, December 31, 2004; the end of the four month transition period. The principal reason is the receipt of net proceeds of \$29,889,000 on March 24, 2005 from the private placement of Units comprising the Company’s common shares and share purchase warrants – see “Liquidity and capital resources” section above. The increase in cash and cash equivalents in the six months ended June 30, 2005 of \$21,895,000 was derived mainly from those net proceeds, off-set in part by cash outlays for operating costs of \$7,835,000 and equipment costs of \$159,000. The largest items within the cash outlays for operating costs of \$7,835,000 were for Fenix development costs and for process technology costs - see “Results of operations” section above.

Since December 31, 2004, the Company and its subsidiaries have entered or expect to enter into contracts for the environmental base line study, the environmental and social impact assessment,

the exploration drilling program, the feasibility study and the process technology pilot plant research program - see "Liquidity and capital resources" section above.

The Company held mineral properties with a cost of \$9,190,000 at June 30, 2005 and December 31, 2004 representing the conditional acquisition of the 70% indirect interest in the mineral properties owned by CGN. If the Company fails to meet all the pre-conditions for the successful exercise of the option under the terms of the Master Agreement or fails to exercise the option, the value of the mineral properties will be severely impaired or zero – see the "Outlook" and "Risks" sections below. At May 31, 2004, the Company did not own any mineral property interests.

OUTLOOK

The Company is working to complete the Fenix project feasibility and companion studies during the second quarter of 2006 to establish the economic and technical viability of the Fenix project to a sufficient degree of certainty to allow us to evaluate a production decision and also a decision on the exercise of the Company's option under the terms of the Master Agreement with Inco – see the "Risks" and "Cautionary statement" sections below and Note 6 to the Company's annual financial statements for the transition period ended December 31, 2004 and in the MD&A for the same period, both of which are available on Sedar at <http://www.sedar.com> where the conditional acquisition of CGN and the Company's option to complete the acquisition is more fully described. Skye is initiating its efforts to identify the means to finance the required capital to carry out the Fenix project development program and subsequent operations in the event a positive production decision is made.

Late in the fourth quarter of 2005, Skye expects to conclude the second phase of the pilot program to develop its proprietary atmospheric leaching process for the production of a mixed nickel-cobalt hydroxide intermediate product. The Company is in the process of identifying potential partners to assist in the financing of the next stage of development of the process technology.

RISKS

Mineral exploration and mining activities are speculative by their nature and involve a high degree of risk. There are several factors that may cause actual results to differ materially from the forward looking information included herein, 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 and a feasibility study are required to prove mineral reserves. It is not certain that the on-going feasibility study will support a positive decision to develop and operate a nickel mine and associated mineral processing facilities on the Fenix property and, consequently, may not support a decision to exercise the Company's option to complete the purchase of the CGN shares or a minimum realizable value of the Company's mineral properties of \$9,190,000 at June 30, 2005.

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.

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. We may not be able to complete the engineering and construction of the facility at the costs and in the time frames estimated in the preliminary assessment and later in the feasibility study, and we may not be able to operate that facility at the design throughput and at unit costs of production estimated in those studies.

Exploitation Licenses. There is no guarantee that the exploration licenses can be converted into exploitation licenses by meeting certain terms including preparation of an acceptable environmental impact study. (see “*Foreign property*” below) 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. Refer to the section entitled “The Nickel Market” in the MD&A accompanying the Company’s annual audited financial statements for the transition period ended December 31, 2004 available through the Sedar website at <http://www.sedar.com>.

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. There is no guarantee that the Company will receive the necessary environmental permits from the Government to proceed with the construction and operation of the Fenix project.

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.

Equipment and Personnel Availability. Due to market conditions, the availability and cost of suitable personnel and equipment with which to conduct the exploration, construction and operation of a nickel mine and associated mineral processing facilities may cause exploration and construction costs to rise and could delay the start of construction and operations.

Financing. Exercising the option, constructing the mine and beginning operations will require substantial financial resources to cover expenditure that, in part, will be denominated in foreign currencies. There is no guarantee that we will find the necessary financial resources to complete

the Fenix project and there is no assurance that adverse changes in currency exchange rates will not degrade those resources prior to their spending.

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 explore, construct 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.

TRANSACTIONS WITH RELATED PARTIES

During the six months ended June 30, 2005, the Company had the following transactions with related parties:

- (i) paid or accrued \$24,000 (six months ended May 31, 2004 - \$21,000) for office administrative expenses to a company with directors in common;
- (ii) paid or accrued \$13,000 (six months ended May 31, 2004 - \$16,000) for office rent to a company with directors in common;
- (iii) paid or accrued \$119,000 (six months ended May 31, 2004 - \$42,000) to two officers of the company for financial consulting services provided to the Company;
- (iv) paid or accrued \$63,000 (six months ended May 31, 2004 - \$Nil) to a company with a director who is also an Officer of the Company for legal consulting services provided to the Company;

The transactions for services provided were in the normal course of operations and at commercial rates.

As at June 30, 2005, accounts payable includes \$4,000 (December 31, 2004 - \$8,000) currently due to related parties; and the prepaid deposit includes \$5,000 (December 31, 2004 - \$5,000) paid to a company with directors in common.

The amounts payable by the Company for the services provided have been determined by negotiation between the parties. The transactions were in the normal course of business and at commercial rates.

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. The Company's cash and cash equivalents are exposed to credit risk but these amounts are placed with a major Canadian bank where the risk is minimal; however, they are exposed to a decline in purchasing power outside Canada. The Company is not exposed to interest rate risk due to the short term maturity of the financial instruments.

OUTSTANDING SHARES, OPTIONS AND WARRANTS

As of the date of this MD&A we had the following common shares, stock purchase options and share purchase warrants outstanding:

Common Shares:	Outstanding		23,235,005
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	605,000
	May 31, 2010	2.90	<u>215,000</u>
			2,455,000
Warrants:			
	March 24, 2007	5.75	3,910,000

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.

All subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this notice.