



FORM 51-102F1
MANAGEMENT DISCUSSION & ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2006
As of April 28, 2006

SKYE RESOURCES INC.

INTRODUCTION

This Management Discussion and Analysis (the “MD&A”) contains references to Skye Resources Inc. and its subsidiaries (“Skye” or the “Company”) using words like “we” “us” and “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 conclude that the disclosure controls and procedures as at March 31, 2006 are effective. This MD&A covers the three months ended March 31, 2006, is prepared as of April 28, 2006, and should be read in conjunction with our consolidated financial statements for the year ended December 31, 2005 (audited) and the three months ended March 31, 2006 (unaudited). Unless otherwise stated, all amounts in this MD&A and in the audited and 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.

At the date of this MD&A, our shares are listed on the TSX Venture Exchange (“TSX-V”) under the symbol “SKR”. On May 9, 2006, our Common Shares were listed on the TSX.

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 seasoned, technically sophisticated management team;
- Acquire, evaluate and develop the Fenix Project in Guatemala;
- Acquire the rights to other 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. After entering into a letter of intent with Inco Limited (“Inco”) in November 2003 and a definitive Master Share Purchase Agreement with Inco in September 2004 (the “Master Agreement”), we closed in December 2004 our conditional acquisition from Inco of a 70% interest in Exploraciones y Explotaciones Mineras Izabal S.A., which changed its name effective January 2005 to Compañía Guatemalteca de Níquel, S.A. (referred to throughout this text as

“CGN”). At the date of this MD&A, we own 92.4% of CGN – see the “Results of Operations” section below.

CGN is a Guatemalan company which holds an exploration license and an exploitation license covering certain nickel properties in eastern Guatemala and also owns a pyrometallurgical nickel processing plant and related facilities that have been closed for approximately 25 years, but continuously maintained over that period. In April 2006, substantially all of its then Niquegua Norte exploration licence was converted into a 25-year renewable exploitation licence - see the “Results of Operations” section below. Built at a cost of US\$238 million in 1977, CGN operated the pyrometallurgical plant at the site over a period of approximately 40 months to 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 of CGN’s nickel laterite project (hereinafter referred to as “Fenix”) by Hatch Ltd. (“Hatch”) and other consultants. On February 28, 2005 we received their preliminary assessment report investigating both smelting and atmospheric leaching process options for Fenix. Based on that report, we initiated in the second quarter of 2005 a feasibility study for a ferro-nickel operation at Fenix involving the refurbishment and expansion of the existing plant to produce about 50 million pounds of nickel annually in a ferro-nickel product. In April 2005, we began a drilling program on Fenix 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. We have also created and are providing initial funding to a community association which is focused on initiating sustainable community development in the region which would be impacted by the Fenix Project.

On March 24, 2005 we completed a private placement of 7,820,000 Units at \$4.10 each to realize gross proceeds of \$32,062,000. A further financing closed on February 21, 2006 with the issuance of 5,885,000 Common Shares of the Company at a price of \$4.25 per share, for total gross proceeds of approximately \$25,011,000. – 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.

In August 2005, we filed US and international non-provisional patent applications for our proprietary atmospheric sulfuric acid leaching process for nickel laterites. We completed pilot plant testing in 2005 to produce an intermediate nickel/cobalt product using samples from Fenix. The testing was successful. SGS Research Ltd’s (“SGS”) final report on the last phase of pilot plant testing was received on March 17, 2006, and the results were reported in a news release dated March 30, 2006. On the strength of the results from the pilot plant, the Company commissioned, in March 2006, a preliminary assessment for an expansion of the Fenix Project by 50 million pounds to a total plant capacity to 100 million of nickel per year. This preliminary assessment is anticipated to be completed in the third quarter of 2006 at approximately the same time as the feasibility study. We have initiated discussions with major nickel industry participants regarding their interest in working with Skye to further develop this process through the funding of a demonstration plant and are considering how to proceed.

For the three months ended March 31, 2006 we reported a loss of \$8,156,000 (basic and diluted loss per share of \$0.31) compared to a loss of \$3,851,000 (basic and diluted loss per share of \$0.24) for the three months ended March 31, 2005. The loss for the three months in 2006 relates principally to exploration and development costs for the Fenix project, salaries and non-cash stock-based compensation expense. As at March 31, 2006, we had working capital of

\$25,197,000, which includes a liability for accrued bonuses of \$991,300 payable at the discretion of the Board of Directors, derived mainly from net proceeds of \$23,600,000 from the sale of the Company's Common Shares by private placement in February 2006. As at April 28, 2006 we had cash and cash equivalents of \$26,300,000.

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

The following discussion, analysis and financial review comprise ten 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

Conditional acquisition of the Fenix Project

Under the terms of the Master Agreement and 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 without being exercised). Pursuant to the Master Agreement we have a five year option period ("Fenix 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 and exploitation licenses (the "Fenix Option"). If we exercise the Fenix 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 (together 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 Fenix 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 satisfied on March 24, 2005 – see "Liquidity and Capital Resources" section 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 Fenix Option Period or we elect not to exercise our Fenix Option to proceed with the project, Inco will have the right to reacquire its 70% interest in CGN for a nominal cost.

In recognition of Geostar Metals Inc. ("Geostar") providing assistance in connection with the CGN acquisition, we paid Geostar \$75,000 and issued 500,000 of our Common Shares during the three months ended March 31, 2005.

Funding and ownership of the Fenix Project

Skye's interest in CGN has been increasing as the Government of Guatemala has elected not to fund its share of cash calls by CGN. Skye and the Guatemalan Government, as shareholders of CGN, are afforded the opportunity to receive *pro rata* additional shares in CGN by funding their proportionate share of cash calls and new shares are issued only to the shareholders that elect to provide such funding. At March 31, 2006 the Company's interest in CGN was 92.4%; an increase from the 90.9% ownership at December 31, 2005. The funds received by CGN from these cash calls have been expended on exploration and development which on consolidation are expensed as incurred.

Resources of the Fenix Project

Refer to the SEDAR website at <http://www.sedar.com>, the Company's MD&A and Annual Information Form for the year ended December 31, 2005 for information on resources of the Fenix Project.

Exploration and Resource Confirmation

The Company has entered into a contract with Boart Longyear Ltd. for a diamond drilling program on Fenix designed to consist of two phases. The first was a twin hole phase. The second, larger phase of drilling, was aimed at providing more detailed information, primarily on a 50 X 50 metre grid pattern, in previously drilled areas and improving confidence in these resources and to provide the necessary data to estimate measured and indicated resources and other information for a feasibility study level mine plan. Drilling results have been reported by news releases as they have become available and filed on the Sedar website at <http://www.sedar.com>. On-going drilling is focused on continuing to infill previously drilled areas and is subject to the receipt of applicable forestry permits.

The following table outlines exploration expenditure for the three months ended March 31, 2006 and 2005:

	Three months ended March 31	
	2006	2005
Exploration (000's)		
Salaries and consulting	\$ 299	\$ 93
Drilling	954	-
Sample preparation and assaying	548	9
Supplies, roads, maintenance, other	460	67
	\$ 2,261	\$ 169

Development of the Fenix Project

The Company retained Hatch as the prime contractor to prepare a feasibility study on the Fenix Project. We estimate that the feasibility study will cost approximately \$9,000,000 and will be completed in the third quarter of 2006. 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. The following table outlines Fenix development costs for the three months ended March 31, 2006 and 2005:

	Three months ended March 31	
	2006	2005
Fenix Development Costs (000's)		
Feasibility study	\$ 1,752	\$ -
Preliminary assessment	86	-
Environmental & social impact assessments	870	70
Community relations	286	87
Scoping study	-	304
Other Guatemalan-based expenditures	568	347
	\$ 3,562	\$ 808

Environmental and social impact assessments

Generally under the Master Agreement, Inco is obligated to indemnify the Company for liabilities relating to environmental clean-up, remediation, and reclamation arising out of activities prior to December 15, 2004, provided no notice of claim may be given more than seven years after December 15, 2004. The condition of the existing mine and facilities will be set out in a baseline environmental site assessment (“ESA”) that is being undertaken jointly by the Company and Inco. – see note 2 (g), “Site closure and reclamation costs”, to the Company’s audited consolidated financial statements for the year ended December 31, 2005, and note 7 (a), “Commitments and contingencies” to the Company’s unaudited consolidated financial statements for the period ended March 31, 2006.

The Company is currently carrying out an environmental and social impact program that includes an environmental impact evaluation (“Evaluación de Impacto Ambiental” or “EIA”) that must be approved by the Ministry of Environment and Natural Resources (Ministerio de Ambiente y Recursos Naturales or MARN) of the Government of Guatemala for the refurbishment and expansion of the ferro-nickel processing plant, an application for which is expected to be submitted to MARN in the second quarter of 2006 to comply with Guatemalan regulatory requirements, and additional study information pertaining to public consultation and other policy and performance standards requirements of the World Bank Group and/or Equator-Principle-subscribing financial institutions (the “environmental and social assessment” or “ESIA”). The assessments are being overseen by Klohn Crippen Berger Ltd (supported by Consultoría y

Tecnología Ambiental, S.A., a Guatemalan environmental consulting company). The estimated cost of the ESIA is approximately \$3,400,000.

Skye has 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 region which would be impacted by the Fenix Project. We have also expanded Skye's community relations group which has been active in enhancing relationships with the communities adjacent to the mining area.

Technology

We have made significant progress in developing an atmospheric leach process which may be able to treat CGN's mineralized material at the Fenix Project and similar material elsewhere. Extensive laboratory pilot testing has been completed at SGS for the process to produce an intermediate nickel/cobalt product from nickel laterites and the Company has filed USA and international patent applications. Skye's proprietary process is capable of recovering nickel and cobalt from both limonite and saprolite nickel laterites which occur together in many deposits such as Fenix. The process takes place at atmospheric pressure and at relatively low temperatures, meaning that the conditions are quite benign relative to other process technologies. 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.

The two-phase pilot program to develop Skye's proprietary atmospheric leaching process for the production of a mixed nickel-cobalt hydroxide intermediate product has been completed. The work was carried out at SGS with encouraging results. The second phase of pilot tests on new bulk samples from the Fenix Project culminated in the integrated operation of the pilot plant through to the targeted intermediate product. The testing was successful. SGS's final report on the last phase of pilot plant testing was received on March 17, 2006 and the results were reported in a news release dated March 30, 2006.

In the three months ended March 31, 2006 \$102,000 (March 31, 2005 - \$1,749,000) was incurred on process technology – see the "Outlook" section below. The following table outlines process technology expenditure for the three months ended March 31, 2006 and 2005:

	Three months ended March 31	
	2006	2005
Process Technology (000's)		
Pilot plant operations	\$ 87	\$ 1,749
Intellectual property costs	15	-
	<u>\$ 102</u>	<u>\$ 1,749</u>

General and administration

The following table outlines general and administrative costs for the three months ended March 31, 2006 and 2005:

	Three months ended March 31	
	2006	2005
General and Administrative (000's)		
Salaries and employee benefits	\$ 1,017	\$ 457
Consulting	126	36
Professional fees	224	162
Investor relations	67	20
Office and other costs	329	190
	<u>\$ 1,763</u>	<u>\$ 865</u>

SUMMARY OF QUARTERLY RESULTS

In the three months ended March 31, 2006, we were working on the ESA, the exploration program, the environmental and social assessment program, community relations initiatives, the feasibility study, completing a financing, and preparing to move the Company's listing from the TSX-V to the TSX. We also initiated the preliminary assessment of an expansion of the Fenix Project through hydrometallurgical processes and continued the development of our proprietary atmospheric leach process. As a result of the Company's expenditure prior to March 31, 2006 we increased our indirect ownership of CGN to 92.4% – see the "Results of Operations" section above.

Fenix development costs of \$3,562,000 and exploration costs of \$2,261,000 this quarter are the major components of the loss of \$8,156,000. In the comparable period ended March 31, 2005, our work in those areas was just getting underway following the acquisition of the Fenix Project so the expenses were lower at \$808,000 and \$169,000 respectively. However, process technology costs were lower in the current quarter at \$102,000 versus costs of \$1,749,000 in the same period a year earlier.

The following table summarizes our quarterly results for the last eight financial quarters:

(\$000's except per share data)

	2006	Year Ended December 31 2005			Q1	Transition December 31 2004	Year Ended August 31 2004	
	Q1	Q4	Q3	Q2		Q1	Q4	Q3
Total Revenue	154	63	113	185	52	26	24	27
Expenses								
Fenix development	3,562	3,933	3,666	2,356	808	-	-	-
Exploration	2,261	3,706	1,899	2,062	169	297	21	-
Process technology	102	1,554	343	952	1,749	102	206	164
General and administrative	1,763	1,018	881	1,641	865	961	821	460
Project financing	104	-	-	-	-	-	-	-
Amortization	35	33	31	8	6	5	5	8
Stock-based compensation	483	382	146	367	306	220	628	113
Loss for the period	8,156	10,563	6,853	7,201	3,851	1,559	1,657	718
per share	\$0.31	\$0.49	\$0.29	\$0.31	\$0.24	\$0.13	\$0.15	\$0.06

Each quarter in 2005 we worked on the ESA, the exploration program, the environmental and social assessment program, the feasibility study, community relations initiatives and continued the development of our proprietary atmospheric leach process. In the first six months of 2005, we completed a financing and the preliminary assessment of the Fenix Project.

During the four month Transition Period to December 31, 2004, we acquired a 70% conditional interest in CGN, initiated the preliminary assessment, raised additional financing through the exercise of outstanding warrants and continued development of our atmospheric leach process.

During the six months ended August 31, 2004, we were building a management team and incurring expenditures to reach agreement with Inco on CGN. We also initiated development of the hydromet technology and applied for provisional patents. Fluctuations between quarters in that period relate mainly to the expensing of stock-based compensation and the costs of negotiations with Inco to acquire CGN.

LIQUIDITY AND CAPITAL RESOURCES

On March 24, 2005 we completed a private placement of 7,820,000 Units at \$4.10 each to realize gross proceeds of \$32,062,000 and net proceeds of \$29,883,000. Each Unit consisted 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 – see “Outstanding Shares, Options and Warrants” section below.

On February 21, 2006 we completed a private placement of 5,885,000 Common Shares at \$4.25 each to realize gross proceeds of \$25,011,000 and net proceeds of approximately \$23,600,000. The proceeds will be used for the Fenix Project on exploration drilling, environmental and community relations expenditures, basic engineering, land purchases, early establishment of the owner's project management team and other expenses to permit implementation of the Fenix Project following completion of the feasibility study, a preliminary assessment for the hydrometallurgical expansion and general working capital including project financing costs.

In the three months ended March 31, 2006 a total of 84,100 warrants were exercised and \$483,575 received in cash leaving 3,825,900 warrants outstanding at March 31, 2006. In April 2006, a further 164,750 warrants were exercised and \$947,313 received by the Company to reduce the number of warrants outstanding at April 28, 2006 to 3,661,150. If all the outstanding warrants are exercised prior to expiry, we will receive an additional \$21,051,612.

As at the date of this MD&A, our contractual obligations are summarized as follows.

Contractual Obligations (000's)	Payments due by period				
	Total	< 1 year	1 - 3 years	4 - 5 years	> 5 years
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligations	23	5	18	-	-
Operating leases	178	178	-	-	-
Purchase obligations	3,917	3,894	23	-	-
Other long term obligations	3,921	3,921	-	-	-
	<u>\$ 8,039</u>	<u>\$ 7,998</u>	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ -</u>

We have entered into certain employment contracts with seven of our senior officers resulting in an aggregate annual compensation of approximately \$1,325,000. In addition to their annual remuneration payable under these contracts, bonuses and stock options may 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 740,000 shares issuable if and when certain milestones are achieved. At March 31, 2006 \$450,000 has been accrued to cover the cost of certain of the potential grants of Common Shares.

At March 31, 2006, there were 2,942,800 stock options to purchase shares outstanding with a weighted average exercise price of \$3.93 per share. The stock options expire between November 27, 2008 and March 20, 2011 (see "Outstanding Shares, Options and Warrants" below for more details).

Our cash and cash equivalents balance as of April 28, 2006 was approximately \$26,700,000 compared with \$13,378,000 at December 31, 2005. The significant increase relates to the financing we closed on February 21, 2006 mentioned above.

Our current cash balance is adequate until the end of 2006 to fund planned corporate and administrative expenses and expenses related to the feasibility study, the preliminary assessment of hydromet technology for the expansion of Fenix – see the "Outlook" section below, the exploration program and certain project implementation costs. Thereafter, to continue

development of the Fenix Project, 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.

We do not have any off-balance sheet arrangements except that the Company has the benefit of an indemnity from Inco under the terms of the Master Agreement in respect of the Company's site closure and reclamation obligations incurred by CGN prior to December 15, 2004 – see note 10 (a) to the Company's consolidated audited statements for the year ended December 31, 2005 and note 7 (a) to the Company's consolidated unaudited statements for the period ended March 31, 2006.

FINANCIAL CONDITION

The Company's financial condition at the date of this MD&A improved substantially over the most recently completed financial year end, December 31, 2005, due to the receipt of net proceeds of approximately \$23,600,000 from the private placement of its Common Shares on February 21, 2006 – see "Liquidity and Capital Resources" section above. Our working capital of \$25,197,000 at March 31, 2006, including the net proceeds of \$23,600,000, is sufficient to meet the Company's known obligations at the date of this MD&A.

In 2005, the Company and its subsidiaries entered into contracts for the ESA, an environmental and social assessment program, the exploration drilling program, the feasibility study and the process technology pilot plant research program. In 2006, Skye has entered into an agreement for the preliminary assessment of hydromet technology for the expansion of Fenix and agreements with financial advisors that require, on the occurrence of certain future events, the payment of fees that will vary depending on the success achieved. We have also entered into an agreement with an energy consultancy firm to develop a strategic approach to the pursuit of a long-term contract(s) aimed at achieving a cost-competitive electricity supply for the Fenix Project – see the "Liquidity and Capital Resources" section above for more information on commitments and contingencies.

The Company holds mineral properties with a cost of \$9,815,000 at the date of this MD&A (\$9,790,000 at December 31, 2005) representing the conditional acquisition of the 70% indirect interest in the mineral properties owned by CGN plus a provision of \$625,000 to cover the estimated present value of reclamation obligations. Since December 2004, the Company's indirect interest in the mineral properties has increased to 92.4%. However, no cost of the increased ownership has been capitalized as the funds invested indirectly in CGN that gave rise to the increased ownership were used by CGN for its corporate purposes (for example, exploration costs for the Fenix Project) and expensed on consolidation of the group's combined financial statements. The additional 22.4% was acquired by the Company after March 31, 2005 and is owned by it without any obligation to Inco and is not subject to the Master Agreement nor does it form a part of the Fenix Option. If the Company fails to meet all the conditions for the exercise of the Fenix Option under the terms of the Master Agreement or fails to exercise the Fenix Option, the value of the mineral properties to the Company will be severely impaired or zero – see the "Outlook" and "Risks" sections below.

OUTLOOK

The Company is working to complete the Fenix project feasibility and companion studies in the third 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 Fenix Option under the terms of the Master Agreement with Inco – see "Results of Operations" section above where the conditional acquisition of CGN and the Company's Fenix Option to complete the acquisition is more fully described and the "Risks" and "Cautionary Statement" sections below. Skye has engaged a project finance advisor and 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.

In 2006 we initiated a preliminary assessment study to double the capacity of the Fenix Project beyond that contemplated in the Fenix feasibility study by utilizing hydrometallurgy to process the limonite (and additional saprolite in the case of the Skye atmospheric leaching technology); both Skye and conventional pressure acid leach (HPAL) technologies will be studied. The estimated cost of the preliminary assessment study is \$2,500,000 and it should be completed in the third quarter of 2006. Should Skye technology be shown to be the preferred route, the commercial plant would be preceded by the construction and operation of a demonstration plant to confirm the operational viability of the technology and to define engineering parameters.

RISKS

Mineral exploration, mining and processing activities 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 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 Fenix Option to complete the purchase of the CGN shares or a minimum realizable value of the Company's mineral properties of \$9,815,000 at March 31, 2006.

Master Agreement with Inco. There is no guarantee that we will satisfy all the conditions during the Fenix Option Period of the Master Agreement entered into as of December 15, 2004 and thereafter be in a position to exercise the Fenix Option and complete the acquisition of a 70% interest in the Fenix Project.

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.

Permits. There is no guarantee that we will obtain all the required permits. (see “*Foreign Property*” below) Without the necessary permits the Fenix Project would not proceed.

Financing. Exercising the Fenix Option, constructing the mine and beginning operations will require substantial financial resources that, in part, will be denominated in foreign currencies. There is no guarantee that we will find the necessary financial resources to construct and operate the Fenix Project and there is no assurance that adverse changes in currency exchange rates will not degrade those resources prior to spending.

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 – see the sub-paragraph entitled “The Nickel Market” in the “Overview” section of the Company’s MD&A for the year ended December 31, 2005.

Foreign Property. CGN is located in Guatemala and as such is susceptible to certain risks including currency fluctuations, political or financial instability, exchange controls, changes in taxation, aboriginal issues, third party land claims, property title defects, changes in mining and labour regulations, import and 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 land, air and water and on the current and future use of land and water resources. We will demonstrate leadership in the protection of the environment and employ best practices but there is no guarantee of success. There is no guarantee that the Company will receive the necessary environmental permits and approvals from the Government to proceed with the construction and operation of the Fenix Project.

Community Risk. Our exploration, mining and processing 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.

Property, Equipment and Personnel. Due to market conditions, the availability and cost of suitable personnel, land 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. The Company’s property, equipment and personnel may also be subject to earthquake, fire, heavy wind and extreme rain conditions from time to time and the possibility of damage and associated costs arising from such adverse conditions and associated developments. The Company’s Fenix Project and its related property and equipment are uninsured.

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 US and international patent applications for our hydrometallurgical processes but there is no guarantee that these patents will be granted and that implementation of such processes will not infringe, or be alleged to infringe, an existing patent. Financing of development utilizing Skye's hydrometallurgical process is not guaranteed.

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 high energy costs.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended March 31, 2006, the Company had the following transactions with related parties:

- (i) paid or accrued \$nil (three months ended March 31, 2005 - \$13,000) for office administrative expenses to Quest Management Corp., a company with directors in common;
- (ii) paid or accrued \$nil (three months ended March 31, 2005 - \$13,000) for office rent to Quest Management Corp., a company with directors in common;
- (iii) paid or accrued \$37,500 (three months ended March 31, 2005 - \$50,000) to an officer of the company for financial consulting services provided to the Company;
- (iv) paid or accrued \$nil (three months ended March 31, 2005 - \$63,000) to a company the principal of which is 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. The contract with Quest Management Corp. has been terminated.

As at March 31, 2006, accounts payable include \$13,000 (December 31, 2005 - \$17,000) currently due to related parties.

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. 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, share purchase options and share purchase warrants outstanding:

Common Shares Outstanding	29,388,805
(Does not include 740,000 incentive stock grants to three officers of the company - 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	170,000
July 12, 2009	3.05	50,000
December 1, 2009	3.24	50,000
December 17, 2009	3.60	200,000
February 25, 2010	4.38	45,000
April 19, 2010	3.20	601,250
May 31, 2010	2.90	200,000
August 11, 2010	3.20	20,000
November 30, 2010	3.01	50,000
March 8, 2011	6.65	380,000
March 20, 2011	7.45	<u>75,000</u>
		2,941,250

Warrants:

March 24, 2007	5.75	3,661,150
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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.

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.