

SKYE RESOURCES INC.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

MARCH 31, 2007

(Expressed in United States Dollars)

(Unaudited)

SKYE RESOURCES INC.

Consolidated Balance Sheets

As at March 31, 2007 and December 31, 2006
(Expressed in thousands of United States Dollars)

	March 31	December 31
	2007	2006
	(unaudited)	(audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 91,645	\$ 75,339
Receivables	392	766
Prepaid expenses	622	452
	92,659	76,557
Property, plant and equipment (note 4)	33,504	9,295
	\$ 126,163	\$ 85,852
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,687	\$ 3,878
Capital lease (note 4)	172	213
Reclamation obligations (note 5)	553	540
	6,412	4,631
Shareholders' equity:		
Share capital (note 6)	170,074	124,417
Contributed surplus (note 6)	15,315	16,711
Accumulated other comprehensive income	735	735
Deficit	(66,373)	(60,642)
	119,751	81,221
	\$ 126,163	\$ 85,852

Commitments and Contingencies (note 8)

Approved by the Board of Directors:

Signed: "Ian G. Austin"

Signed: "David S. Smith"

SKYE RESOURCES INC.

Consolidated Statements of Operations and Deficit

For the Three months ended March 31, 2007 and 2006

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

	Three months ended March 31 2007 (unaudited)	Three months ended March 31 2006 (unaudited)
Revenue:		
Interest income	\$ 992	\$ 134
Expenses:		
Fenix development costs	2,458	3,509
Exploration	960	2,042
Process technology	18	88
General and administrative	1,832	1,018
Project financing	331	90
Loss on foreign exchange and other expense	266	1
Amortization and accretion expense	89	30
Stock-based compensation (note 6)	769	417
	<u>6,723</u>	<u>7,195</u>
Loss for the period	5,731	7,061
Deficit, beginning of period	60,642	30,988
Deficit, end of period	<u>\$ 66,373</u>	<u>\$ 38,049</u>
Basic and diluted loss per share	<u>\$ 0.14</u>	<u>\$ 0.27</u>
Weighted average number of common shares outstanding	40,972,260	26,014,161

See notes to the consolidated interim financial statements

SKYE RESOURCES INC.

Consolidated Statements of Cash Flow

For the Three months ended March 31, 2007 and 2006

(Expressed in thousands of United States Dollars)

	Three months ended March 31 2007 (unaudited)	Three months ended March 31 2006 (unaudited)
Cash provided by (used for):		
Operating activities:		
Loss for the period	\$ (5,731)	\$ (7,061)
Items not affecting cash		
Amortization and accretion expense	89	30
Stock-based compensation (note 6)	769	417
Changes in non-cash working capital balances:		
Receivables	374	130
Prepaid expenses	(170)	(115)
Accounts payable and accrued liabilities	(20)	(433)
Cash used in operating activities	(4,689)	(7,032)
Financing activities:		
Exercise of warrants	16,279	424
Exercise of options	442	55
Share issues	10,213	21,817
Share issues costs	(537)	(1,213)
Capital lease obligations	(41)	-
Cash provided by financing activities	26,356	21,083
Investing activities:		
Property, plant and equipment	(5,354)	(45)
Reclamation obligations	(7)	-
Cash used in investing activities	(5,361)	(45)
Effect of exchange rate on cash and cash equivalents held in foreign currency	-	(316)
Increase in cash and cash equivalents	16,306	13,690
Cash and cash equivalents, beginning of period	75,339	11,474
Cash and cash equivalents, end of period	\$ 91,645	\$ 25,164

Supplementary Cash Flow Information (note 10)

See notes to the consolidated interim financial statements

SKYE RESOURCES INC.

Notes to Consolidated Financial Statements

For the Three Months ended March 31, 2007 and 2006 (unaudited)

(Expressed in thousands of United States dollars,

Except for share / unit / warrant amounts, unless otherwise stated)

1. Basis of presentation

It is recommended that these unaudited interim consolidated financial statements be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2006. The accounting policies applied to the preparation of the interim financial statements are consistent with those applied to the previous financial period ended December 31, 2006 with the exception of those listed in notes 2 and 3. These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included. Operating results for the three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2007.

2. Significant Accounting Policies

a. Principles of consolidation

These financial statements include the accounts of the Company and those of:

(i) five wholly-owned subsidiaries

Skye Resources (B.V.I.) Inc.	incorporated in the British Virgin Islands
Skye Resources Guatemala (B.V.I.) Inc.	incorporated in the British Virgin Islands
Skye de Guatemala, S.A.	incorporated in Guatemala
Bocanueva, S.A.	incorporated in Guatemala
Tampico, S.A.	incorporated in Guatemala, and

(ii) two 92.4%-owned subsidiaries

Compañía Guatemalteca de Níquel, S.A. ("CGN")	incorporated in Guatemala
(formerly Exploraciones y Explotaciones Mineras Izabal S.A. ("Exmibal"))	
Inversiones Arcadia, S.A.	incorporated in Guatemala.

All significant inter-company balances and transactions have been eliminated.

b. Foreign currency translation

Effective January 1, 2007 and with respect to periods beginning thereafter, the functional and reporting currency of the Company changed to the United States ("US") dollar. The Canadian dollar (C\$) was the functional and reporting currency of the Company for all periods up to and including December 31, 2006 and Canadian dollars reported in such periods have been translated into US dollars using the current rate method as outlined in the CICA Handbook section 1651 (note 3)

c. Mineral properties and exploration costs

The decision to develop a mineral property within a project area is based on an assessment of the commercial viability of the property, the availability of financing and the existence of markets for the product. Once the decision to proceed to development is made, development and other expenditures relating to the project area are deferred and carried at cost with the intention that these will be depleted by charges against earnings from future operations on a unit of production method based on estimated proven and probable reserves. No depreciation or depletion is charged against the property until commercial production commences. Exploration and development costs will be capitalized prospectively once it has been established that a mineral property is commercially mineable. Commencing January 1, 2007, the Company has begun capitalizing direct costs relating to the Fenix Project in

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For the Three Months ended March 31, 2007 and 2006 (unaudited)

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Guatemala. This decision was made by management upon assessment that the Fenix Project is commercially mineable.

d. Realization of assets

A significant portion of the Company's assets comprises the investment in property, plant and equipment. Realization of the Company's investment in these assets is dependent upon production from the properties or from the proceeds of their disposal. If, after management review, it is determined that capitalized costs are not recoverable over the estimated economic life of the property, or the property is abandoned, the property is written down to its net realizable value.

e. Site closure and reclamation costs

The Company may incur a liability for costs associated with the eventual retirement of tangible long-lived assets (for example, reclamation costs). Such obligations will be measured initially at their fair value using estimates of the timing and amount of expenditure and applying discounted present value methodology. The resulting amount will be added to the cost of the related asset and to the Company's liabilities, and will be adjusted in later periods for changes in the amount and timing of the expected cash expenditures. The amount added to the asset will be amortized in the same manner as the asset. The liability will be increased in each accounting period by the amount of the implied interest inherent in the use of discounted present value methodology, and the increase will be charged against earnings.

f. Comparative figures

The prior period's comparative figures have been restated to conform with the presentation adopted for the current period, including the translation of Canadian dollar figures into US dollars.

3. Financial Instruments - Changes in Accounting Policies

Effective January 1, 2007, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) relating to financial instruments. These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

Financial Instruments-Recognition and Measurement (Section 3855)

These standards set out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on a Company's balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and comprehensive income.

All financial assets and liabilities are recognized when the entity becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect. Any changes to the fair values of assets and liabilities prior to January 1, 2007 are recognized by adjusting opening deficit or opening accumulated other comprehensive income.

SKYE RESOURCES INC.

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For the Three Months ended March 31, 2007 and 2006 (unaudited)

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All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depend on their initial classification:

- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise.

In accordance with this new standard, the Company has classified its financial instruments as follows:

Cash and cash equivalents are classified as held-for-trading; receivables are classified as loans and receivables and accounts payable are classified as other financial liabilities. All are measured at fair value and gains and losses are included in net earnings in the period in which they arise. Cash and cash equivalents are exposed to credit risk and these amounts are placed with major Canadian banks. The Company is not exposed to interest rate risk due to the short-term maturity of the financial instruments.

Capital leases and retirement obligations are financial instruments that are outside the scope of this standard. The fair value of the capital leases obligation approximates the carrying amount as a market rate of interest is attached to their repayment.

Hedging (Section 3865)

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not have any hedges.

Comprehensive Income (Section 1530)

Comprehensive income is the change in shareholders' equity during a period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net earnings to be presented in other "comprehensive income" until it is considered appropriate to recognize into net earnings. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements.

Accordingly, the Company now includes the account "accumulated other comprehensive income" in the shareholders' equity section of the consolidated balance sheet. There was no material effect on opening equity as of January 1, 2007 as a result of applying these new standards.

SKYE RESOURCES INC.**Notes to Consolidated Financial Statements**

For the Three Months ended March 31, 2007 and 2006 (unaudited)

(Expressed in thousands of United States dollars,

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4. Property, plant and equipment

The Company's property, plant and equipment is as follows.

	As at March 31 2007	As at December 31 2006
Cost		
Mineral properties	\$ 28,654	\$ 8,683
Fenix development costs capitalized	4,191	-
Vehicles and equipment	1,014	888
	<u>33,859</u>	<u>9,571</u>
Accumulated depreciation		
Vehicles and equipment	(355)	(276)
	<u>(355)</u>	<u>(276)</u>
Net balance, end of period		
Mineral properties (note 4 (a))	28,654	8,683
Fenix development costs capitalized (note 4 (b))	4,191	-
Vehicles and equipment (note 4 (c))	659	612
	<u>\$ 33,504</u>	<u>\$ 9,295</u>

(a) Mineral properties

Pursuant to the Master Agreement with CVRD Inco Limited ("CVRD Inco") (formerly Inco Limited), the Company conditionally acquired a 70% indirect interest in CGN's Fenix Project ("Fenix Project") in Guatemala at a cost of \$7,635 in December 2004 through the purchase of shares in CGN. On March 6, 2007, the Company exercised the Fenix Option pursuant to the Master Agreement; paid CVRD Inco \$2,873 (\$3,500 reduced by \$627 in respect of an environmental indemnity – see note 8(a)) and issued 1,746,463 Common Shares to CVRD Inco for a total additional consideration of approximately US\$19,966 for certain surface rights and other assets CVRD Inco held through affiliates in Guatemala. The cost of mineral properties will change as the Company makes new estimates of the fair value of the liability for site closure and reclamation costs – see note 2 (e). The Fenix Project includes a former mine operation, a pyrometallurgical nickel processing plant, an oil-fired power plant and associated infrastructure that operated intermittently from 1977 to 1980. Since then, the site has been held on a continuous care and maintenance basis by CGN and, beginning in 2004, the Company has conducted exploration on the properties. The Company has determined that no write-down of the carrying value of its mining properties is required.

Mineral Properties	Three months ended March 31 2007	Year ended December 31 2006
Opening balance, beginning of period	\$ 8,683	\$ 8,401
Reclamation obligations (note 5)	5	371
Additional consideration to exercise the Fenix Option	19,966	-
Cost recovery	-	(89)
	<u>\$ 28,654</u>	<u>\$ 8,683</u>
Closing balance, end of period		

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CGN holds a 25-year renewable exploitation licence (the "Fenix Exploitation Licence") issued by the Guatemalan Ministry of Energy and Mines ("MEM") covering an area of 248 square kilometres. The Fenix Exploitation Licence allows mining of nickel, cobalt, iron, chromium and magnesium to take place on the licenced area. In addition, CGN holds the Niquegua Montufar II three-year exploration licence, with two possible extensions of two years each, granted in December 2004 that entitled it to explore for nickel, cobalt, iron, chromium and magnesium, subject to a reduction in area unless justification can be shown why the scope of the project requires a greater area.

The Company's indirect interest in the Fenix Project increased following a series of cash calls to the shareholders of CGN from 70.0% to approximately 92.4% at March 31, 2007 as a result of the Company funding certain costs associated with the Fenix Project. The aggregate Fenix Project costs funded to March 31, 2007 is \$49,638, of which \$11,644 was applied to cash calls to the CGN shareholders. The remaining interest is owned by the Government of Guatemala which elected not to contribute its proportionate share of this new funding. The funds received by CGN from these cash calls of \$11,644 were expended on exploration and development which on consolidation have been expensed as incurred.

(b) Fenix development costs capitalized

Commencing January 1, 2007, the Company is capitalizing the cost of basic engineering work and the cost of the Project Team for the Fenix Project in Guatemala and at March 31, 2007 such capitalized costs are \$4,191.

(c) Vehicles and equipment – capital lease

CGN entered into a 36-month capital lease contract for the purchase of twenty vehicles on August 30, 2006. The vehicles are depreciable assets recorded at a cost of \$404, which is equal to the present value of the minimum lease payments, and depreciation expense for the three months ended March 31, 2007 is \$41. During each year of the lease, the minimum lease payments are approximately \$170. Title to the vehicles will transfer to the Company at August 30, 2009 upon payment of \$37. The amount representing interest over the term of the lease is \$81.

Future payment obligations are as follows.

	As at March 31 2007	As at December 31 2006
2007	\$ 128	\$ 169
2008	170	169
2009	112	112
	410	450
Less: Interest	(68)	(68)
Total future principal payments	342	382
Less: Current portion	(170)	(169)
	\$ 172	\$ 213

SKYE RESOURCES INC.

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(Expressed in thousands of United States dollars,

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5. Reclamation Obligations

The Company's exploration and exploitation licences require that it reclaim any land covered by those licences which it disturbs during exploration and exploitation activities for the Fenix Project. Although the timing and the amount of the actual expenditures are uncertain, the Company has estimated the present value of the future reclamation obligation arising from its activities to March 31, 2007 to be \$836 (\$553 plus \$283 included in accrued liabilities).

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the obligation associated with the retirement of the properties.

Reclamation Obligations	Three months ended March 31 2007	Year ended December 31 2006
Beginning of period	\$ 830	\$ 515
Reclamation expenditures	(7)	(57)
Reclamation obligations incurred (note 5)	9	371
Accretion expense	5	-
Other	(1)	1
End of period	<u>\$ 836</u>	<u>\$ 830</u>
Including portion in accrued liabilities	\$ 283	\$ 290

The undiscounted amount of cash flows required over the estimated life of the underlying assets, to settle the obligation, adjusted for inflation, is estimated at \$794 (December 31, 2006 - \$978). Accretion for the three months ended March 31, 2007 is \$9 (December 31, 2006 - \$nil). The obligation was calculated using a credit-adjusted risk free discount rate of 4.4% (December 31, 2006 - 4.4%) and an inflation rate of 2.2% (December 31, 2006 - 2.2%). See note 8 "Commitments and contingencies".

SKYE RESOURCES INC.

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For the Three Months ended March 31, 2007 and 2006 (unaudited)

(Expressed in thousands of United States dollars,

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6. Share Capital

a) Share Capital:	Number of Shares	Share Capital	Contributed Surplus
Authorized:			
Unlimited common shares without par value			
Issued:			
Balance, December 31, 2005	23,235,005	\$ 39,260	\$ 6,442
Shares issued for private placement ⁽¹⁾	5,885,000	21,817	-
Share issue costs ⁽¹⁾	-	(1,213)	-
Shares and 2008-Warrant units issued ⁽²⁾	7,450,000	60,901	8,470
Share issue costs ⁽²⁾	-	(4,265)	-
Shares issued for services ⁽³⁾	352,400	3,528	-
Exercise of 2007-Warrants ⁽⁴⁾	596,550	3,002	-
Contributed surplus on 2007-Warrants exercised ⁽⁴⁾	-	601	(601)
Exercise of share options ⁽⁵⁾	189,950	568	-
Contributed surplus on share options exercised ⁽⁵⁾	-	218	(218)
Stock-based compensation expense	-	-	2,618
Balance, December 31, 2006	37,708,905	124,417	16,711
Shares issued for over-allotment options ⁽⁶⁾	1,117,500	8,803	1,410
Share issue costs ⁽⁶⁾	-	(537)	-
Shares issued for mineral properties ⁽⁷⁾	1,746,463	17,093	-
Exercise of 2007-Warrants ⁽⁸⁾	3,313,450	16,279	-
Contributed surplus on 2007-Warrants exercised ⁽⁸⁾	-	3,345	(3,345)
Exercise of share options ⁽⁹⁾	223,750	442	-
Contributed surplus on share options exercised ⁽⁹⁾	-	232	(232)
Stock-based compensation expense	-	-	769
Other	-	-	2
Balance, March 31, 2007	44,110,068	\$ 170,074	\$ 15,315

⁽¹⁾ On February 21, 2006, the Company closed a share issue of 5,885,000 Common Shares at a price of C\$4.25 per common share. The equity financing raised gross proceeds of \$21,817 (C\$25,011) and net proceeds of \$20,604 (C\$23,620) after issue costs of \$1,213 (C\$1,391).

⁽²⁾ On December 13, 2006, the Company issued 7,450,000 units at a price of C\$10.75 each; each unit comprising a Common Share and one half of a Common Share purchase warrant (the "2008-Warrant") that raised gross proceeds of approximately \$69,371 (C\$80,088) and net proceeds of approximately \$65,106 (C\$75,165). Each whole 2008-Warrant entitles the holder to purchase one additional Common Share at a price of C\$12.36 per share until March 13, 2008.

⁽³⁾ During the year ended December 31, 2006 26,500 Common Shares were issued at C\$8.28 per share (\$197 (C\$219)) and 15,900 shares were issued at C\$9.05 per share (\$129 (C\$144)) to two Officers, and 310,000 Common Shares were issued at C\$11.76 per share (\$3,202 (C\$3,647)) to three Officers, in respect of incentive stock grants contained in their employment contracts and approved by shareholders. Pursuant to these contracts the Company was obligated to issue 390,000 Common Shares. The obligation to issue 37,600 of those shares was cancelled in consideration of the Company making cash payments for income-tax-withheld.

SKYE RESOURCES INC.

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For the Three Months ended March 31, 2007 and 2006 (unaudited)

(Expressed in thousands of United States dollars,

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- (4) During the year ended December 31, 2006 there were 596,550 of the 2007-Warrants exercised at a price of C\$5.75 per share for proceeds of \$3,002 (C\$3,430). The proceeds were added to share capital and \$601 was allocated from contributed surplus to share capital representing the fair value of the warrants exercised.
- (5) During the year ended December 31, 2006 there were 189,950 share purchase options exercised at an average exercise price of C\$3.35 for proceeds of \$568 (C\$636). The proceeds were added to share capital and \$218 was allocated from contributed surplus to share capital representing the fair value of the share options exercised.
- (6) On January 11, 2007, the underwriters of the December 13, 2006 unit offering exercised their over-allotment option to acquire 1,117,500 units at C\$10.75 per unit. The over-allotment option exercise raised gross proceeds of approximately \$10,213 (C\$12,013) and net proceeds of approximately \$9,676 (C\$11,412) after issue costs of \$537 (C\$601). Each unit comprises a Common Share and one half of a Common Share purchase warrant (the "2008-Warrant").
- (7) On March 6, 2007, the Company exercised its option to make unconditional its 2004 acquisition of the CVRD Inco interest in the Fenix nickel laterite project in Guatemala. As consideration, the Company paid CVRD Inco 1,746,463 Common Shares and \$3,500.
- (8) During the three months ended March 31, 2007, there were 3,313,450 of the 2007-Warrants exercised at a price of C\$5.75 per share for proceeds of \$16,279 (C\$19,052). The proceeds were added to share capital and \$3,345 was allocated from contributed surplus to share capital representing the fair value of the warrants exercised.
- (9) During the three months ended March 31, 2007, there were 223,750 share purchase options exercised at an average exercise price of C\$2.58 for proceeds of \$442 (C\$578). The proceeds were added to share capital and \$232 was allocated from contributed surplus to share capital representing the fair value of the share options exercised.

(b) Stock purchase options

The Company has a stock option plan under which the Board of Directors may grant stock options to directors, officers, employees and consultants. Options may be granted for up to 10 years subject to such vesting terms and conditions as may be specified by the Board of Directors. At March 31, 2007, the maximum number of shares set aside for issuance pursuant to options granted is 4,212,941, being 20% of the 23,133,205 (i.e. 4,626,641) shares issued and outstanding at the time of the Annual and Special Shareholders' Meeting of the Company on May 26, 2005 less 413,700 options exercised subsequently.

SKYE RESOURCES INC.**Notes to Consolidated Financial Statements**

For the Three Months ended March 31, 2007 and 2006 (unaudited)

(Expressed in thousands of United States dollars,

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Stock option transactions are summarized below:

	Number of Options	Exercise Price	Weighted Average Exercise Price
Outstanding December 31, 2005	2,525,000	C\$ 0.68 - 5.25	C\$ 3.42
2006 Granted	1,610,000	6.65 - 10.95	9.33
Cancelled before vesting	(113,750)	2.90 - 4.38	3.03
Exercised	(189,950)	2.90 - 4.65	3.35
Expired after vesting	(15,050)	2.90 - 4.65	4.55
Outstanding December 31, 2006	3,816,250	0.68 - 10.95	5.92
2007 Granted	75,000	12.66	12.66
Exercised	(223,750)	0.68 - 5.25	2.58
Outstanding March 31, 2007	3,667,500	C\$ 2.90 - 12.66	C\$ 6.26

The weighted average fair value of options granted in the three months ended March 31, 2007 is C\$12.66 (year ended December 31, 2006 is C\$4.36).

Stock options outstanding at March 31, 2007 are summarized below:

Expiry Date	Number Outstanding	Number Exercisable	Exercise Price
November 16, 2007	50,000	50,000	C\$ 2.90
November 16, 2007	150,000	150,000	3.30
November 30, 2007	25,000	25,000	3.30
November 30, 2007	15,000	15,000	4.38
December 9, 2008	385,000	385,000	3.30
January 2, 2009	225,000	225,000	4.25
January 28, 2009	37,500	37,500	5.25
March 4, 2009	150,000	150,000	4.65
July 12, 2009	50,000	50,000	3.05
December 1, 2009	50,000	50,000	3.24
December 17, 2009	200,000	200,000	3.60
April 19, 2010	590,000	590,000	3.20
August 11, 2010	5,000	5,000	3.20
November 30, 2010	50,000	37,500	3.01
March 8, 2011	380,000	285,000	6.65
March 19, 2011	75,000	56,250	7.45
May 18, 2011	200,000	100,000	8.28
July 10, 2011	65,000	32,500	8.90
July 24, 2011	75,000	37,500	10.30
December 18, 2011	815,000	253,750	10.95
March 21, 2012	75,000	18,750	12.66
see ⁽¹⁾ below	3,667,500	2,753,750	C\$ 6.26

⁽¹⁾ Weighted average exercise price of the options exercisable at March 31, 2007 is C\$5.01.

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(Expressed in thousands of United States dollars,

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The fair value of stock options granted is estimated using the Black-Scholes option pricing model with the following assumptions:

	Three months ended March 31 2007	Year ended December 31 2006
Risk free interest rate	4.0%	3.9% to 4.3%
Expected dividend yield	0.0%	0.0%
Expected stock volatility	63%	63% to 89%
Expected life	2.5 years	2.5 years

Option pricing models require the input of highly subjective assumptions regarding the expected volatility.

(c) Share purchase warrants:

The Company's 2007-Warrants are not listed on any stock exchange whereas the 2008-Warrants trade on the Toronto Stock Exchange under the symbol "SKR.WT".

	2008-Warrants expiring March 13, 2008		2007-Warrants expired March 24, 2007	
	Number of 2008-Warrants	Exercise Price	Number of 2007-Warrants	Exercise Price
Outstanding December 31, 2005	-	-	3,910,000	C\$ 5.75
Warrants issued during 2006	3,725,000	C\$ 12.36	-	-
Warrants exercised during 2006	-	-	(596,550)	5.75
Outstanding December 31, 2006	3,725,000	12.36	3,313,450	5.75
Warrants issued during 2007	558,750	12.36		
Warrants exercised during 2007			(3,313,450)	C\$ 5.75
Outstanding March 31, 2007	4,283,750	C\$ 12.36	-	-

On March 24, 2005, the Company closed a private placement that included 3,910,000 2007-Warrants, with each whole 2007-Warrant entitling the purchaser to acquire one additional Common Share of the Company at a price of C\$5.75 on or before March 24, 2007. The 2007-Warrants were valued at \$3,946 (C\$4,803) which was recorded in contributed surplus. During the year ended December 31, 2006 a total of 596,550 of the 2007-Warrants were exercised at a price of C\$5.75 and cash of \$3,002 (C\$3,430) was received. As a result, \$601 was transferred from contributed surplus that was recorded in the year ended December 31, 2005 to share capital representing the value of the exercised 2007-Warrants. (see note 6(a))

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Except for share / unit / warrant amounts, unless otherwise stated)

On December 13, 2006, the Company issued units that included 3,725,000 2008-Warrants, with each whole 2008-Warrant entitling the purchaser to acquire one additional Common Share of the Company at a price of C\$12.36 on or before March 13, 2008. The 2008-Warrants were valued at \$8,470 (C\$9,779) which was recorded in contributed surplus. (see note 6(a))

On January 11, 2007, the underwriters of December 13, 2006 unit offering exercised their over-allotment options to acquire 1,117,500 units that included 558,750 of the 2008-Warrants. Each whole 2008-Warrant entitles the unit holder to acquire one additional Common Share of the Company at a price of C\$12.36 on or before March 13, 2008. The 2008-Warrants were valued at \$1,410, which was recorded in contributed surplus. (see note 6(a))

During the three months ended March 31, 2007, there were 3,313,450 of the 2007-Warrants exercised at a price of C\$5.75 per share for proceeds of \$16,279 (C\$19,052). As a result, \$3,345 was transferred from contributed surplus that was recorded in the year-ended December 31, 2005 to share capital representing the value of the exercised 2007-Warrants. (see note 6(a))

The fair value of warrants issued during the periods was estimated using the Black-Scholes option pricing model with the following assumptions:

	Three months ended March 31 2007	Year ended December 31 2006
Risk free interest rate	4.1%	3.9%
Expected dividend yield	0.0%	0.0%
Expected stock volatility	80.0%	71.6%
Expected life	1.17 Years	1.25 Years

Warrant option pricing models require the input of highly subjective assumptions regarding the expected volatility.

(d) Shareholder Rights Plan

On December 18, 2006, the Board of Directors of the Company issued a news release announcing that the Board had adopted a Shareholder Protection Rights Plan (the "Rights Plan") effective December 21, 2006. By its terms, this Rights Plan is effective from and after December 21, 2006 and, if not ratified by the shareholders on or before May 21, 2007, will automatically terminate. A separate rights certificate will not be issued until such time as the rights become exercisable (which is referred to as the "separation time"). The rights will become exercisable only if a person, together with its affiliates, associates and joint actors, acquires or announces its intention to acquire beneficial ownership of shares and warrants, which when aggregated with its current holdings total 20% or more of the outstanding Skye common shares (determined in the manner set out in the Rights Plan), other than by a Permitted Bid (as defined in the Rights Plan). Following an acquisition of shares otherwise prohibited by the Rights Plan, each right held by a person other than the acquiring person and its affiliates, associates and joint actors would, upon exercise, entitle the holder to purchase that number of Skye common shares which have a current market value equal to twice the exercise price payable for such common shares. The TSX has accepted the Rights Plan for filing, subject to the condition that the Rights Plan will not be deemed to be in effect by the TSX until ratified by the shareholders.

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(Expressed in thousands of United States dollars,

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7. Related Party Transactions

There were no transactions with related parties during the three months ended March 31, 2007 and 2006. As at March 31, 2007 and December 31, 2006, there were no accounts payable due to related parties.

8. Commitments and Contingencies

(a) Generally under the Master Agreement, CVRD 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 has been set out in a baseline environmental site assessment ("ESA") that was undertaken jointly by the Company and CVRD Inco.

An estimate of the fair value of site closure and reclamation costs was made as at December 31, 2006 for land disturbed by exploration activities since December 2004 (see note 5).

(b) The Company has entered into employment contracts with nine officers of eleven with aggregate annual base remuneration of approximately \$2,400 (December 31, 2006 - \$1,373 for eight officers). In addition to their annual remuneration payable under these contracts, incentive payments and stock options may be paid or granted at the sole discretion of the Board of Directors. Under certain conditions of termination ten of the officers will receive two times their annual base remuneration as severance. Also, on achieving certain milestones two of these officers may be issued up to 350,000 Common Shares of the Company.

(c) The Company has entered into 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.

(d) The 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
Contingent commitments	\$ 1,540	\$ 1,540	\$ -	\$ -	\$ -
Capital lease obligations	410	170	240	-	-
Operating leases	26	26	-	-	-
Purchase obligations	4,557	4,551	6	-	-
Other long term obligations ^{1,2}	4,459	3,130	1,006	39	284
	<u>\$ 10,992</u>	<u>\$ 9,417</u>	<u>\$ 1,252</u>	<u>\$ 39</u>	<u>\$ 284</u>

¹ Options granted but not vested which, when vested, will require the expensing of their fair values (but no cash outlays) aggregating \$3,629.

² Excludes certain other contingent non-cash obligations to issue shares – see note 6.

SKYE RESOURCES INC.**Notes to Consolidated Financial Statements**

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(Expressed in thousands of United States dollars,

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9. Segmented Information

The Company primarily operates in one reportable operating segment, being the acquisition and development of mineral properties. The Company's operations and assets are in Canada and Guatemala as follows:

	Three months ended March 31 2007	Three months ended March 31 2006
Canada		
Loss from operations	\$ 2,215	\$ 4,559
Property, plant and equipment	68	74
Total assets	92,133	25,515
Guatemala		
Loss from operations	3,516	2,502
Property, plant and equipment	33,436	8,638
Total assets	\$ 34,030	\$ 8,410

10. Supplementary Cash Flow Information

	Three months ended March 31 2007	Three months ended March 31 2006
(a) Cash and cash equivalents consist of:		
Cash	\$ 69,182	\$ 316
Cash equivalents	22,463	24,848
	\$ 91,645	\$ 25,164
(b) Non-cash financing activities consist of:		
Shares issued for mineral properties	\$ 17,093	\$ -
Fair value of stock options granted	769	417
	\$ 17,862	\$ 417
(c) Non-cash investing activities consist of:		
Capital lease included in Vehicles and Equipment	\$ 409	\$ -
(d) Operating activities included the following cash payments:		
Taxes paid	\$ -	\$ 1