

## Summary Review of Skye Resources' TECHNICAL REPORT ON AN UPDATE TO THE FENIX PROJECT, IZABAL GUATEMALA, September 15, 2007.

This summary is based on the most recent report prepared by Skye Resources Inc, and prepared by Hatch Consulting, titled "TECHNICAL REPORT ON AN UPDATE TO THE FENIX PROJECT, IZABAL GUATEMALA." This summary review is designed to be read in conjunction with the company report posted online at [www.sedar.com](http://www.sedar.com). Page numbers referred to in square brackets indicate which page in the report refers to a given item.

Skye Resources is a Vancouver based company that operates in Guatemala through their indirectly (through Skye Resources Guatemala - British Virgin Islands) fully owned subsidiary Compañía Guatemalteca de Niquel (CGN). Its goal is to become a mid-tier nickel producer, capturing 1% of the world nickel market by 2015. Proven mineral reserves constitute 8,674,000 tonnes of nickel, proven and probable, 32,678,000 tonnes.

The main points that have been updated since the filing of the previous technical review are as follows: Exploration up to June, 2007 and revised Mineral Resource Estimates, revised power supply strategy, trucked transport of bulk materials, updated Economic Analysis, basic engineering and Hydrometallurgical expansion.

It is not clear whether Skye Resources will be required to present a further Environmental Impact Assessment to the government of Guatemala given the significant changes in the project since the last EIA was submitted.

### 1. Exploration up to June, 2007 and revised Mineral Resource Estimates

In 2007, Skye has continued exploration drilling in the area of their exploitation license. New areas have been included in the mineral resource estimates, however the amounts are not significant enough to alter the overall mineral resources of the Fenix Project. The report notes that as of June 21, 2007, the company has drilled 2,479 exploration boreholes. [p. 26]

The report notes that the life of mine is 30 years and that mining will be conducted in five deposit areas: 212, 213, 215, 217 and 251.

On June 7, 2007, the Minister of Environment and Natural Resources approved the Environmental Impact Assessment for the processing plant and other infrastructure. Skye has indicated that a construction permit from the municipality of El Estor has been granted.

In addition, Skye holds a limestone exploitation license near Chichipate, and an exploration license for a concession called Montúfar, south of Lake Izabal. The Montúfar exploration license has an approved Exploration Mitigation Plan.

CGN estimates that they will use an average of 693 m<sup>3</sup> of water per hour (equivalent to 693,000 litres per hour, or 16,632,000 liters of water per day), but the systems will be built to use a maximum of 2199 m<sup>3</sup> of water per hour (equivalent to 2,199,000 liters of water per hour, or 52,776,000 liters of water per day). [p. 110]

### 2. Revised power supply strategy

Skye is currently negotiating for an alternative power supply for the first four years of operation, during which time the company will build a new 150MW petroleum coke fired power plant, a

new 90MW stream fired power plant, and convert and expand an existing 60MW steam fired power plant. The new plants are expected to generate enough electricity to serve the project for the following 26 years of operations. [p. 16]

The alternative power supply would come from an Independent Power Provider, who would construct a 160 km, 230 kV power line from the town/substation Tactic.<sup>1</sup> The report notes “the Tactic-El Estor line follow [sic] national highways CA-14 and RN-7E passing through the municipalities of Tamaru, La Tinta and Panzós.” [p. 99]

The Tactic substation handles all of the power from the Chixoy dam. The total power requirement of the Fenix Project would be between 124 MW - 135 MW, representing approximately 7.5% of the total firm capacity in Guatemala (1824 MW). [p. 96]

The kilns are to be renovated and powered with coal, and not with heavy fuel oil. The only precedents for kilns fired by coal are in Japan (Pamco and Hyuga). [p. 167] The report gives the example that in year four, the expected coal consumption totals 275,968 dry tonnes. [p. 153]

The planned 90 MW smelting furnace, if operated to capacity, will be the first nickel laterite furnace to operate at such an elevated power level. PT Inco (Indonesia) and Cerro Matoso (Colombia) operate furnaces approaching this power level. [p. 167]

### 3. Trucked transport of bulk materials

Initially, Skye had planned either transport bulk materials via barge from the port of Santo Tomas up Rio Dulce and along Lake Izabal, or to transport materials overland from Santo Tomas to Mariscos and barge them across Lake Izabal. These proposals have been changed due to “perceived” environmental and socioeconomic effects of using river and lake transport.

The current plan sees land transport of bulk materials and all construction materials including oversized loads (i.e. kiln sections, dryer sections, transformers, etc.) to the Fenix project site from the port of Santo Tomas.

Skye is currently negotiating with the Government of Guatemala so that they upgrade the roads that will be used for land transport (CA9, CA13 and 7E). Skye will be responsible for maintenance of certain roads during the project lifespan (Highway 7E from Panzos [west of the Fenix plant] to Fronteras [junction 7E and CA13] and the maintenance of a gravel highway from 7E to Cahabon) however depending on the outcome of the negotiations, the Guatemalan government may be required to divert funds saved from Skye’s maintenance work to maintain particular roadways of interest to the company (CA13 and CA9). ). [p. 113]

It is not clear whether Skye has secured land title for the construction of a new, 11km road through the town of Fronteras, which is part of the municipality of Livingston. A Japanese funded project is carrying out major upgrades to highway 7E. [p. 117, 137]

The main consumables that will be transported to the Fenix project from Santo Tomas include Pet Coke and Coal, and from the Fenix Project to Santo Tomas, ferronickel. Other consumables to be shipped to the Fenix plant include heavy fuel oil, diesel, lime, dolime, flourspar, Al, ferrosilicon, electrode paste, oxygen and nitrogen. [p. 114]

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<sup>1</sup> It is believed that the IPP is a Guatemalan subsidiary of Duke Energy (USA).

Total ship traffic to Santo Tomas is estimated at (27,500 tonne freighters per year): Year One, 4, Year Two, 8, Years Three to Five, 10, Year Six onwards, 21. [p. 115]

Total truck and tractor trailer traffic (primary and secondary consumables and backhauling of ferronickel) from Santo Tomas to Fenix and vice versa is estimated at (daily roundtrips, 310 days per year): Year One, 20.4, Year Two, 40.7, Years Three to Five, 48.8, Years Six onwards, 89.2. Most of the trucks will be 25 tonne size. It was estimated in the feasibility study that this traffic would add 8% to the total circulation on highway CA9 (which is the busiest of the roads that Skye plans to use for transport). [p. 116, 117]

Skye has also purchased a 7.4 HA area located 3.2 km from the port of Santo Tomas for stockpiling and reloading of pet coke and coal for transport to the Fenix project site.

#### 4. Updated Economic Analysis

The total capital costs for the Fenix project amount to close to a billion dollars (approximately \$983,600,000), most of which will have to be raised before 2014, the projected date for completion of the pet coke fired power plant.

The capital costs for Phase 1 of the project (July 2007 - October 2009) have been reworked, two of the major expenses in Phase 1 will be paid for by others (the electricity transmission line is to be covered by independent power provider and the upgrades to public roads, which will be covered by the government of Guatemala and through a Japanese cooperation project).

The revised capital costs for Phase 1 are \$640,000,000 (previously \$754 million). [p. 135, 131]

The Phase 2 capital costs amount to \$343,600,000. [p. 235] Phase two includes the construction of the pet coke fired power plant, and lasts from October 2009 until the end of mine life.

Graphs in the report show that Skye will pay virtually no taxes during the first two years of the project. [p. 161] Skye will pay a production-based fee to Inco depending on the price of Nickel on the London Metals Exchange. [p. 130]

Skye has opted for an “alternative income tax regime” (ISR) which amounts to a 31% tax on taxable income. Skye will not pay ISR for the first two years because they will be operating at a loss.<sup>2</sup>

For property tax purposes (IUSI), the Fenix project has been valued at 44 million Quetzales (US\$5.8 million). [p. 129]

The Value Added Tax (IVA) is a 12% tax payable by all Guatemalans on all purchased goods and services. Skye Resources is exempted from paying IVA under the Guatemalan “Drawback Law” (also known as the Sweatshop Law, in Spanish “Ley de Fomento y Desarrollo de la Actividad Exportadora y de Maquila”, Decree 29-89). [p. 129]

Skye is subject to paying a 1% royalty on gross revenues. Skye has signed an agreement that once mine payback has been achieved (here calculated at 1.7 billion dollars in cumulative revenues), it will pay an additional, incremental royalty if the price of nickel is above \$7 per pound. [p. 131]

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<sup>2</sup> Every December, Skye can elect whether to adhere to the “alternative income tax regime” or to the “general income tax regime” (5% flat rate on gross revenues).

The report estimates that, for example, that in years 1 and 2, the company pays virtually no taxes, and in Year 4, when net sales revenue peaks at close to \$400,000,000, Skye will pay less than \$10,000,000 in total taxes. Taxes for years 6 onwards peak at \$18 million per year. [p. 159, 161]

## 5. Socio-Political Aspects of the Project

Skye claims to have “strong local community support.” [p. 66]

The report notes that evictions of “illegal occupiers” of their property were carried out on January 8 and 9 of 2007. Although there is hard evidence to the contrary proving the participation of armed police and soldiers, the company claims that the evictions were carried out by a “special, unarmed team of the national police.” The report claims that Skye has settled with two of the communities, and is in negotiations with the others. [p. 169]

The report notes “Skye has represented that the mineral and surface rights have secure title. All mineral resources and mineral reserves estimated for the feasibility study are within the Fenix exploitation license and on CGN-controlled land.” [p. 66] It is not known whether this information has been independently verified.

Skye runs a foundation called Rax’che, part of their community development plan as outlined includes the provision of health and education services by Rax’che. Another aspect of the community development plan includes having Rax’che “leverage” funds from large, multilateral and bilateral financial and aid institutions like the EU and USAID. [p. 127]

According to the report, after the construction phase is over Fenix project would result in the creation of a total of 958 jobs over a period of 30 years, the majority of which (562) would be in plant and mine operations. [p. 153]

The five members of senior management are projected to earn salaries more than 10 times higher than the average salaries of mine and plant workers. The average salaries for mine and plant workers averages out to over \$20,000 per person. It is thus likely that some workers will be compensated more than \$20,000 and others will receive a much lower salary. What the average salaries for locals will be, and just how many of the jobs will be designated for people in the local communities is not described in the report.

The Technical Report on an Update to the Fenix Project (herein, the “report”) notes “CGN is the new name of Exploraciones y Explotaciones Mineras Izabal, S.A. (Exmibal), which mined and processed the La Gloria deposits (Areas 212 and 213) near El Estor from 1977 until 1980.” [p. 17] This is notable because on their Spanish website, CGN denies that they are a new Exmibal, highlighting the difference between CGN and Exmibal.

During its decades long presence in Guatemala including three years of production, Exmibal produced a grand total of 11,000 tonnes of nickel, approximately 788 times less than the amount Skye plans to extract as part of their proven mineral reserves, and almost 3000 times less than what Skye claims is potentially exploitable through proven and probable reserves. [p. 62]

## 5. Hydrometallurgical Expansion Preliminary Assessment

The Hydrometallurgical Expansion which is proposed for the Fenix project would serve to allow Skye to exploit nickel and cobalt that are contained in limonitic ore, which can not be processed

in a pyrometallurgical process (smelter). The Hydrometallurgical Expansion process consists of high pressure, high temperature sulfuric acid leaching, using 250kg of sulfuric acid per tonne of ore. [p. 60]

The initial preliminary assessment for the Hydrometallurgical Expansion was released in October of 2006 and has not been updated. Evidence of mineral resources in limonitic ore is considered too speculative at this time to justify the Hydrometallurgical Expansion.

The direct capital costs of building the Hydrometallurgical Expansion are estimated at \$499,470,000. The report acknowledges that “Ni/Co hydroxide product is not a widely sold commodity and few nickel refineries have processed this material.” [p. 191, 201]

Average annual production, were the Hydrometallurgical Expansion to go ahead, is estimated at 49 million pounds of nickel and 4.2 million pounds of cobalt per year for a 20 year mine life. [p. 174]

If the Hydrometallurgical Expansion were to take place, Skye would build another, smaller power plant on site and run a 67.5 km long pipeline to the ocean, where the effluent brine (process affected solution water) would be disposed of 8km offshore at a depth of 20m. [p. 185]

The report notes “As an alternative to the effluent ocean discharge option, it may be possible to discharge the brine effluent into Lake Izabal. A preliminary evaluation of the mixing characteristics of the brine effluent in Lake Izabal has been performed by Golder. It must be emphasized that this option would only be considered if it can be shown conclusively that minimal environmental impacts would occur.” [p. 201]

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