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*Amber Capital, a client of ours, retained us under article 12 of our standard customer agreement to pay us to complete an investment report on Skye Resources. For four preliminary reasons we concluded that Skye Resources was an “above average” mineral company among the thousands of publicly traded ones (We have rejected several other “paid research” project inquiries that came to us). Amber Capital owns 18%, Inco produced 33 mm lbs of nickel there in 1977 to 1980, BHP Billiton bought 4.846,400 shares or 16.5% now diluted to 9.52% of Skye Resources in the open market and Vale Inco retains just over 11% of Skye Resources and three future revenue participations in the deposit. These considerations motivated our further study, which has been completed independently without any undue pressure or influence.*

*We distributed this report to our former 1,500+ person mailing list, including former customers unable to pay our higher rates in the current format. We also are sending this report to a dozen or so “old friends” of ours in the electric furnace steel or mining sectors that might be able to make suggestions or otherwise lend support to Skye. Further, we invited Skye to speak at our March 27, 2008 investor conference and arranged for them to meet the Metals splinter group of the New York Society of Securities Analysts.*

*We apologize for the length or complexity of our report, and encourage you to focus or not overlook Table 11, Operating Cost Comparisons, and Table 12, Price Target Influences, on pages 24 and 26, respectively.*

**SKYE RESOURCES (SKY.TO C\$5.50, rated OVERWEIGHT) COVERAGE  
INITIATED WITH \$16 PRICE TARGET OWING TO EXPECTED PROFITS FROM  
GUATEMALAN NICKEL RESTART**

	2007E	2008E	2009E	2010E	2011E	2012E
EPS	\$(0.65)	\$(0.37)	\$(0.34)	\$(0.13)	\$0.53	\$0.74
	2013E	2014E	2015E	2016E	2017E	2018E
EPS	\$1.21	\$1.75	\$1.43	\$1.51	\$1.59	\$1.65

- Skye Resources controls the Fenix nickel mine in Guatemala, for which proven, probable, measured, indicated and inferred reserves and resources exceed 3.1 million metric tonnes of contained nickel at grades of 1% to 2% nickel. Excellent potential exists to expand that large resource base regionally to more than 5 mmt or 11 billion pounds of contained ni. Separately, BHP

Billiton and Vale Inco have regional exploration efforts as well as stakes each in Skye Resources itself.

- Inco operated there from 1977 to 1980, invested \$238 mm and produced 33 mm lbs of nickel. Skye has redesigned the process to less than 40% of prior petroleum fuel use, more efficiently use a 90 rather than 45 MW electric arc furnace, bypass two Pierce-Smith sulphur polluting converters, and use a 30% more efficient power plant design to be run by a third party. The new process is much better.
- It is very possible that a better financed or more deeply staffed mining or electric furnace steelmaker might finance, build or operate the Fenix mine more efficiently than the fledgling Skye Resources does. We estimate this company would be worth \$37 per share if BHP Billiton or a U.S. minimill like Nucor, Steel Dynamics or SeverCorr ran it.
- The very rich deposit can bear an outside engineering firm's lavish charges, \$0.13 per kwh estimated electricity at estimated \$80 long-term crude and an 11% high yield bond issue at our estimated \$9 nickel scenario to flourish to warrant our \$16 price target under Skye's business plan.
- We have simulated this expensive pre-January 30<sup>th</sup> plan, even though Skye deferred it on January 30<sup>th</sup> and we believe better options exist, until Skye documents every detail necessary to modify its most recent plan such as extending the Montufar exploration license, proving up Montufar resources, setting up its own general contractor, firing Hatch, bypassing a high yield bond, negotiating agreements with steelmakers to take direct shipping ores or ferronickel, signing up joint venture partners or other good ideas.
- Hatch's operating cost estimates based on high 2% initial grades and \$51 crude oil without any financing costs were too low. Hatch's capital cost estimates of \$640 million appeared too high, or high enough to pay for three rather than one electric arc furnace melting shop. Existing infrastructure and cheap Guatemalan labor should permit big savings.
- Alternatively, it can service the debt or merely survive outside bankruptcy at a low \$6 per pound future nickel scenario under Skye's business plan.
- Skye Resources paid \$3.5 million on March 6, 2007 to exercise its option, subject to financing and completion, but Vale Inco has certain future rights described on pages 33-36 of Skye's Annual Information Form filed October 12, 2007. As such, the market views Skye as a "sort of subordinated common stock" for which a much fuller valuation should exist after financing and operations possibly above our targets as Skye achieves "milestones" and shows investors its virtues.
- We consider Guatemala a splendid place, and apply no discount for that venue. The income tax regime is "the lesser of 5% of revenue or 31% of pretax income," and the only better regimes that come to our mind are the initial tax holidays U.S. Steel enjoyed as a "first mover" in Slovakia and Serbia.
- Some doubt exists in our mind as to whether predecessor Inco was in good standing in Guatemala in making the September 2004 agreement with Skye, as Inco had been dormant since 1980 and its 40 year lease expired in 2005.

We assign a 50% likelihood that any company that takes Skye over would renege or contest these marketing fees, production royalty and revenue royalties to Vale. The Director General of the Ministry of Mines and Energy said to us in plain English that Skye Resources held all permits and mining rights.

- On December 12<sup>th</sup> Skye Resources retained Morgan Stanley to lead its financing. On December 3<sup>rd</sup> a representative of Amber Capital, an 18% shareholder, joined the Skye Resources board. We anticipate more progress.
- Skye deferred on January 30<sup>th</sup> a roughly \$600 mm non-investment-rated bond, partly discounted owing to Guatemala's BB country rating stemming from its 1960-96 civil war, initially thought to yield 11% and a convertible security as well. The prospect of such debt and dilution could serve as a sort of "poison pill," or with increased urgency it may "flush out" any potential bidder sitting on the fences. A takeover would be much cheaper before expensive new debt drags down Skye's capital structure. Certainly a larger multinational mining company could finance this fine project better.
- Skye Resources enjoys superb support from the central government, the nearby community of El Estor and surrounding villages. It is fully permitted.
- We performed our economic analyses at \$9.00 per pound long-term nickel and \$80 per barrel crude oil prices, and estimated Skye Resources should average 2013-2018 EPS of \$1.52 and CFPS of \$2.02 assuming a 11% high yield bond financing, all existing CVRD Inco royalties, increases to current Guatemalan royalties, current Guatemalan income tax rules and 1% of revenue community service extra contribution.
- Our price target for Skye Resources is \$16 per share based on the \$9 nickel scenario, and we initiated research coverage with an Overweight rating. We applied an 10x future P/E owing to the unusually costly financing, and estimate the Skye repays half of its bonds in 2013 and the balance in 2016.
- We simulated an "alternative \$6.00 per pound nickel scenario in which we assumed that costs of sales and administrative costs would be \$40 mm lower, no Montufar direct shipping ores were sold and price-variable costs fell. In this scenario we estimated Skye would survive, repay 30% of its debt between 2015 and 2020, refinance its high yield debt in 2018 and repay nearly all debt by 2030.
- In the \$6.00 nickel scenario Skye not be profitable any year to 2020, and our stock price objective would be a lower \$5 per share. However, it is noteworthy that the company would be survivable, and generate cash owing to estimated annual \$48 mm depreciation of PPE and \$11 mm of amortization of capitalized interest and financing fees.
- We did not simulate construction of Skye's own power plant, a \$1.0 billion hydromet plant, a sulphation atmospheric leach plant or limonite ore processing opportunities. In our analysis we treated operation of the electric arc furnace ferronickel plant, high yield debt repayment and Montufar direct shipping ores as the key corporate priorities.

EXTENSIVE PUBLICLY AVAILABLE DATA

In our investment report we have tried NOT to repeat the fine body of publicly available data, which our readers may point and click to obtain. These include 76 page October 12, 2007 Skye Annual Information Form [www.skyeresources.com/files/pdf/AIF\\_2007-10-12.pdf](http://www.skyeresources.com/files/pdf/AIF_2007-10-12.pdf), the 216 page Hatch 2007 technical report [www.skyeresources.com/files/pdfs/technical\\_reports\\_2007/H324680-RPT-CA01-10028.pdf](http://www.skyeresources.com/files/pdfs/technical_reports_2007/H324680-RPT-CA01-10028.pdf), the company's own cash flow support worksheet financial model of itself [www.skyeresources.com/files/pdfs/technical\\_reports\\_2007/070828%20Hatch%20-%20Fenix%20Cashflow%20model%20-%20Feasibility%20study%20Update.pdf](http://www.skyeresources.com/files/pdfs/technical_reports_2007/070828%20Hatch%20-%20Fenix%20Cashflow%20model%20-%20Feasibility%20study%20Update.pdf), various interim Skye Resources financial reports and press releases, Chapters 12, 13 and 14 of the International Laterite Symposium technical papers by Harju, Toomver and Sopko, the Hydromet Preliminary Assessment, Feasibility Study, Mineral Reserves/Resources, Atmospheric Leaching Pilot Plant Results and U.S. Patent Application, the 2006 Snowden Report, the 2005 Hatch Preliminary Assessment, the 2005 Golightly Report, the 2003 AMEC Report and more. These reports either are posted on the Skye Resources web site or can be obtained directly from the company.

#### NO PANIC OVER JANUARY 30<sup>TH</sup> “DEFERS FENIX PROJECT” PRESS RELEASE

We are not alarmed about Skye Resources' January 30<sup>th</sup> press release to “defer project financing until credit markets improve.” Skye's shares plunged initially to C\$3.85, but rebounded to close at C\$5.50 after trading 2.34 mm shares.

In fact, a large chance exists that new avenues will be found that make the project better and Skye Resources more valuable. The Montufar direct shipping ores, which we estimate could have a 100%+ pretax annual return on an up to \$50 mm up front investment, have not been evaluated fully. Hatch engineering studies focused on a nearly billion dollar projects for which its percentage markups were larger.

Second, entry of an experienced ferronickel or minimill joint venture partner or “hands on” Skye technical managers that act as their own “general contractor” to fire Hatch might cut the \$640 million capital budget towards \$350 million. Purchase of a power substation directly from ABB, Siemens or others and purchase of electric arc furnace and ladle metallurgy station directly from a European machinery company would cut costs by more than one-third in bypassing Hatch markups.

Third, haircuts to the capital budget or a phased approach in which direct shipping ores self-finance a part of the pyrometallurgical plant capital reduces the need for a Morgan Stanley high yield bond or convertible \$900 million funding with \$188 mm in capitalized interest and \$47 mm in capitalized fees. Hatch's ignoring Montufar and markups to the \$640 mm capital budget drove Skye into the “feeful” (yes, we made up a new word “feeful” or “full of fees”) arms of Morgan Stanley, which suggested a mere \$235 mm increase to the project budget in the forms of capitalized interest on 11% bonds or 3% converts and capitalized financing fees.

Fourth, steelmaking nickel consumer-partners would further haircut capital needs similar to General Moly, Inc. ventures with Posco and Mittal Steel that raised \$240 mm and moved \$170 mm of project capital to Posco to cut General Moly, Inc.'s external funding need almost in half.

Fifth, renegotiations to improve its arrangement with Vale's former Inco unit or altering the March 1 deadline in its Duke Power agreement could strengthen the economics as these stakeholders might slim their piece of the pie to "fasttrack" the project.

For these reasons Skye Resources shareholders may "jump for joy" in the postponement, which may well identify a better strategy and higher returns than we have simulated in this report. We stress the January 30<sup>th</sup> Skye press release never used the word "cancelled," and instead used words "defer," "delayed," "delay," ramp back up as quickly as possible," "maintain," "maintained," "continue" and "revised project timeline."

#### ROUGH BOND AND STOCK MARKET CONDITIONS COULD HAVE SILVER LINING

Both common stock and high yield bond markets have been in turmoil in recent weeks due to the crisis in the mortgage bond markets. This has significant implications to Skye Resources' option of rising an upwards of \$600 mm high yield bond to fund a large portion of its mine development.

It is possible that the cost of placing a large high yield bond issue may rise by 2% to 4% in the current difficult conditions. Traditional manufacturing companies now must compete with "distress debt" from the mortgage or other sectors sometimes trading on ten to thirty cents of the dollar. For example, the bonds of Aleris Corp., an aluminum recycler and rolling mill with \$7 billion in revenue and over \$750 mm in EBITDA, trade today near 14%-15% yields to maturity. The bonds of Allegheny Technologies recently traded near 11.7%, and Freeport-McMoRan Copper and Gold 8%. Last year in calm markets Mercator Minerals, a lucrative copper-moly-silver mine restart in Arizona, raised a \$107 mm bond at 11.5%, and their recent quote was just 2% over par or an 11.3% yield-to-maturity.

It is conceivable that Skye Resources, owing to its larger capital needs and Guatemalan venue, may have been compelled to pay an even higher high yield bond interest rate to place its financing in early 2008.

#### INVESTMENT VIEWPOINT AND PRICE OBJECTIVE

We have initiated coverage of Skye Resources with an Overweight investment rating and a \$16 price objective owing to the attractive nature of its 5 mmt or 11 billion pound contained nickel resources grading 1%-2% nickel, easy topsoil mining without even blasting, relatively low capital costs compared to the large projects of Vale, BHP Billiton, Sherritt International and others, its prospects to average an estimated \$1.52 per share in 2013-18 at \$9.00 nickel, the favorable low Guatemalan tax regime and many various opportunities to make the mine better than our simulation.

We estimate an above-consensus \$9.00 per pound long-term nickel price because we do not have confidence in the viability of some of the existing mine producers and new development projects. Norilsk in Russia has suffered underinvestment for decades, and much of its design is the same as when Russia seized the territory and the mine from Inco in 1938. Vale's former Inco operations in Sudbury, Ontario suffer declining ore grades, and must cut sulphur dioxide emissions to 66,000 from 175,000 tonnes annually by 2015 requiring 98% up from 90% sulphur recapture. Vale's Goro, Xstrata's Koniambo, Sherritt's Ambatovy, the Duluth Complex and various other Asian, Brazilian and other nickel projects face normal environmental metallurgical, startup and teething issues.

## BUSINESS RISKS

Commodity prices, namely the nickel Skye will sell and the crude oil-dependent petroleum coke input to generate electricity for its melting furnace, are the primary external commodity price risks to Skye's long-term future after operations. In turn, these depend on the world economy, interest rates, exchange rates, consumer confidence and other variables influencing growth.

Any scenario in which nickel falls and oil rises would be particularly disheartening. Such might be plausible if wholesale switching to low-nickel 200 series stainless for over 20% of world use, greater use of blast furnace nickel pigs for more than 5% of world ni supply, excess nickel mine constructions or unusually sharp declines in world crude oil outputs develop.

Completion of financing in the short-term is a particular concern, although this has been a "Sword of Damocles" hanging over Skye Resources' stock since it optioned the Fenix project from Inco in 2004. In the next few months world economic confidence, adequacy of financial markets simply to operate or "be open," nickel prices, crude oil and related variables weigh heavily. Completion of a financing on "bad terms" with either dilution or a costly high yield bond, is a risk as well as not getting financing.

We do not believe Guatemalan or local relations are a large risk owing to Skye's fine position. We do not believe expiry of the Inco option, power contract or any Guatemalan deadline looms large as such can always be renewed.

We consider a corporate takeover as a downside risk, as such an event would "cap upsides." Any poor startup curve in 2010 or 2011, such as occurred in 1978 and 1979 for the same project, is another risk. Capital cost overruns loom, although electric arc steel furnace, ladle metallurgy and other key elements are "off the shelf" sorts of things.

We worry that management may not behave independently of CVRD Inco, Hatch Engineering or its financial advisors, and close "suboptimal deals." Excess fees or interest expense reduce equity returns.

A direct investment from a steelmaking customer might strengthen the Fenix project, such as General Moly, Inc.'s recent stock sales to Posco or Mittal Steel for example. We worry that Vale Inco might prefer competitively that Skye Resources not ship ore to facilitate Western Hemisphere blast furnace pig nickel output.

Many of Skye's officers are over 50 or near retirement age, such as COO David Huggins whose plans to retire are public. The infusion of new or younger blood via succession is both a risk and opportunity. The execution of the project to maximize shareholder value, efficient construction implementation in the next 24 months and smooth melting of saprolitic nickel ores in electric arc furnaces as done in eight other countries in the world are key.

#### SUMMARY OF OUR FINANCIAL MODEL AND FINDINGS BASED ON LATE-2007 BUSINESS AND FINANCING PLAN, BEFORE IMPROVEMENTS

Skye Resources' Fenix deposits to the northwest of Lake Izabal and its satellites, such as Montufar to the southeast of Lake Izabal, are rich 1%-2% nickel laterites in the first 40 feet topsoils. Inco made over 100 km and Skye Resources over 40 km of drilling to define one-third of one billion of tonnes of widespread mineral soils, and the surrounding region appears even more abundant. Much of the design of the \$238 mm plant Inco operated from 1977-80 remains viable. Mining, drying, electric arc furnace melting and ladle metallurgy produce a fine 35% nickel and 65% iron ferronickel product at direct costs near \$4 per pound at \$0.13 per kwh electricity.

We simulated a \$640 mm capital budget, \$187.5 mm of capitalized interest and \$47 mm of capitalized underwriting fees to total a \$875 mm capital cost. We estimated at \$9 ni that half of the \$600 mm 11% high yield bond were repaid in 2013 and all in 2016.

The company should earn about \$100 mm in pretax income the first year its electric furnace achieves full throughput and \$150-\$200 mm pretax once Montufar direct shipping ores and 11% high yield bond repayments begin after 2013, even as the ore grade perhaps slips from 1.90% initially to the 1.63% reserve grade. Upon debt repayment in 2016, cash balances should grow nearly \$200 mm each year to permit a \$0.9 billion year-end 2018 cash position (tables 1-4, \$9 nickel basic scenario).

EPS should average about \$1.52 from 2013-2018, cash flow \$2.02 per diluted share and year-end 2018 GAAP shareholders equity would grow to \$1.53 billion at \$9 nickel.

We did not simulate the addition of more electric arc furnaces, construction of a power plant, a \$1 billion hydromet pressure leach plant or a sulphation atmospheric leach plant for the 2015-2018 time frame. Skye Resources has plenty of work ahead of it before fine-tuning expansion, limonitic ore technologies, power generation, diversification or acquisition alternatives.

**Table 1: Skye Income Statement (US \$ Mil.) in Basic \$9 Ni Case**

	C\$ 2006	US\$2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nickel in ferronickel					138	497	497	497	508	436	436	436	436
Iron in ferronickel					3	13	13	13	13	11	11	11	11
Direct Ore Shipments from Montufar								79	79	79	79	79	79
Interest Income or other	0.9	7	18	12	5	2	5	9	4	11	17	14	20
<b>Total Revenues</b>	<b>0.9</b>	<b>7</b>	<b>18</b>	<b>12</b>	<b>146</b>	<b>511</b>	<b>515</b>	<b>598</b>	<b>604</b>	<b>537</b>	<b>543</b>	<b>540</b>	<b>546</b>
Direct Shipping Mining Montufar								3	3	3	3	3	3
Direct Shipping Delivery to Boat Montufar								10	10	10	10	10	10
Mining Costs					2	5	5	5	5	5	5	5	5
Crush, Grind, Dry and Mill					5	15	15	15	15	15	15	15	15
Electricity					30	121	121	121	121	93	93	93	93
Other Direct Operating					25	65	65	65	65	65	65	65	65
Community Infrastructure	1.0	2	2	2	3	4	4	4	4	4	4	4	4
Transportation					3	10	10	10	10	10	10	10	10
Depreciation of PPE	0.2	0	0	0	11	48	48	48	48	48	48	48	48
Deprn. Cap. Int. and Fees						11	11	11	11	11	11	11	11
Government 1% Royalty					1	5	5	6	6	5	5	5	5
Govt.Added Royalty 1.5% @\$9 ni					2	8	8	9	9	8	8	8	8
Property Taxes 0.9%						7	6	6	6	5	5	5	4
Value-Added & Import Duty	0.0	0	0	0	0	0	0	0	0	0	0	0	0
CVRD 2.75% Sales Fee					4	25	14	14	14	12	12	12	12
CVRD Production Royalty on Ferronickel					1	6	6	9	10	10	10	10	10
CVRD Price Royalty on Ferronickel					2	7	7	7	7	6	25	25	25
Mine Development Expense	17.3	12	15	10	5	5	5	5	5	5	5	5	5
Exploration	7.5	5	5	3	2	2	2	2	2	2	2	2	2
Noncash Stock Comp.	3.0	5	5	5	5	5	5	5	5	5	5	5	5
SG&A	4.6	8	10	10	15	15	15	15	15	15	15	15	15
Financing Fees	0.9	2	2	2				15					
Bond Interest @ 11%					33	66	66	66	33	33	11	0	0
Convertible Prd Div @ 3%					5	9	0	0	0	0	0	0	0
Pretax Income	-33.7	-27	-21	-20	-8	73	97	146	200	166	175	184	190
Income Taxes						23	26	30	30	27	27	27	27
Net Income	-33.7	-27	-21	-20	-8	50	71	117	170	139	148	157	163
Primary Shares	29.11	46.00	57.00	59.00	61.00	91.50	92.00	92.50	93.00	93.50	94.00	94.50	95.00
Diluted Shares	40.00	57.30	98.30	100.30	95.00	95.50	96.00	96.50	97.00	97.50	98.00	98.50	99.00
<b>FD EPS</b>	<b>-1.16</b>	<b>-0.65</b>	<b>-0.37</b>	<b>-0.34</b>	<b>-0.13</b>	<b>0.53</b>	<b>0.74</b>	<b>1.21</b>	<b>1.75</b>	<b>1.43</b>	<b>1.51</b>	<b>1.59</b>	<b>1.65</b>
FD Cash Flow per share	-1.15	-0.64	-0.37	-0.34	-0.01	1.03	1.24	1.71	2.25	1.92	2.00	2.08	2.14
Book Value per share	2.79	3.45	3.37	3.00	2.86	5.79	6.58	7.86	9.69	11.18	12.75	14.40	16.09

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

**Table 2: Underlying Dynamics in \$9 Ni Basic Scenario**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
LME Ni Price / lb	10.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Direct Shipping Ore				1.00	1.00	1.00	1.00	1.00	1.00
Direct Shipping Ore Grade				1.63%	1.63%	1.63%	1.63%	1.63%	1.63%
Direct Shipped Ni (000 lbs)				35,935	35,935	35,935	35,935	35,935	35,935
Direct Shipping LME price ratio				25%	25%	25%	25%	25%	25%
Dry 000 Tonnes Sapolite	366	1464	1464	1464	1497	1497	1497	1497	1497
Electric Arc Furnace Uptime	23%	90%	90%	90%	92%	92%	92%	92%	92%
Average t per 90% of 24 hr days		4457	4457	4457	4457	4457	4457	4457	4457
Avg EAF kilned t per hour uptime		124	(60 min=10 load/unload + 50 min "power on" if 150t vessel)						
Ore grade ni	1.90%	1.90%	1.90%	1.90%	1.90%	1.63%	1.63%	1.63%	1.63%
Recovery rate	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Ni Output mm lbs in ferronickel	13.8	55.2	55.2	55.2	56.4	48.4	48.4	48.4	48.4
Fe Output mm lbs	27.6	110.4	110.4	110.4	112.8	96.8	96.8	96.8	96.8
Ni Output 000 mt in ferronickel	0	0	0	0	0	0	0	0	0
Fe Output 000 mt	0	0	0	0	0	0	0	0	0
Fe Value @ \$250 /t (\$ 000)	3	13	13	13	13	11	11	11	11

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

**Table 3:: Skye Estimated Sources and Uses of Funds (\$ Mil.) in Basic \$9 ni Scenario**

Sources of Funds	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Income	-33.7	-27	-21	-20	-8	50	71	117	170	139	148	157	163
Depreciation	0.2	0	0	0	11	59	59	59	59	59	59	59	59
Deferred Taxes													
Common Stock	110.5	104	55	5	5	5	5	5	5	5	5	5	5
Conv. Pfd. Stock			300										
Debt			600										
<b>Total Sources of Funds</b>	<b>77.1</b>	<b>77.6</b>	<b>934.0</b>	<b>-15.0</b>	<b>8.5</b>	<b>114.5</b>	<b>135.2</b>	<b>180.9</b>	<b>233.9</b>	<b>203.4</b>	<b>212.5</b>	<b>221.0</b>	<b>227.4</b>
<b>Uses of Funds</b>													
Capital Spending ex-int	0.1	35	325	325	50	5	5	50	5	10	10	10	10
Capitalized Interest			75	75	38								
Capitalized Underwriting			47										
Debt Repayment	0.2	0						300			300		
Other, net	0.7												
Noncash Working Capital	1.8	-1	0	15	30								
Change in Cash	74.4	43	488	-430	-109	110	130	-169	229	193	-98	211	217
<b>Total Uses of Funds</b>	<b>77.1</b>	<b>77.6</b>	<b>934.0</b>	<b>-15.0</b>	<b>8.5</b>	<b>114.5</b>	<b>135.2</b>	<b>180.9</b>	<b>233.9</b>	<b>203.4</b>	<b>212.5</b>	<b>221.0</b>	<b>227.4</b>

**Table 4:Skye Resources Balance Sheet (US \$ Mil.) in Basic \$9 ni Scenario**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cash	75.3	119	606	176	67	177	307	138	367	560	463	674	891
Receivables	0.8	1	1	1	23	43	43	50	50	45	45	45	46
Inventory				14	22	43	43	50	50	45	45	45	46
Prepays and other	0.5	0	0	0	2	2	2	2	2	2	2	2	2
<b>Total Current Assets</b>	<b>76.6</b>	<b>120</b>	<b>607</b>	<b>191</b>	<b>114</b>	<b>264</b>	<b>395</b>	<b>239</b>	<b>469</b>	<b>652</b>	<b>555</b>	<b>766</b>	<b>984</b>
PPE per GAAP	9.3	44	369	693	732	689	646	647	604	566	527	489	451
Non-GAAP PPE Inco 1977	150.0	150	150	150	150	150	150	150	150	150	150	150	150
Cap. Int. and Fees			122	197	234	223	212	201	190	179	168	157	146
<b>Total Non-GAAP Assets</b>	<b>235.9</b>	<b>314.0</b>	<b>1247.7</b>	<b>1231.4</b>	<b>1230.5</b>	<b>1325.9</b>	<b>1402.4</b>	<b>1237.8</b>	<b>1413.4</b>	<b>1546.3</b>	<b>1400.4</b>	<b>1561.7</b>	<b>1730.8</b>
Current payables	3.9	5	3	2	4	43	43	57	58	47	48	47	48
Debt			600	600	600	600	600	300	300	300	0	0	0
Lease	0.2	0	1	1	1	1	1	1	1	1	1	1	1
Reclamation	0.5	0	1	1	1	1	2	2	2	2	2	2	2
Other-Long-term liabilities						1	1	1	1	1	1	1	1
Non-GAAP "sweat equity"	150.0	150	150	150	150	150	150	150	150	150	150	150	150
Convertible Equity			300	300	300	0	0	0	0	0	0	0	0
Shareholders Equity	81.2	159	192	177	174	529	605	727	902	1046	1199	1360	1529
<b>Total Non-GAAP Liabilities</b>	<b>235.9</b>	<b>314.0</b>	<b>1247.7</b>	<b>1231.4</b>	<b>1230.5</b>	<b>1325.9</b>	<b>1402.4</b>	<b>1237.8</b>	<b>1413.4</b>	<b>1546.3</b>	<b>1400.4</b>	<b>1561.7</b>	<b>1730.8</b>

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

## SUMMARY OF \$6 NICKEL ALTERNATIVE MODEL

In our opinion Skye Resources can survive, repay 11% high yield debt and “offer optionality to cycle upsides” at a \$6 per pound long-term nickel price. We do not believe its financial structure is robust enough to service 11% high yield bonds at \$5 nickel, however. Such bond interest for a \$600 mm bond offering represents almost \$1.50 per pound of planned ferronickel sales.

In this scenario we estimated Skye would survive, repay 40% of its debt between 2015 and 2020, refinance its high yield debt in 2018 and repay all debt by 2030. In the \$6.00 nickel scenario Skye not be profitable any year to 2020, and our stock price objective would be a lower \$5 per share. The \$5 per share price target should be thought of as a “potential upside” should a global economic expansion or weak dollar or low interest rates permit a renewed nickel market upswing, and not that “earnings” or cash flow would necessarily reach some threshold above \$0.25 and below \$1.00 per share.

However, it is noteworthy that the company would be survivable, and generate cash owing to estimated \$48 mm depreciation of PPE and \$11 mm of annual amortization of capitalized interest and financing fees. Average EPS would be a loss of \$0.36 per share, average after tax cash flow would be about \$0.24 per share and GAAP book value would gradually erode to \$58 mm by December 2020 and be nearly nil at the end of 2022 (tables 5-8).

This is a “treading water” scenario in which the company pays its interest costs and a little bit of principal each year. However, it is not robust enough to absorb operating problems or any meaningful capital plant renewal needs.

We simulated \$6,00 per pound nickel, and automatic declines in the 2.75% CVRD Inco marketing fee, production tonnage royalty, 1.4% revenue royalty before payback, 1% government royalty and 1% additional royalty. No escalation to a 5.6% CVRD Inco revenue royalty would occur since payback prior to 2030 is unlikely, which we had estimated in 2016 previously. We estimated \$40 mm of reductions in costs of sales would occur owing to lower energy, electrode, exploration, administration or other outlays likely to be made in a low priced environment.

We estimated no \$50 mm investment would be made in 2012 to develop Montufar direct shipping ores, no \$13 mm extraction costs and no \$79 mm revenue from the sales previously estimated to be made at \$9 nickel prices. At low nickel prices these direct shipping ores will not be valuable enough to justify ocean freight, mining and steel plant processing costs.

#### KEY ASSUMPTIONS RELATED TO FINANCING, POWER AND TAXES

We have estimated that Skye Resources completes a two part financing structure.

First, we anticipate Skye “imitates” the recent ArcelorMittal placement of \$70 mm into General Moly, Inc. to buy 8.24 mm common shares or of 12.6% of its common stock and obtain a 6.5 mm lb annual moly contract for five years. This contributes half of the funding of General Moly, Inc.’s \$852 mm capital project for 2010 startup. We have estimated Skye Resources raises another \$50 mm in common stock from a “strategic customer,” although Skye might raise equity on better terms via a convertible or warrants such as it has done twice in the past year.

It is not “vital” that Skye Resources invite a customer into its capitalization or board of directors, but the participation of a large nickel consumer might improve its strength or lower borrowing costs. Skye Resources already enjoys three prominent shareholders in CVRD Inco, BHP Billiton and Amber Capital. We imagine ArcelorMittal, ThyssenKrupp or Acerinox as the kinds of companies that might participate.

Second, we have estimated Skye Resources raises a \$600 mm high yield bond yielding 11% in February 2008 due in 2018. We have estimated that each

**Table 5: Income Statement Model (\$ Mil.) Lower \$6 ni Case**

	C\$2006	US\$2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Nickel in ferronickel					83	331	331	331	339	290	290	290	290	290	290
Iron in ferronickel					3	13	13	13	13	11	11	11	11	11	11
Direct Ore Shipments from Montufar								0	0	0	0	0	0	0	0
Interest Income or other	0.9	7	18	12	5	1	1	1	2	3	0	0	1	0	0
<b>Total Revenues</b>	<b>0.9</b>	<b>7</b>	<b>18</b>	<b>12</b>	<b>91</b>	<b>345</b>	<b>345</b>	<b>345</b>	<b>353</b>	<b>304</b>	<b>301</b>	<b>302</b>	<b>302</b>	<b>302</b>	<b>302</b>
Direct Shipping Mining Montufar								0	0	0	0	0	0	0	0
Direct Shipping Delivery to Boat Montufar								0	0	0	0	0	0	0	0
Mining Costs					2	5	5	5	5	5	5	5	5	5	5
Crush, Grind, Dry and Mill					5	15	15	15	15	15	15	15	15	15	15
Electricity					30	121	121	121	121	93	93	93	93	93	93
Other Direct Operating					25	60	60	60	60	60	60	60	60	60	70
Community Infrastructure	1.0	2	2	2	3	4	4	4	4	4	4	4	4	4	4
Transportation					3	8	8	8	8	8	8	8	8	8	8
Depreciation of PPE	0.2	0	0	0	11	48	48	48	48	48	48	48	48	48	48
Depn of Cap. Int. and Fees								11	11	11	11	11	11	11	11
Government 1% Royalty					1	3	3	3	4	3	3	3	3	3	3
Govt.Added Royalty 1% @\$6.50 ni					1	3	3	3	4	3	3	3	3	3	3
Property Taxes 0.9%						7	6	6	5	5	5	4	4	4	3
Value-Added & Import Duty	0.0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CVRD 2.75% Sales Fee					2	9	9	9	10	8	8	8	8	8	8
CVRD Production Royalty on Ferronickel					1	3	3	3	3	3	3	3	3	3	3
CVRD Price Royalty on Ferronickel					1	5	5	5	5	4	4	4	4	4	4
Mine Development Expense	17.3	12	15	10	5	5	2	2	2	2	2	2	5	5	5
Exploration	7.5	5	5	3	2	2	0	0	0	0	0	0	2	2	2
Noncash Stock Comp.	3.0	5	5	5	5	2	2	2	2	2	2	2	2	2	2
SG&A	4.6	8	10	10	15	13	13	13	13	13	13	13	13	13	13
Financing Fees	0.9	2	2	2				0							
Bond Interest @ 11%					33	66	66	66	66	66	56	56	36	33	31
Convertible Prd Div @ 3%					5	9	9	0	0	0	0	0	0	0	0
Pretax Income	-33.7	-27	-21	-20	-58	-55	-49	-40	-32	-50	-42	-41	-25	-22	-30
Income Taxes						0	0	0	0	0	0	0	0	0	0
Net Income	-33.7	-27	-21	-20	-58	-55	-49	-40	-32	-50	-42	-41	-25	-22	-30
Primary Shares	29.11	46.00	57.00	59.00	61.00	61.00	61.50	92.00	92.50	93.00	93.50	94.00	94.50	95.00	95.50
Diluted Shares	40.00	57.30	98.30	100.30	95.00	95.00	95.50	96.00	96.50	97.00	97.50	98.00	98.50	99.00	99.50
<b>FD EPS</b>	<b>-1.16</b>	<b>-0.65</b>	<b>-0.37</b>	<b>-0.34</b>	<b>-0.96</b>	<b>-0.58</b>	<b>-0.52</b>	<b>-0.41</b>	<b>-0.33</b>	<b>-0.51</b>	<b>-0.43</b>	<b>-0.42</b>	<b>-0.26</b>	<b>-0.23</b>	<b>-0.30</b>
FD Cash Flow per share	-1.15	-0.64	-0.37	-0.34	-0.84	0.04	0.10	0.20	0.28	0.10	0.17	0.18	0.34	0.37	0.29
Book Value per share	2.79	3.45	3.37	3.00	2.02	6.08	5.26	3.11	2.77	2.24	1.81	1.38	1.13	0.91	0.61

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

**Table 6: Underlying Dynamics at Lower \$6 ni Scenario WITHOUT Direct Shipping Ores**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
LME Ni Price / lb	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
Direct Shipping Ore				0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Direct Shipping Ore Grade				1.63%	1.63%	1.63%	1.63%	1.63%	1.63%	1.63%	1.63%
Direct Shipped Ni (000 lbs)				-	-	-	-	-	-	-	-
Direct Shipping LME price ratio				25%	25%	25%	25%	25%	25%	25%	25%
Dry 000 Tonnes Sapolite	366	1464	1464	1464	1497	1497	1497	1497	1497	1497	1497
Electric Arc Furnace Uptime	23%	90%	90%	90%	92%	92%	92%	92%	92%	92%	92%
Average t per 90% of 24 hr days		4457	4457	4457	4457	4457	4457	4457	4457	4457	4457
Avg EAF kilned t per hour uptime		124	(60 min=10 load/unload & 50 min "power on" if 150 t vessel)								
Ore grade ni	1.90%	1.90%	1.90%	1.90%	1.90%	1.63%	1.63%	1.63%	1.63%	1.63%	1.63%
Recovery rate	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Ni Output 000 lbs in ferronickel	13.8	55.2	55.2	55.2	56.4	48.4	48.4	48.4	48.4	48.4	48.4
Fe Output 000 lbs	27.6	110.4	110.4	110.4	112.8	96.8	96.8	96.8	96.8	96.8	96.8
Ni Output 000 mt in ferronickel	0	0	0	0	0	0	0	0	0	0	0
Fe Output 000 mt	0	0	0	0	0	0	0	0	0	0	0
Fe Value @ \$250 /t (\$ 000)	3	13	13	13	13	11	11	11	11	11	11

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

**Table 7: Skye Resources Estimated Sources and Uses of Funds (US \$ Mil.) at Lower \$6 ni Scenario**

Sources of Funds	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net Income	-33.7	-27	-21	-20	-58	-55	-49	-40	-32	-50	-42	-41	-25	-22	-30
Depreciation	0.2	0	0	0	11	59	59	59	59	59	59	59	59	59	59
Deferred Taxes															
Common Stock	110.5	104	55	5	5	2	2	2	2	2	2	2	2	2	2
Conv. Pfd. Stock			300												
Debt			600										470	0	0
<b>Total Sources of Funds</b>	<b>77.1</b>	<b>77.6</b>	<b>934.0</b>	<b>-15.0</b>	<b>-42.3</b>	<b>6.1</b>	<b>11.6</b>	<b>21.1</b>	<b>29.1</b>	<b>11.3</b>	<b>19.0</b>	<b>19.7</b>	<b>505.7</b>	<b>38.4</b>	<b>30.6</b>
<b>Uses of Funds</b>															
Capital Spending ex-int	0.1	35	325	325	40	5	5	5	5	5	10	10	10	10	10
Capitalized Interest			75	75	38										
Capitalized Underwriting			47												
Debt Repayment	0.2	0						0		90	0	0	510	25	25
Other, net	0.7														
Noncash Working Capital	1.8	-1	0	15	20										
Change in Cash	74.4	43	488	-430	-140	1	7	16	24	-84	9	10	-14	3	-4
<b>Total Uses of Funds</b>	<b>77.1</b>	<b>77.6</b>	<b>934.0</b>	<b>-15.0</b>	<b>-42.3</b>	<b>6.1</b>	<b>11.6</b>	<b>21.1</b>	<b>29.1</b>	<b>11.3</b>	<b>19.0</b>	<b>19.7</b>	<b>505.7</b>	<b>38.4</b>	<b>30.6</b>

**Table 8: Skye Resources Balance Sheet (US \$ Mil.) at Lower \$6 ni Scenario**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash	75.3	119	606	176	36	38	44	60	84	1	10	19	5	8	4
Receivables	0.8	1	1	1	23	29	29	29	29	25	25	25	25	25	25
Inventory				14	22	29	29	29	29	25	25	25	25	25	25
Prepays and other	0.5	0	0	0	2	2	2	2	2	2	2	2	2	2	2
<b>Total Current Assets</b>	<b>76.6</b>	<b>120</b>	<b>607</b>	<b>191</b>	<b>83</b>	<b>97</b>	<b>104</b>	<b>120</b>	<b>145</b>	<b>53</b>	<b>62</b>	<b>72</b>	<b>57</b>	<b>61</b>	<b>56</b>
PPE per GAAP	9.3	44	369	693	722	679	637	594	551	508	470	433	395	357	319
Non-GAAP PPE Inco 1977	150.0	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Cap. Int. and Fees			122	197	234	223	212	201	190	179	168	157	146	135	124
<b>Total Non-GAAP Assets</b>	<b>235.9</b>	<b>314.0</b>	<b>1247.7</b>	<b>1231.4</b>	<b>1189.7</b>	<b>1149.5</b>	<b>1102.2</b>	<b>1064.6</b>	<b>1036.2</b>	<b>890.5</b>	<b>850.3</b>	<b>811.2</b>	<b>748.1</b>	<b>702.6</b>	<b>649.4</b>
Current payables	3.9	5	3	2	14	26	25	25	26	18	17	17	18	17	17
Debt			600	600	600	600	600	600	600	510	510	510	470	445	420
Lease	0.2	0	1	1	1	1	1	1	1	1	1	1	1	1	1
Reclamation	0.5	0	1	1	1	1	2	2	2	2	2	2	2	2	2
Other-Long-term liabilities						1	1	1	1	1	1	1	1	1	1
Non-GAAP "sweat equity"	150.0	150	150	150	150	150	150	150	150	150	150	150	150	150	150
Convertible Equity			300	300	300	0	0	0	0	0	0	0	0	0	0
Shareholders Equity	81.2	159	192	177	123	371	324	286	256	209	169	130	107	86	58
<b>Total Non-GAAP Liabilities</b>	<b>235.9</b>	<b>314.0</b>	<b>1247.7</b>	<b>1231.4</b>	<b>1189.7</b>	<b>1149.5</b>	<b>1102.2</b>	<b>1064.6</b>	<b>1036.2</b>	<b>890.5</b>	<b>850.3</b>	<b>811.2</b>	<b>748.1</b>	<b>702.6</b>	<b>649.4</b>

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

issue is callable at a 5% premium to par after the 60<sup>th</sup> month in February 2013, and that the call premium declines by 1% each half year subsequently.

As a practical matter Skye will need most of this money in 2009, but already has committed to Duke Power to complete financing by March 1, 2008. An "installment" or "phased drawdown" might seem logical to reduce one year of interest expense. Further, it is possible that successful operations generate funds toward partial paydown in 2011 or 2012, in which case open market repurchases of the bonds might be an option.

We have estimated \$80 per barrel long-term crude oil and \$9 per pound nickel as a "base case," and that Skye Resources pays Duke Power \$0.13 per kwh for electricity generated from heavy oil, petroleum coke or some coal. Duke Power operates a western Guatemala power plant called "Arizona." Cementos Mexicanos or some other entity might build a power plant in the east of Guatemala or export power from southern Mexico. The Guatemalan government estimates it has "potential" hydroelectric resources of 10,000 MW and "potential" geothermal resources of 3,000 MW, which might become available in more substantial volumes after five to ten years.

## DESCRIPTION OF THE FENIX DISTRICT MINERAL PROPERTIES

Skye Resources' mineral deposits occur as lateritic topsoils, or "the product of rock decay." The decay of ancient tropical vegetation created acids, which dissolved the bedrock. The resulting iron-based mineralization are the "insoluble" portions of the rock.

A series of deposits exist in these topsoils, which average 4.7 meters or 16 feet thick in the "limonitic" upper layer commonly 1.1% ni and over 35% iron. A 2.6 meter "transition" second layer sits atop the 6.1 meter average thickness saprolitic later, both of which Inco classified as saprolitic ores totaling 26 feet thick on average. The saprolites range from 1.5% to 2.25% ni and from 10% to 25% iron.

The ores can be scraped, or dug from atop the bedrock without blasting. They contain no carbon or sulphur, and are relatively clean environmentally.

In the mid-1950s a local landowner submitted soils for analysis to the Hanna Mining Company, which evaluated portions of it from 1957 to 1960. Inco assumed the evaluations in 1960, and made rigorous evaluations of regional reconnaissance. Inco's more than 100 km and Skye's more than 40 km of drilling are most formidable in view of the typical 13.4 m thickness of the combined limonite, transition and saprolite layers. In effect, the database equates to 10,000-11,000 drill intercepts.

#### PROVEN AND PROBABLE RESERVE

The Fenix deposits lie near the village of El Estor on the northwest side of Lake Izabal. The proven and probable ores (table 9) at Fenix total about 50.1 mmt of the roughly 345 mmt global resource. They grade 1.62% ni to contain 0.82 mmt of nickel or 1.7 billion pounds.

The reserves represent less than 20% of the total global resource.

#### OTHER RESOURCES

The global resource (table 9) is 345 mmt to contain 5 mmt of ni or 11 billion pounds before recovery losses. These include both proven, probable, measured, indicated and inferred reserves and resources. These include both limonite (35% iron-rich) and saprolite (10%-25% iron deeper) resources from the Fenix, Montufar and other regional deposits.

Skye Resources classifies only the saprolites at Fenix as reserve. The limonite ores cause greater electric arc furnace refractory wear, and have not been classified as ore. Presumably at elevated nickel prices the costs of refractory replacement and opportunity costs from downtime can be accepted, but not at very low nickel prices. Either hydromet pressure leach or sulphation atmospheric leach can treat both saprolite and limonite ores, and represent a post-2013 expansion alternative.

## Table 9: Formidable Resource Base

	MMT	% Ni	MMT Ni	MM LBS Ni
Saprolitic Proven Reserve	8.7	1.81%	0.1575	347
Saprolitic Probable Reserve	32.7	1.58%	0.5167	1,139
<b>Total Reserves incl. below</b>	<b>41.4</b>	<b>1.63%</b>	<b>0.6741</b>	<b>1,486</b>
Saprolitic Measured Resource	24.7	1.54%	0.3799	838
Saprolitic Indicated Resource	36.7	1.45%	0.5317	1,172
Saprolitic Inferred Resource	43.0	1.25%	0.5376	1,185
<b>Total Fenix Saprolite</b>	<b>104.4</b>	<b>1.39%</b>	<b>1.4493</b>	<b>3,195</b>
Limonite Measured Resource	44.3	1.12%	0.4964	1,094
Limonite Indicated Resource	2.2	1.02%	0.0225	50
Limonite Inferred Resource	14.7	1.01%	0.1485	327
<b>Total Fenix Limonite</b>	<b>61.2</b>	<b>1.09%</b>	<b>0.6674</b>	<b>1,471</b>
Saprolitic Measured Resource	8.7	1.79%	0.1559	344
Saprolitic Indicated Resource	27.1	1.82%	0.4932	1,087
Saprolitic Inferred Resource	48.2	1.64%	0.7908	1,743
<b>Montufar et al Saprolite</b>	<b>84.0</b>	<b>1.71%</b>	<b>1.4399</b>	<b>3,175</b>
Limonite Measured Resource	2.3	1.10%	0.0253	56
Limonite Indicated Resource	10.3	1.20%	0.1236	272
Limonite Inferred Resource	32.8	1.15%	0.3772	832
<b>Montufar et al Limonite</b>	<b>45.4</b>	<b>1.16%</b>	<b>0.5261</b>	<b>1,160</b>
<b>Added Exploration Potential</b>	<b>50.0</b>	<b>1.25%</b>	<b>0.9033</b>	<b>1,991</b>
<b>GRAND TOTAL</b>	<b>345.0</b>	<b>1.45%</b>	<b>4.9860</b>	<b>10,992</b>

Source: Skye Resources, JTVIR, LLC estimates

The Fenix limonite ores total 61.2 mmt at 1.09% ni to contain 0.7 mmt of ni or 1.5 billion pounds. The Fenix saprolite measured, indicated and inferred resources at lower grades than the reserve total 104.4 mmt at 1.39% ni to contain 1.45 mmt of ni or 3.2 billion pounds of ni.

Montufar lies at the southeast side of Lake Izabal, and is closer to the Atlantic coastal port. It appears more suitable for exports of raw ores before upgrading, such as Kalimantan, New Caledonia or the Philippines export within southeast Asia. Montufar and other deposits than the Fenix system contain 84 mmt of Saprolite ores grading 1.71% ni and 45.4 mmt of limonites grading 1.16% ni, or a total of 1.97 mmt or 4.3 billion pounds.

We do not believe the landholdings are completely defined. We estimate another 50 mmt @ 1.25% ni or 2 billion pounds to reach our total estimated global resource of 345 mmt at 1.45% ni to contain 5 mmt or 11 billion pounds.

**TABLE 10: FENIX MINE CAPITAL COSTS**

<b>Part One: Hard Capital Costs</b>	<b>\$ Mil.</b>	
Temporary Road	12.6	
Santo Tomas Terminal	3.7	
Mine Infrastructure/Support	2.3	
Mine Mobile Equipment	12.8	
Ore Drying	22.2	
New Ore Drying Kiln	52.5	
Refurbish Old Ore Drying Kiln	16.1	
Other Ore Prep, Crush, Dry, Store, etc.	6.5	
Power Plant & Standby Diesel Generators	3.4	
Electric Arc Furnace 90 kv	65.0	
Ladle Metallurgy Furnace	25.5	
EAF Building	17.8	
Other Melt Shop Items	7.4	
Coal, Petcoke and Limestone Handling	22.1	
Water Systems	10.3	
Wastewater Treatment	6.7	
Other Plant Systems	6.4	
High Voltage Distribution	33.9	
Other Elec., Process Control & Communic.	11.3	
Non-process Buildings	10.3	
Other Site Services	5.5	
<b>Subtotal Direct "Hard" Capital</b>	<b>354.3</b>	
<b>Part Two: Indirect Capital Costs = Hatch + Morgan Stanley</b>		
Indirect Construction 16,500 hours	33.1	
Indirect Construction Freight	25.3	vital
Indirect Const. Freight "Grossup"	11.6	
Eng., Construction, Procurement, Mgt.	74.8	
Basic Engineering	12.5	vital
Owners's Costs "Grossup"	63.0	
Contingency	65.5	
MS Subgrade Bond Fee @6% & Conv.3.5%	46.5	
Capitalized High Yield Bond Interest@ 11%	165.0	
Capitalized Conv. Equity Yield @ 3%	22.5	low cost
<b>Subtotal Indirect "Soft" Capital</b>	<b>519.7</b>	
<b>Part Three: Later Capital Alternatives Postponed</b>		
Noncash Working Capital 48.5 mm lbs ni	72.8	vital
Prepayment Penalty 5% half of 11% bond	15.0	
Sustaining Capital Next 20 Years	100.0	vital
Electricity bought Duke Power	360.0	
Montufar southeast of Lake direct ship ores	50.0	low risk
Fenix Limonite Hydromet Pilot Plant	25.0	
Fenix Limonite Hydromet Full Plant	1000.0	
Fenix Sulphation Atmospheric Leach Pilot	25.0	
Fenix Sulphation Atmospheric Leach Plant	300.0	
<b>Subtotal Possible Later Capital Costs</b>	<b>1947.8</b>	

Sources: Skye Resources, Hatch Level 2 Summary 8-29-07,  
and JT Very Independent Research, LLC Estimates

## CAPITAL COST ESTIMATES FROM HATCH

Hatch engineers estimate the capital cost of the Fenix mine at \$640 mm for the mine and processing and another \$344 mm for the separate power plant project in September 2007. Its estimates exclude capitalized interest expense, financing fees or working capital.

The “project” Hatch defined resembles an “electric arc furnace steel minimill” melt shop such as Nucor, Steel Dynamics, Chaparral Steel or SeverCorr might operate. Literally \$115 mm of the direct capital involves the 90 kilo-volt electric arc furnace, ladle metallurgy, melt shop building and associated items plus another \$34 mm for the transformer power substation.

We classify the capital budget “class one direct items” totaling about \$354 mm as including \$150 mm for the steel melt shop, \$16 mm for mining equipment, \$97 mm for a refurbished and another new kiln to dry ores prior to the electric arc furnaces and \$84 mm for other site infrastructure. Further, the project benefits from the design and infrastructures Inco put in place three decades ago.

We wonder whether this company should be operated as a mining company or steelmaker. Literally the steel melt shop costs about ten times as much as mine equipment, which is very simple for scraping out the ores.

## INDIRECT AND LATER PHASE CAPITAL OUTLAYS

We estimate Skye Resources will capitalize about \$520 mm under its plan for “indirect” capital costs or “not machinery” costs, which we summarize in part two of our table 10 above. These are other than the \$354 mm direct machinery installation budget.

Roughly \$38 mm of these \$520 mm indirect costs, construction freight and basic engineering, appear very necessary and “tangibly” understandable.

There could be upwards of another \$2 billion of “later phase” capital outlays after the 2009-10 time frame that we have summarized in part three of table 10. These include \$50 mm for mine and transport infrastructure for Montufar direct shipping ores we simulated in 2012-13, sustaining capital outlays, \$360 mm if Skye built its own power plant that probably will not be necessary as independent power producers exist as vendors, about \$1,000 mm for a hydromet pressure leach plant to treat limonite ores, the alternative of a sulphation atmospheric leach plant, a second electric furnace vessel at Fenix or other alternatives that we itemize in Table 10, part three. We do not expect any of these efforts necessarily to move forward, but some of them may.

## RESERVATIONS WE HAVE ABOUT THE HATCH CAPITAL BUDGET BEING MUCH TOO HIGH, AND NOT CAPITAL COST OVERRUN POTENTIAL

These are the sorts of considerations that caused us to conclude that Skye Resources might be worth \$37 per share OR MORE in the hands of another operator or planner such

as BHP Billiton, Nucor, Steel Dynamics, John Correnti or another mining or steel entrepreneur.

#1 We question the fundamental concept of sequencing the Fenix prior to Montufar. We estimate the road, dock, logistics and mine equipment for Montufar direct shipping ores might cost \$50 mm or less, and offer upwards of a \$50 mm annual gross margin or \$79 mm in revenues with under \$20 mm in direct costs, or a 100% annual gross return on assets.

As such, an initial Montufar project might “self-finance” the Fenix process plant capital budget, reduce share dilution and reduce the need for 11% high yield debt. Further, the debt issue interest coupon rate might be lower if such a cash cow preceded the capital-intensive process plant. We understand that all infill drilling, permits and planning emphasized Fenix, which we do not understand as some Montufar zones are just as rich or even higher grades.

Montufar is not permitted, completely drilled or engineered. Management’s only reservation concerning it is timing.

#2 Capital spending in Guatemala should be cheaper than in the U.S. as Guatemalan labor costs might be near \$1-3 (unskilled versus skilled) per hour versus much higher U.S. construction labor costs. Hatch’s labor, construction and billing rates are high, as though it estimated for the transport of U.S. construction craftsmen to Guatemala at a premium, dormitory costs, Maine lobster, Caspian caviar, other perks, etc.

#3 Mercator Minerals, Nucor, Steel Dynamics, SeverCorr and other concerns act as their own General Contractor, which is cheaper. Mercator Minerals bought a used mill from the former Asarco Mission mine, and is completing a 50,000 ton per day mill for \$189 mm in Mineral Park, AZ. Hatch designed a 4,000 tonne per day plant at \$640 million plus \$235 million in capitalized financing costs.

We attribute a large portion of the capital budget, capitalized interest and capitalized financing cost to Hatch’s participation.

#4 The aggregate \$875 mm capital budget appears too high to us, and equates to SIX electric furnace melt shops, ThyssenKrupp’s ENTIRE 1.0 million ton Alabama stainless steel project or SeverCorr’s ENTIRE \$862 mm 1.7 million ton Mississippi steel mill through to critical exposed auto quality galvanized steel.

The \$16 mm for mining equipment, \$97 mm for one refurbished and one new drying kiln, site infrastructure and capitalized financing costs will be necessary. In our opinion the Hatch capital expenditure budget of \$640 million without a power plant could be reduced towards \$300-\$400 million if Skye Resources hired several key engineering executives, acted as it own General Contractor and ordered its machinery directly bypassing Hatch.

Remember, Skye Resources aspires to spend \$16 mm on mine equipment, and \$150 mm for the electric furnace melt shop. In our opinion it is more appropriate to compare it to a steel mill. **For the amount of monies proposed to be spent, Skye Resources SHOULD BE DELIVERING AT LEAST A CLASS 2B FINISH COLD-ROLLED 304 STAINLESS COIL or an even better mirror-polish finished coil** rather than a 65% iron ferronickel intermediate.

For \$862 mm SeverCorr built three process buildings under roof each larger than one-half football field, a “critical exposed finish” painted auto quality hot dip galvanized line, a five stand premium quality cold-rolling mill (each stand costs over \$25 mm each), a six stand hot strip mill (each stand costs over \$25 mm each), a continuous caster, a vacuum degasser (purification and “bubble removal” furnace), scrap handling equipment, an electric arc furnace and two not one ladle metallurgy stations. SeverCorr’s casting, hot-rolling, cold-rolling and galvanizing equipment were about \$100-\$150 mm extra expensive to accommodate a 72” width and extra demands of auto quality were even more costly. SMS Demag was the primary equipment supplier to SeverCorr, which acted as its own General Contractor in Mississippi.

Someone who never walked a steel mill cannot appreciate the profoundness of the prior paragraph. One “hot strip mill rolling stand” is as substantial a machine as the Fenix electric furnace shope Hatch describes. The single casting for a “mill stand” is three stories high, and contains four “rolls,” hydraulics, electrical controls and many devices to withstand the stress of rolling several inches of steel to 0.05” thick. It has a “basement level” for maintenance access, fluid evacuation, wiring and controls. The SeverCorr steel plant contains ELEVEN hot- and cold-rolled mill stands in its \$852 mm budget completed in August 2007 and mostly supplied by Germany’s SMS Demag.

Both the SeverCorr 1.7 million ton auto quality ordinary steel plant in Mississippi and ThyssenKrupp 1.0 million ton stainless operation in Alabama are high quality “Cadillac” or “Mercedes” sorts of designs.

An electric furnace from a European machinery company or ABB transformer power substation can be bought directly, and does not benefit from an intermediary like Hatch grossing up the costs.

#5 The high cost of the Fenix plant made Skye Resources unable to fit bank loan payback windows, and caused it to seek Morgan Stanley’s 11% high yield bond or dilutive convertible financing options. A project run by someone like John Correnti might have bypassed both Hatch and Morgan Stanley.

#### COMPARISON TO ALTERNATIVE APPROACHES OF MERCATOR MINERALS, GENERAL MOLY, INC. OR DYNATEC THAT HAD LOWER COSTS OR LESS DILUTION

It may not be completely fair to Skye Resources to compare it to these three less dilutive, less expensively financed startup mining project companies. Guatemala’s BB investment

rating and the legacy of Guatemala's 1960-96 or 36-year civil war makes Skye's project less easy to complete.

As already noted, Mercator Minerals bought a used mill from Asarco's former Mission mine which it is rebuilding into its Mineral Park, AZ copper-moly-silver mine for \$189 mm. Its 50,000 ton per day mill built as a general contractor will have full crushing, grinding, floatation, moly separation and a separate heap leach copper refining circuit. Skye Resources contemplates just 4,000 tonnes per day. Mercator also issued a \$109 million 11.5% high yield bond which, while very expensive, Mercator should be able to repay in the 2009 second-half owing to its frugality in building its plant. We characterize Mercator as an ultra low capital cost, low dilution example.

General Moly, Inc. obtained capital from two steelmaking customers to fund a large portion of its \$852 mm Mt. Hope, Nevada molybdenum mine. Mittal Steel bought a 12.6% stake in GMO for \$70 million and Posco paid \$170 mm for a 20% stake in the Mt. Hope mine. These customers' moly purchase contracts facilitate General Moly's bank borrowings, the 20% stake sold reduces General Moly's funding requirement by the \$170 million that now is Posco in South Korea's responsibility, and the capital infusions raised \$240 mm. Thus, these actions reduced the funding need from \$852 to \$442 million, and the customer purchase contracts help support the bank borrowing. Thus, General Moly, Inc. made its borrowings "more bankable" at a lower interest rate and reduced the need for dilutive public stock offerings or financing fees.

The former Dynatec reduced its financing need and exposure to capital cost overruns, which have been large in its Madagascar nickel project. It identified Korean joint venture partners that took 55% of the project and committed to arrange a large portion of the financing for Dynatec to piggyback or participate in. Second, the engineering contractor SNC-Lavalin took a 5% stake. Finally, Dynatec sold its remaining 40% stake and entire company to Sherritt International.

#### DR. HERB SIMON'S 1978 NOBEL PRIZE IN ECONOMICS FOR "SATISFICING" THEORY

As shareholders or potential shareholders, we may be relentlessly in pursuit of the maximum shareholder value. As such, investors may wish for a sort of profit maximization or "ideal" or near perfection.

In 1978 Dr. Herb Simon, an economics professor at my alma mater, Carnegie-Mellon University, won the Nobel Prize in economics for his theory of "Satisficing." He observed that limitations of time, energy, money, etc. may cause consumers to buy or choose an item that is acceptable or good enough, rather than optimize.

This analyst took a 75 minute shopping tour in Guatemala City on Wednesday, December 12<sup>th</sup> to fill two deliberately empty suitcases with Christmas gifts. Guatemalan arts and crafts are very beautiful and inexpensive, and more than justify the round trip air fare.

We liken my shopping spree in Guatemala City and Skye Resources' management of the Fenix project both as examples of Dr. Simon's theory of satisficing.

## SIX RESERVATIONS ABOUT THE SKYE RESOURCES PROJECT STRATEGY, OR WHY THE COMPANY WOULD BE WORTH MORE IN THE HANDS OF BHP BILLITON, STEEL DYNAMICS OR SOME OTHER STRONG HANDS

We sympathize with the managers of Skye Resources and commend their efforts to develop a world class resource equivalent to about three years of global nickel consumption at recent rates. It is not easy to build a large mine in Guatemala. Notwithstanding, we identify six things that might be done differently by a different or larger owner enjoying the strengths, financial resources or depth of technical management.

#1 As already noted, the Montefar direct shipping ores might be developed first owing to their low up front capital cost (no kilns or furnaces), prospective 100% gross margin returns on investment and ability to help self-fund the Fenix project.

Skye Resource's first instinct may have been simply to reactivate the 1977-80 mine plan. In that era direct shipping ores did not exist as the practice became most popular in the 18 months.

Some of Skye's technical personnel hold patents for design of the sulphation atmospheric leach refining process. Nickel industry technical people seem to love 100% pure nickel, and hold less enthusiasm for 35% pure ferronickel or even less for direct shipping ores used to make a 1%-10% nickel pig iron. Further, a "goal incongruence" exists between the CVRD Inco and BHP Billiton "existing nickel producers" and remaining public shareholders of Skye.

#2 The status of the funding and completion of the Fenix project, or appearance of deadlines, would be mitigated as Skye completes financing and builds the plant. The discussion in the next two paragraphs may be a "moot point."

On December 12<sup>th</sup> between 5 and 6 pm in Guatemalan City the Director General of the ministry of mines and energy said in my presence said "The permits and mining rights are in the name of Skye Resources." In 2005 Skye Resources renewed the former 40 year mining concession of Inco. It appears that Inco became less popular in Guatemala as it invested in Indonesia, New Caledonia, Newfoundland and elsewhere. It is possible that Inco became "persona non grata" in Guatemala after the project became long dormant, but it is also possible that the charismatic Brazilian CEO Roger Agnelli of Vale can put a new deal together in Guatemala if needed. We believe the stock market worries that Skye Resources somehow will not complete the project, and Vale Inco will take the project back.

#3 We assign a 50% likelihood that an acquirer or another owner of Skye Resources would successfully challenge and never pay a penny to the 2.75% marketing fee,

production tonnage royalty and nickel-price royalty of Vale from Inco. Further, we assign a 50% probability that the Guatemalan government would reassign the nickel concession to some company other than Vale Inco if Skye Resources dissolved, as Vale Inco made no progress since 1980 there. Vale Inco “slighted” Guatemala in investing billions of dollars outside Guatemala rather than pursuing this fine project.

A separate issue is whether the 2.75% Inco marketing fee applies should Skye Resources negotiate a long-term sales contract with a steel industry investor similar to General Moly, Inc.’s agreements with Mittal Steel and Posco.

We presume that several Skye Resources managers that formerly worked at Inco feel a bit of loyalty to Inco. They probably also feel a debt of gratitude to Inco for having “vended” the property to Skye Resources rather than some other partner. Further, access to the geological, metallurgical and engineering records of Inco greatly facilitate the project design and construction underway. At this stage it is easier to cooperate rather than combat Inco, which sits on Skye’s board.

At a \$9 nickel scenario the three economic participations of Vale in Skye Resources, aside from Vale’s common stock interest in Skye, total \$31 mm before payback and \$47 mm before taxes after payback. This equates to about \$0.70 to \$1.00 per pound of future nickel output. Skye Resources indicates that in 2004 the Inco managers negotiated a very aggressive deal with Skye Resources out of embarrassment in the big winnings of FNX Mining and Canico that negotiated to buy properties from Inco after Inco gave up on them.

#4 We do not expect Duke Power to walk away from Skye Resources if Skye does not complete its financing by March 1, 2008. Further, we believe plenty of room exists to find a better electricity deal that \$0.10 per kwh at \$51 crude oil, \$0.13 at \$80 crude or \$0.15 at \$100 per barrel crude.

We do not understand Skye Resources’ negotiating a power contract good “only if financing completed by March 1, 2008.” We estimate the Fenix electric arc furnace will be the largest industrial electricity consumer in Central America between the borders of Mexico, Venezuela and Brazil, which encompasses over seven nations. Duke Power probably did triple back flips over the prospect of such a large new customer, and would renew its contract if the March 1, 2008 deadline passed.

Further, we estimate that a coal-fired power station could generate electricity near \$0.06 per kwh costs. For that reason we estimate that by year five of Fenix operation a new third party power supplier arises, probably a newly built coal-fired entrant, that delivers power to Skye at \$0.10 per kwh without Skye employing any capital.

#5 A company that builds the mine as its own General Contractor may deliver the project at half of the current \$875 mm estimated capital outlay plus capitalized interest and capitalized underwriting fees. The inefficiency of the Hatch capital budget, Morgan

Stanley financing proposal and Skye execution plan are arguments in favor of selling Skye Resources to a larger firm

#6 A lower cost route than a \$600 mm high yield bond offered at 11% is conceivable. The large size of the current estimated capital outlay and Guatemala's BB country rating interfere with the execution of a lower cost financing. However, if Skye Resources can identify a way to build the mine at a lower capital outlay, then it will obtain better financing terms. The variables interact with one another.

#### REJECT A "DELIBERATE ICING" THEORY

It occurred to us that Inco's goal since 1980 has been to prevent Guatemalan nickel output in order to benefit the nickel price and prevent these nickel Guatemalan supplies effectively from competing with its core operations in Canada, Indonesia, New Caledonia, etc. This might be termed a "deliberate icing" or "bad faith" or "mal-a-fait" strategy in which Inco "parked" the project in the hands of an underfinanced company under onerous terms to slow its market entry.

We reject the "deliberate icing" theory that Skye Resources was "set up to fail." If Inco wanted solely to keep Guatemala off the nickel market, it would have joint ventured the property to some other junior mining company with less technical depth of knowledge about the nickel market. Dave Huggins, Dave Neudorf, Ian Austin and other Skye personnel have many generations of experience in the nickel industry.

#### VALE INCO CONTINUING RIGHTS

On March 6, 2007 Skye Resources paid C3.5 mm to Vale Inco "to complete its exercise of its option" under the "conditional acquisition 12-15-04 Master Agreement." This March 6, 2007 "exercise" is "subject to certain limited rights on Vale Inco as described on pages 11 and 33-36 of the October 12, 2007 Annual Information Form of Skye.

On page 29 Skye indicates it "does not agree with off-take" agreement contentions of Vale Inco.

On page 33 Skye indicates its Montufar II exploration license expired 12-12-07, literally my visit day at the property, but that it could be extended.

On page 34-35 Skye indicates that under its agreement with Vale Inco "...if within 24 months after Skye gives notice of its intent to put Fenix Project into production, Skye has been unable to secure the project financing required to fund the recommendations of the positive feasibility study, Vale Inco may at any time thereafter, provided Skye has not at that time secured such financing: (a) serve notice to Skye that Vale Inco will supply sufficient funds to completely finance putting the Fenix Project into production as recommended by the positive feasibility study, and (b) assume management of the operation of the Fenix Project consistent ...entitled to receive a management fee equal to 2% of the operating costs. (3) the right to reactivate shutdown operations under limited

circumstances, (4) a one-time right to re-acquire the Fenix Project for the then fair market value if Skye ceases to make good faith efforts to advance the construction of the mine on the Fenix Project...(5) a pre-emptive right for 5 and ½ years from 12-15-04 to participate in Skye's equity and derivative security financings up to certain prescribed limits (17.5%)...(6) certain pre-emptive sale of interest rights.

Further, Vale Inco has rights to Skye technology developed for the Guatemalan operations and marketing rights.

These rights are in addition to the four economic interests Vale Inco holds (common stock, 2.75% marketing fee, production royalty and nickel price royalty). Vale Inco's many continuing participations make Skye Resources a bit of a subordinated common stock in the sense of the participations of the prior property owner.

#### OPERATING COST COMPARISONS UNDER DIFFERENT SCENARIOS

We have compared the profit or loss per pound for four Skye Resources operating strategies in table 11 below. We compared our basic model at \$9 nickel, our \$6 nickel low price scenario, the Hatch September 2007 study that used \$51 crude oil and ignored financing costs and a "what if BHP Billiton or some other well-funded and well-run senior company" ran the project.

The "BHP Billiton" scenario assumes a 6% not 11% cost of debt, a 10% savings from the Hatch \$640 mm capital budget and no Montufar direct shipping ores.

In addition, we noted the differences if the Montufar direct shipping ores were omitted and the differences between "high grading" and reserve grading.

**Table 11: Operating Cost Comparisons Under Various Scenarios**

	JTVIR,LLC \$9 ni	JTVIR,LLC \$6 NI	If BHP Ran It	Hatch Sep-07	Dynatec 2-07@Pru
<b>Ni Revenues per lb</b>	<b>9.00</b>	<b>6.00</b>	<b>6.00</b>	<b>6.50</b>	<b>9.00</b>
Co, Fe or other revenues	1.83	0.25	0.25	0.20	0.60
Total \$ per lb	10.83	6.25	6.25	6.70	9.60
Direct Shipping Ore Costs	0.24	0.00			
Mining, Crush and Drying	0.36	0.36	0.36	0.22	
Electricity	2.19	2.19	0.94	1.66	
Other CGS	1.18	1.09	1.09	0.85	2.53
Community Contributions	0.07	0.07	0.07	0.05	
Transportation	0.14	0.14	0.14	0.01	
Depn of PPE	0.87	0.87	0.78	1.07	0.84
Depn of Cap. Int and Fees	0.20	0.20	0.08		
Depn of Power Plant		0.00	0.33		
Govt Royalties	0.37	0.23	0.23	0.07	
Inco Marketing Fee	0.25	0.17		0.19	
Inco Royalties	0.30	0.14		0.15	
Mine Development Expense	0.09	0.04	0.04		
Exploration	0.04	0.00			
SG&A and Stock Comp.	0.36	0.27	0.20	0.69	0.17
Financing Fees	0.27	0.00		-0.22	
Interest Expense	1.20	1.20	0.49		1.60
Income Taxes	0.54	0.00	0.47	0.06	0.52
<b>Net Profit per lb</b>	<b>\$2.16</b>	<b>-\$0.72</b>	<b>\$1.04</b>	<b>\$1.91</b>	<b>3.95</b>
<b>Pretax breakeven @ 1.90% ni</b>	<b>\$6.30</b>	<b>\$6.72</b>	<b>\$4.50</b>	<b>\$4.54</b>	<b>4.53</b>
<b>Pretax breakeven @ 1.63% ni</b>	<b>\$6.96</b>	<b>\$7.42</b>	<b>\$4.97</b>	<b>\$5.56</b>	
<b>Breakeven no Montufar@1.90%</b>	<b>\$7.53</b>				
<b>Breakeven no Montufar@1.63%</b>	<b>\$8.19</b>				
	1 mmt direct ship ore			56 mm lb 2% ni \$12m VAT refund	Ambatovy

Sources: Skye Resources, Hatch July 2007 Technical Report, Dynatec, PEG, JTVIR, LLC Est.

At a 1.63% reserve ore grade the pretax full costs would be \$6.96 per pound at \$9 nickel with Montufar direct shipping ores under our “\$9 ni JTVIR base case,” \$7.42 at \$6 ni without Montufar direct shipping ores in the “\$6 ni JTVIR low case,” \$4.97 if BHP ran it and \$5.56 under the Hatch study with unrealistic crude oil and financing cost assumptions. The pretax costs would jump to \$8.19 per pound if the Montufar direct shipping ores were omitted from the “\$9 ni JTVIR base case.”

Obviously the pretax breakevens would improve if the ore grades in the first five or ten years greatly exceed the reserve grade. Hatch estimated a 2% initial grade, and we estimated a 1.9% initial grade. We estimate pretax breakevens under a “high grade” approach at \$6.30 per pound under our “\$9 ni JTVIR base case” with Montufar, \$7.53

under our “9 ni JTVIR base case” without Montufar, \$6.72 under our “\$6 ni JTVIR low case,” \$4.50 per pound “if BHP ran it” and \$4.54 under the September 2007 Hatch study that underestimated costs.

We estimate the net profit per pound under higher initial grades as \$2.16 per pound under the “\$9 ni JTVIR base case” with Montufar, a \$0.72 per pound LOSS under the “\$6 ni JTVIR low case” without Montufar, \$1.04 per pound at \$6 ni “if BHP ran it” and \$1.91 per pound at \$6.50 ni under the dubious assumptions of the September 2007 Hatch study. Only our “\$9 ni JTVIR base case” includes Montufar direct shipping ores.

For comparison we summarized the costs estimated in our February 2007 research report for the Ambatovy project of Dynatec published at Prudential Equities Group.

#### GUATEMALAN TAX REGIME COULD BE TOO GOOD TO LAST

A spectacular benefit to Skye Resources involves the combination of the 11 billion pound resource and the Guatemalan income tax regime, which takes the “LOWER” of 5% of revenues or 31% of pretax income. This may equate only to a 10%-15% income tax rate at nickel prices of \$9 or higher. Skye Resources enjoys hugely enthusiastic government sympathy and support, and a sort of “first mover” advantage similar to U.S. Steel’s first five year tax holidays in Slovakia and Serbia.

In addition, a 1% revenue royalty to the government and probably another 1% voluntary royalty of Skye Resources to the local villages will be paid.

In the near-term a possibility exists of Guatemala mimicking higher royalties like Chile, Guatemala and Ecuador, and no Guatemala public discussion of higher taxes exists.

We worry that this favorable tax regime will not prove permanent. In our first drafts of this report we inputted a 31% income tax into our excel income statement models. However, after some discussion with the company and a few weeks contemplation we changed our algebra to the “minimum of 5% of revenues or 31% of pretax income” per the existing tax code.

#### IMPLICATIONS OF FAVORABLE TAX CODE, RICH ORE GRADES AND SHALLOW MINING TO VALUATION AND PRICE TARGET

In our October 7, 2007 research report on the Duluth, Minnesota copper-nickel-precious metals district, we valued the “in situ” resources at \$1.00 per payable pound of nickel and \$0.10 per payable pound of copper and applied no value to the up to 20% of revenues from cobalt, gold, silver, platinum, palladium, ruthenium or rhodium. The Minnesota ore grades are much lower at as low as 0.08% ni in the case of Polymet, and we estimated 25% of resources did not fall into mine plans and recovery losses were near 30% for nickel.

Skye Resource's ore grades range from 1% to 2% for various zones, the ores lie within 40 feet of surface offering low strip ratios and no need for blasting, recovery rates should be 89% or 90%, the whole resources should be mineable as they are so shallow, capital costs should be low owing to Inco's 1977-80 infrastructure investment, electric furnace processing or Montufar direct shipping and, finally, the tax regime appears to be one of the lowest in the world

For these reasons we applied a \$1.35 per pound value to the in situ ores in the \$9 nickel base scenario and a \$0.25 per pound value in the \$6 nickel low price scenario. In our first pass at this exercise, we valued the nickel resource "in the ground" at \$1.00 per pound similar to our October 7, 2007 Duluth, MN evaluations. However, the low tax regime, higher grade, potentially low capital costs and already environmentally permitted status of the Guatemalan convinced us to use the higher \$1.35 value.

In fact, the profitability at \$9.00 nickel could justify an even higher value. We hesitated out of concern that the favorable tax regime or economics of some of the 1.1% ore grade limonite zones could be less robust than what we have modeled.

#### PRICE TARGET EXERCISE BROKEN DOWN BIT-BY-BIT

We attempted to assign a sort of objective discipline to our price target evaluation for Skye Resources. We evaluated a price target under both a \$9 and \$6 per pound long-term nickel scenario and under the current business plan of the company or a "what if BHP Billiton" or some similar well-financed and deeply staffed company ran the project.

**Table 12: PRICE TARGET \$16 AT \$9 Ni or Up To \$37 in Takeover**

	\$9 nickel	\$6 nickel	\$9 ni if BHP ran it	\$6 ni if BHP ran it
<b>Resource 11 bil lbs</b>	<b>10,992</b>	<b>10,992</b>	<b>10,992</b>	<b>10,992</b>
<b>Valuation per lb in situ reserves</b>	<b>1.35</b>	<b>0.25</b>	<b>1.35</b>	<b>0.25</b>
Ultimate capital investment	2,000	1,250	2,000	1,250
Deduct Ultimate capital inv. From Resource	12,839	1,498	12,839	1,498
Discount to present @ 7% and 48.5 mm lbs	75%	80%	70%	75%
Discount for "option" not earned-in	10%	10%	1%	1%
Discount for financing not completed	10%	10%	1%	1%
Discount for mine startup not completed	10%	10%	5%	5%
Discount for \$874 mm capital not efficient	200	200	100	100
Discount for \$0.13 per kwh at \$80 crude	150	150	0	0
Discount for 11% \$600 mm high yield bond	200	200	0	0
No discount for Guatemala, a fine nation	0	0	0	0
<b>Residual Value</b>	<b>\$ 1,790</b>	<b>\$ (332)</b>	<b>\$ 3,486</b>	<b>\$ 249</b>
Dilution to 110 mm shares/ 95 if BHP	\$16	-\$3	\$37	\$3
<b>Price Target</b>	<b>\$16</b>	<b>-\$3</b>	<b>\$37</b>	<b>\$3</b>

Source: John Tumazos Very Independent Research, LLC estimates

Our spreadsheet (table 12) begins with an assigned value of each to each of the 11 billion pounds of estimated contained nickel at \$1.35 at \$9 long-term and \$0.25 at \$6 per pound estimated long-term nickel prices. This is a truly great nickel resource in situ located in the Western Hemisphere close to major markets.

We then assign ten separate deductions or downward adjustments for capital spending, NPV, the “option” not yet earned-in, financing not yet completed, mine startup not yet completed, Hatch engineering’s less efficient capital budget than SeverCorr or ThyssenKrupp’s, a discount for the expensive initial electricity charge, a discount for the expensive 11% high yield bond cost of capital under consideration, no discount for the desirable Guatemalan venue and for the pending equity dilution to complete the project.

Two of the discounts, expensive electricity and the expensive 11% bond financing costs, would disappear completely if a well-heeled group like BHP Billiton ran the project. Two more, the discount for the “option not earned-in” and financing not completed, might almost disappear. Three more, technical mine completion, the Hatch capital budget and equity dilution, probably would be lesser problems with the help of a major company involved. Only the time value of money and basic plant capital would similarly penalize both the junior Skye Resources and the “major” BHP Billiton comparison, but the time value of the project might be greater under a BHP Billiton scenario because BHP might more quickly install a second electric arc furnace or hydromet plant.

We value this entity at \$37 per Skye Resources share diluted to 95 mm outstanding in the possession of a major company like BHP Billiton or perhaps Nucor, Steel Dynamics or an equivalent electric arc furnace lean steel operator at \$9 nickel.

We value it at \$16 per Skye Resources share diluted to 110 mm shares outstanding under the current Skye Resources business plan at \$9 nickel. This value should increase as property title vests, financing is done and mine technical completion achieved by something near \$200 mm per milestone achieved. We interpret the recent Skye share prices in the \$6 to \$7 range as a sort of “lack of confidence” discount.

The Skye Resources shares appear to have insignificant value in a \$6 per pound long-term nickel scenario under either the current business plan or if owned by a major like BHP Billiton. Our model derives a negative \$3 per share value to the current Skye model and a \$3 per share positive value if BHP Billiton ran it. We have assigned a larger \$5 per share target to the \$6 nickel scenario owing than our model literally calculates in expectation of some “optionality value” that in a bear market for nickel the equity value will not quite converge towards zero.

#### A HIGH DEBT MODEL ALTERNATIVE

We created a financial model of Skye Resources’ business strategy with a slightly different project finance option (tables 13, 14 and 15). In this third “high debt” variation we simulated an \$800 mm high yield bond at 12% interest combined with a \$100 mm 3%

convertible at \$10 per common share rather than a \$600 mm bond at 11% with a \$300 mm 3% convertible at \$10 per common share.

We consider this tactic tough to execute, but wanted to illustrate the impact of a lesser equity dilution and greater debt leverage. This would not fly at \$6 nickel and the larger \$800 mm high yield bond capital may not be possible to raise given the recent credit crunch or recession fears. A virtually all debt approach is not prudent.

In this model the capitalized interest expense and capitalized bond financing fees would rise to \$300 million from \$235 mm. The annual bond interest expense would be \$96 up from \$66 million and the amortization of financing fees might be \$4 mm higher, or a \$34 million higher pretax breakeven point for the company.

We estimate the earnings per share in 2016-18 would be \$0.16 per share and the cash flow per share in 2016-18 \$0.27 per share larger after the \$800 mm high yield bond has been repaid. The earnings per share will be less while the larger interest expense burden is in place, and then over 10% higher after the debt has been repaid in 2016.

**Table 13: "High Debt" Alternative Income Statement (\$ Mil.)**

	C\$2006	US\$2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Nickel in ferronickel					138	497	497	497	508	436	436	436	436
Iron in ferronickel					3	13	13	13	13	11	11	11	11
Direct Ore Shipments from Montufar								79	79	79	79	79	79
Interest Income or oth	0.9	7	18	12	4	0	2	6	0	6	10	1	7
<b>Total Revenues</b>	<b>0.9</b>	<b>7</b>	<b>18</b>	<b>12</b>	<b>145</b>	<b>509</b>	<b>512</b>	<b>594</b>	<b>599</b>	<b>531</b>	<b>536</b>	<b>527</b>	<b>533</b>
Direct Shipping Mining Montufar								3	3	3	3	3	3
Direct Shipping Delivery to Boat Montufar								10	10	10	10	10	10
Mining Costs					2	5	5	5	5	5	5	5	5
Crush, Grind, Dry and Mill					5	15	15	15	15	15	15	15	15
Electricity					30	121	121	121	121	93	93	93	93
Other Direct Operating					25	65	65	65	65	65	65	65	65
Community Infrastruc	1.0	2	2	2	3	4	4	4	4	4	4	4	4
Transportation					3	10	10	10	10	10	10	10	10
Depreciation of PPE	0.2	0	0	0	12	52	52	52	52	52	52	52	52
Depn. Cap. Int. and Fees						15	15	15	15	15	15	15	15
Government 1% Royalty					1	5	5	6	6	5	5	5	5
Govt.Added Royalty 1.5% @\$9 ni					2	8	8	9	9	8	8	8	8
Property Taxes 0.9%						7	6	6	6	5	5	5	4
Value-Added & Impor	0.0	0	0	0	0	0	0	0	0	0	0	0	0
CVRD 2.75% Sales Fee					4	25	14	14	14	12	12	12	12
CVRD Production Royalty on Ferronickel					1	6	6	9	10	10	10	10	10
CVRD Price Royalty on Ferronickel					2	7	7	7	7	6	25	25	25
Mine Development Exp	17.3	12	15	10	5	5	5	5	5	5	5	5	5
Exploration	7.5	5	5	3	2	2	2	2	2	2	2	2	2
Noncash Stock Comp	3.0	5	5	5	5	5	5	5	5	5	5	5	5
SG&A	4.6	8	10	10	15	15	15	15	15	15	15	15	15
Financing Fees	0.9	2	2	2				15					
Bond Interest @ 12%					48	96	96	96	60	60	20	0	0
Convertible Prd Div @ 3%					2	3	0	0	0	0	0	0	0
Pretax Income	-33.7	-27	-21	-20	-22	39	57	106	161	126	153	164	170
Income Taxes						12	18	30	30	27	27	26	27
Net Income	-33.7	-27	-21	-20	-22	27	39	76	131	100	126	137	143
Primary Shares	29.11	46.00	57.00	59.00	61.00	71.50	72.00	72.50	73.00	73.50	74.00	74.50	75.00
Diluted Shares	40.00	57.30	98.30	100.30	75.00	75.50	76.00	76.50	77.00	77.50	78.00	78.50	79.00
<b>FD EPS</b>	<b>-1.16</b>	<b>-0.65</b>	<b>-0.37</b>	<b>-0.34</b>	<b>-0.36</b>	<b>0.36</b>	<b>0.52</b>	<b>1.00</b>	<b>1.70</b>	<b>1.29</b>	<b>1.61</b>	<b>1.75</b>	<b>1.82</b>
FD Cash Flow per sh:	-1.15	-0.64	-0.37	-0.34	-0.20	1.04	1.19	1.67	2.37	1.95	2.27	2.41	2.47
Book Value per share	2.79	3.45	3.37	3.00	2.62	4.08	4.67	5.76	7.58	8.96	10.67	12.51	14.40

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

**Table 14: "High Debt" Alternative Model Estimated Sources and Uses of Funds (\$ Mil.)**

Sources of Funds	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Income	-33.7	-27	-21	-20	-22	27	39	76	131	100	126	137	143
Depreciation	0.2	0	0	0	12	67	67	67	67	67	67	67	67
Deferred Taxes													
Common Stock	110.5	104	55	5	5	5	5	5	5	5	5	5	5
Conv. Pfd. Stock			100										
Debt			800										
<b>Total Sources of Funds</b>	<b>77.1</b>	<b>77.6</b>	<b>934.0</b>	<b>-15.0</b>	<b>-5.3</b>	<b>98.7</b>	<b>110.8</b>	<b>147.8</b>	<b>202.7</b>	<b>171.3</b>	<b>197.4</b>	<b>209.0</b>	<b>215.0</b>
<b>Uses of Funds</b>													
Capital Spending ex-int	0.1	35	325	325	50	5	5	50	5	10	10	10	10
Capitalized Interest			99	99	50								
Capitalized Underwriting			52										
Debt Repayment	0.2	0						300			500		
Other, net	0.7												
Noncash Working Capital	1.8	-1	0	15	30								
Change in Cash	74.4	43	459	-454	-135	94	106	-202	198	161	-313	199	205
<b>Total Uses of Funds</b>	<b>77.1</b>	<b>77.6</b>	<b>934.0</b>	<b>-15.0</b>	<b>-5.3</b>	<b>98.7</b>	<b>110.8</b>	<b>147.8</b>	<b>202.7</b>	<b>171.3</b>	<b>197.4</b>	<b>209.0</b>	<b>215.0</b>

**Table 15: "High Debt" Alternative Skye Resources Balance Sheet (US \$ Mil.)**

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cash	75.3	119	577	123	-12	82	188	-14	183	345	32	231	436
Receivables	0.8	1	1	1	23	42	43	50	50	44	45	44	44
Inventory				14	22	42	43	50	50	44	45	44	44
Prepays and other	0.5	0	0	0	2	2	2	2	2	2	2	2	2
<b>Total Current Assets</b>	<b>76.6</b>	<b>120</b>	<b>578</b>	<b>138</b>	<b>35</b>	<b>169</b>	<b>275</b>	<b>87</b>	<b>285</b>	<b>435</b>	<b>124</b>	<b>321</b>	<b>527</b>
PPE per GAAP	9.3	44	369	693	732	685	639	637	590	549	507	466	424
Non-GAAP PPE Inco 197	150.0	150	150	150	150	150	150	150	150	150	150	150	150
Cap. Int. and Fees			151	250	299	288	277	266	255	244	233	222	211
<b>Total Non-GAAP Assets</b>	<b>235.9</b>	<b>314.0</b>	<b>1247.7</b>	<b>1231.4</b>	<b>1216.1</b>	<b>1292.1</b>	<b>1340.8</b>	<b>1139.8</b>	<b>1280.8</b>	<b>1378.2</b>	<b>1014.0</b>	<b>1158.8</b>	<b>1312.3</b>
Current payables	3.9	5	3	2	4	47	50	68	73	66	71	73	78
Debt			800	800	800	800	800	500	500	500	0	0	0
Lease	0.2	0	1	1	1	1	1	1	1	1	1	1	1
Reclamation	0.5	0	1	1	1	1	2	2	2	2	2	2	2
Other-Long-term liabilities						1	1	1	1	1	1	1	1
Non-GAAP "sweat equity"	150.0	150	150	150	150	150	150	150	150	150	150	150	150
Convertible Equity			100	100	100	0	0	0	0	0	0	0	0
Shareholders Equity	81.2	159	192	177	160	292	336	418	554	658	789	932	1080
<b>Total Non-GAAP Liabilities</b>	<b>235.9</b>	<b>314.0</b>	<b>1247.7</b>	<b>1231.4</b>	<b>1216.1</b>	<b>1292.1</b>	<b>1340.8</b>	<b>1139.8</b>	<b>1280.8</b>	<b>1378.2</b>	<b>1014.0</b>	<b>1158.8</b>	<b>1312.3</b>

Sources: Skye Resources, Hatch and JTVIR, LLC Estimates

Cash balances in the "high debt" alternative models would rise to \$231 mm in 2017 and \$436 mm in 2018 after debt repayment. It is an impressive approach, but involves too little robustness at a \$6 or per pound nickel price "stress test" in our opinion. Our "\$6 Ni Low Price" simulations (tables 5-8) were already very unattractive at a \$600 million 11% bond alternative without increasing the interest expense by \$30 mm in the \$800 mm 12% bond alternative scenario.

## RECOMMENDATION OF THE BASIS OF OPERATIONS, NOT TAKEOVER

We have approached Skye Resources as though it executes the Hatch capital and recent financing plans. It appears able to pay its obligations to Vale, Duke Power, the Hatch capital budget and the costs of a \$900 mm financing assuming a convertible indeed converts in some future period in which nickel markets or stock markets are buoyant.

We do not value Skye Resources as though it changes its business plan, but such a circumstance is possible. A 50% joint venture with another mid-sized mining company

or entrepreneur might be a much better approach. Mercator Minerals, which recently was outbid for Tyler Resources, might be looking for a project. John Correnti, who is “divorcing” his Russian partner Severstal, or Steel Dynamics might be good partners as well. A 50% joint venture partner that would assume 50% of the debt and 50% of the financing might be a better approach than a \$300 mm convertible that would increase shares outstanding by itself nearly 40%.

We do not value Skye Resources on the basis of a takeover, but clearly that remains a possibility. We have great respect for the basic 5 mmt or upwards of 11 billion pounds of contained nickel resource.

#### POWER PLANT BETTER FARMED OUT

We do not expect that Skye Resources ever will need to spend \$360 mm to build its own electric power plant. We expect that some entrepreneur eventually will build a coal-fired plant with costs near \$0.06 per kwh able to sell power delivered to Skye near \$0.10 per kwh, or the \$93 mm annual charge cited in the September 2007 Hatch study, for which that supplier may enjoy a very nice profit.

#### EXPANSION OPPORTUNITIES

After the basic projects get off the ground, many opportunities for expansion and enhancement exist at Skye Resources. These include exploration for which we have estimated 50 mmt at 1.25% ni or 2 of the 11 billion pounds we estimate in situ, direct shipping ores from Montufar to the southeast, electric arc furnace output perhaps 25% more than expected from the initial 18 meter electric arc furnace, installation of a second electric arc furnace, a \$1 billion hydromet plant to process limonite ores or a sulphation atmospheric leach plant to process limonite ores.

The Montufar direct shipping, hydromet and sulphation atmospheric leach alternatives apply both to saprolite and limonite ores.

We want to stress that more upsides exist, and that our simulations or the first five year business plans of Skye do not capture the full potential of the resource in place.

#### ORE GRADE AND FURNACE THROUGHPUT UPSIDES TO ANY SCENARIO

Two upside opportunities, high grading or greater than design capacity furnace throughput, could create better returns via higher revenue. We modeled 1.8% grades in the first three full years, and then 1.63% reserve grades. It is possible that several years of output might be defined and scheduled with grades of 2% or slightly better.

It is also possible that the furnace retention time is less than 60 minute cycles, or 124 tonnes per hour throughput. Management has made no indication of this. However, U.S. steel minimill companies operate such furnaces to melt steels from 90% pure scrap in as

little as 33 to 36 minute cycles in which 25-26 minutes are “power on” and 8-10 minutes involve loading cold scrap or tapping the molten steel.

## BEHAVIOR OF SAPROLITIC ORE IN ELECTRIC ARC FURNACE AND LADLE METALLURGY STATION

The saprolite ores commonly are 15%-20% iron, 1.63% ni, 20% MgO, 35% SiO<sub>2</sub> and have minor amounts of 1% chrome, 1% manganese, 2%-4% alumina and 10% or more of other elements. The oxides escape as off-gas, and the magnesium, silica, iron, alumina and other materials report to the slag.

The “product” is roughly 35% ni and 65% iron. In other words, about 3%-4% of the ore reports as iron to the ferronickel and 12%-16% reports as iron to the slag.

## LIMONITIC ORES NOT COMMONLY TREATED IN ELECTRIC ARC FURNACES, AND HYDROMET OR SULPHATION ATMOSPHERIC LEACH CONSIDERED

The limonitic ores are 40%-50% iron, and about 1.1% nickel. This higher iron content more closely resembles an electric arc steel furnace refining a lower grade direct reduced iron or iron ore. However, the eight locations worldwide that use electric arc furnaces to make ferronickel each process the deeper saprolitic and not limonitic ores.

Three considerations discourage electric arc furnace treatment of limonitic ores. First, they cannot recover the 0.1% cobalt content common to limonites, and today 2 pounds of cobalt are worth over \$85 per tonne of ore and at long-term oversupplied prices of \$7 per pound of cobalt even \$14 per tonne is meaningful funds.

Second, the 1:40-50 ratio of nickel-to-iron creates a “low grade ferronickel” much lower than the 35% nickel content targeted in the saprolitic ferronickel product. Nickel miners “disdain” selling low grade products suitable only to light alloy 1% ni, 4% ni alloy 201 or 8% ni alloy 304 stainless. Any failure to make a 12% ferronickel grade drops the available market considerably.

Third, the high ratio of magnesium to silica, near 0.6 (20% MgO divided by 35% SiO<sub>2</sub>), erodes furnace refractories with limonites. Saprolitic ores nearer to a 0.22 ratio (2% MgO divided by 7% SiO<sub>2</sub>) do not wear out furnace refractory brick as much. Furnace wear represents both a maintenance cost and a capacity loss when the reline occurs. Further, the limonite ores contain one-third less nickel. For these reasons limonite refining in electric arc furnaces has a reputation as “high cost.”

Historically high nickel prices may permit such a cost to be justified, if nickel is sufficiently elevated. Further, a “standby” electric arc vessel might cost \$75 mm or less to have on hand, while a hydromet plant might cost \$1.0 billion.

We are not convinced that any one of these three processing options are clear cut choices, or that any of the three should be rejected outright. Plenty of time remains to evaluate the best way to treat limonite ores or spend the second billion dollars of capital.

#### FINE RELATIONS WITH GUATEMALAN CENTRAL GOVERNMENT AND LOCAL VILLAGES

The Guatemalan Director General of the ministry of mines praised Skye Resources at length in a meeting with us. He emphasized it has all permits, owns all mining rights and has the ability to renew its 25 year mineral agreement if needed. The praise of Skye Resources was excessive, and no mention of CVRD Inco was made. The man spoke as though Inco's property rights in Guatemala already had been cancelled or as though there was no patience with Inco's decisions to cease operations after 1980.

We met three community leaders from nearby villages. The project and company enjoy broad based support. One spoke Spanish and two spoke Q'eqchi', the Mayan language of 91% of the surrounding population. They look forward to jobs, hospitals, schools and economic growth. Only 3 of 22 nearby villages have electricity, and the running of power lines and third party vendor construction of power generating to support Skye's electric arc furnace will greatly improve standards of living.

Skye has been superb in bonding with individual families on a grass roots level. Government officials traditionally are of European origin, and in many Latin countries are not attuned to the views of Native Indians. Newmont has Inca neighbors that speak Quecchia, Goldcorp's Marlin gold mine in Guatemala's western highlands has Mayans that speak "Mam," and Skye's fine managers have adapted spelndindly to the Mayan culture.

We are comfortable with Guatemala and the Lake Izabal eastern region.

#### CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

#### DISCLOSURES

"John Tumazos Very Independent Research, LLC" (JTVIR) is a Delaware Corporation formed July 6, 2007 with registration effective on August 27, 2007 as an investment advisor in the state of New Jersey owing to our place of business in New Jersey.

JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Except for Temple-Inland, Duluth Metals, Polymet Mining, Quadra Resources, Niger Uranium and Canyon Resources, neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report or any reports we have published recently. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross

Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and Grupo Imsa and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thypin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

#### **ANALYST UNIVERSE COVERAGE:**

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec, Alcan and Bowater are companies not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to takeovers.

Subsequently, since September 2007 JTVIR, LLC has initiated coverage of new companies not previously covered in the former universe. These new companies include TeckCominco, Skye Resources, General Moly, Inc., Duluth Metals, Polymet Mining, Franconia Minerals, CVRD and Century Aluminum.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of “Overweight,” “Neutral Weight,” and “Underweight” most closely correspond with the more traditional ratings of “Buy,” “Hold,” and “Sell,” respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor’s decision to buy or sell a security should always take into account, among other things, that the investor’s particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

## **Price Target – Methods/Risks**

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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