



**First Quarter Report**  
*For the Period Ended February 28, 2007*

The consolidated financial statements for the three-month period ended February 28, 2007 and 2006 have not been reviewed by the Company's auditors. This notice is being provided in accordance with National Instrument 51-102 Continuous Disclosure Obligations.



# First Quarter Report

## CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

Unaudited – Prepared by Management

	<i>Three Months Ended</i>	
	February 28, 2007	February 28, 2006
<b>ADMINISTRATIVE EXPENSES:</b>		
Amortization	\$ 63,071	\$ 59,616
Consulting	65,100	46,450
General corporate	16,109	14,072
Investor relations (Note 9)	102,384	27,099
Professional fees	10,984	5,933
Rent	12,959	12,833
Salaries and benefits	44,400	36,026
Stock based compensation	318,751	-
Telephone	1,445	1,806
Transfer agent and filing fees	2,185	1,069
Travel	1,878	2,111
	<b>639,266</b>	<b>207,015</b>
<b>OTHER EXPENSES (INCOME)</b>		
Foreign exchange loss	(415)	728
Interest and penalties	8,666	2,293
Interest income	(34,664)	(2,853)
	<b>(26,413)</b>	<b>168</b>
<b>LOSS BEFORE INCOME TAXES</b>	<b>(612,853)</b>	<b>(207,183)</b>
<b>INCOME TAX RECOVERY</b>	<b>1,296,389</b>	<b>1,143,409</b>
<b>NET EARNINGS (LOSS) FOR THE PERIOD</b>	<b>683,536</b>	<b>936,226</b>
<b>RENOUNCEMENT OF TAX DEDUCTIBILITY RELATING TO FLOW-THROUGH SHARES</b>	<b>(1,296,389)</b>	<b>(1,143,409)</b>
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(20,897,298)</b>	<b>(18,732,854)</b>
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (21,510,151)</b>	<b>\$ (18,940,037)</b>
<b>EARNINGS (LOSS) PER SHARE</b>		
Basic	<b>\$ 0.00</b>	<b>\$ 0.01</b>
Diluted	<b>\$ 0.00</b>	<b>\$ 0.01</b>
<b>Weighted Average Number of Shares Outstanding</b>		
Basic	<b>120,128,460</b>	<b>72,947,970</b>
Diluted	<b>152,759,003</b>	<b>88,032,803</b>



# First Quarter Report

## CONSOLIDATED BALANCE SHEET

Unaudited – Prepared by Management

ASSETS	<i>As at</i>	
	February 28 2007 (Unaudited)	November 30, 2006 (Audited)
<b>CURRENT</b>		
Cash and cash equivalents	\$ 4,100,095	\$ 2,963,569
Amounts receivable	75,233	303,678
Inventory (Note 3)	196,039	285,430
Prepaid expenses and advances	292,528	117,656
	<b>4,663,895</b>	<b>3,670,333</b>
DEPOSITS (Note 4)	362,000	412,000
FIXED ASSETS, net of accumulated amortization (Note 5)	951,440	911,590
EXPLORATION PROPERTIES (Note 6)	25,103,394	23,781,214
	<b>\$ 31,080,729</b>	<b>\$ 28,775,137</b>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 317,976	\$ 341,860
ASSET RETIREMENT OBLIGATION	115,000	115,000
	<b>432,976</b>	<b>456,860</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b>		
Common shares (Unlimited, without par value) (Note 7)		
Issued 122,067,299 (November 30, 2006 – 114,999,799)	49,965,391	47,331,988
CONTRIBUTED SURPLUS (Note 7(d))	2,192,513	1,883,587
DEFICIT	(21,510,151)	(20,897,298)
	<b>30,647,753</b>	<b>28,318,277</b>
	<b>\$ 31,080,729</b>	<b>\$ 28,775,137</b>

GOING CONCERN (Note 1)

Approved by the Directors:

David R. Webb, Director

Roger G. Sylvestre, Director



# First Quarter Report

## CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited – Prepared by Management

	<i>Three Months Ended</i>	
	<b>February 28, 2007</b>	<b>February 28, 2006</b>
<b>OPERATING ACTIVITIES</b>		
Net earnings (loss)	\$ 683,536	\$ 936,226
Add (deduct) items not affecting cash -		
Amortization	63,071	59,616
Income tax recovery	(1,296,389)	(1,143,409)
Stock-based compensation	318,751	-
	<u>(231,031)</u>	<u>(147,567)</u>
Changes in non-cash operating working capital		
Accounts receivable	228,445	(5,068)
Inventory	89,391	-
Prepaid expenses and advances	(174,872)	87,577
Accounts payable and accrued liabilities	(23,884)	(685,333)
	<u>(111,951)</u>	<u>(750,391)</u>
<b>INVESTING ACTIVITIES</b>		
Deposits	50,000	-
Purchase of fixed assets	(102,921)	(4,975)
Additions to exploration properties	(1,268,376)	(655,074)
Acquisition of exploration properties	(43,604)	-
	<u>(1,364,901)</u>	<u>(660,049)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares and share subscriptions, net of issue costs for		
Private placements	1,785,235	2,165,289
Stock options	21,000	-
Warrants	807,143	-
	<u>2,613,378</u>	<u>2,165,289</u>
<b>(DECREASE) INCREASE IN CASH</b>	<b>1,136,526</b>	<b>754,849</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>2,963,569</b>	<b>778,520</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 4,100,095</b>	<b>\$ 1,533,369</b>
Cash and cash equivalents is comprised of the following:		
Cash	\$ 1,053,122	\$ 1,533,369
Term deposits	3,046,973	-
	<u>\$ 4,100,095</u>	<u>\$ 1,533,369</u>
<b>Supplementary Cash Flow Information</b>		
Non-cash financing activity:		
Issuance of common shares in exchange for services	\$ -	\$ 60,000
Issuance of common shares for acquisition of mineral property	10,200	14,350



# First Quarter Report

## 1. GOING CONCERN

Tyhee Development Corp. (the “Company”) is an advanced exploration enterprise with no ongoing revenues. The Company is in the process of exploring its various mineral properties.

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company’s ability to proceed with the next planned phase of the project and to continue as a going concern is dependent upon its ability to attract significant cash investments and ultimately upon attaining future profitable operations.

If the going concern basis was not appropriate for these financial statements, then significant adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications.

## 2. ACCOUNTING POLICIES

These unaudited consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles. These financial statements follow the same accounting policies and methods of application as the most recent annual consolidated financial statements dated November 30, 2006. For further information, refer to the audited consolidated financial statements and notes thereto included in the Company’s annual consolidated financial statements for the year ended November 30, 2006.

Certain of the prior years’ figures have been reclassified to conform to the current year presentation.

### New Accounting Pronouncements

In January 2005, the Canadian Institute of Chartered Accountants issued four new accounting standards effective for financial statements relating to fiscal years beginning on or after October 1, 2006. These new accounting standards relate to Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges. The Company has adopted these standards for fiscal and interim periods beginning December 1, 2006.

## 3. INVENTORY

	<u>February 28, 2007</u>	<u>November 30, 2006</u> (Audited)
At Cost	\$ 196,039	\$ 285,430

At February 28, 2007, the inventory consists of diesel, gasoline and propane that will be charged to exploration properties on a monthly basis, based on consumption.



# First Quarter Report

## 4. DEPOSITS

	<u>February 28, 2007</u>	<u>November 30, 2006</u> (Audited)
Mackenzie Valley Land and Water Board	\$ 362,000	\$ 412,000

Security deposits totalling \$362,000 have been posted with the Mackenzie Valley Land and Water Board for a water license and land use permits on the Yellowknife Gold Project.

## 5. FIXED ASSETS

	<u>February 28, 2007</u>			<u>November 30, 2006</u> (Audited)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automobiles	\$ 251,420	\$ (101,864)	\$ 149,556	\$ 92,441
Boats and canoes	14,465	(6,603)	7,862	8,168
Camp Facilities	328,814	(96,249)	232,564	328,814
Computer/electronic equipment	91,579	(55,408)	36,171	36,875
Data network infrastructure	33,537	(17,158)	16,378	17,706
Leasehold improvements	3,120	(607)	2,513	2,773
Mining equipment	711,282	(216,058)	495,224	413,670
Office furniture	43,581	(32,410)	11,171	11,143
	<b>\$ 1,477,797</b>	<b>\$ (526,357)</b>	<b>\$ 951,440</b>	<b>\$ 911,590</b>

## 6. EXPLORATION PROPERTIES

	(i) Yellowknife Gold Project	(ii) Longtom Property	(iii) Big Sky Property	(iv) Goodwin Lake Property	(v) Clan Lake Property	(vi) Other Properties	<b>Total</b>
	\$	\$	\$	\$	\$	\$	\$
Acquisition	649,655	127,438	27,758	19,176	-	-	824,027
Exploration	22,737,484	187,562	30,316	-	-	1,825	22,957,187
Balance, November 30, 2006	23,387,139	315,000	58,074	19,176	-	1,825	23,781,214
<b>Additions</b>							
Acquisition	-	-	36,037	1,432	16,335	-	53,804
Exploration							
Assaying/Preparation	240,323	-	-	-	-	-	240,323
Camp Costs	130,431	-	-	-	-	-	130,431
Drilling	446,218	-	-	-	-	-	446,218
Equipment Rentals/Repairs	17,164	-	-	-	-	-	17,164
Environmental	38,168	-	-	-	-	-	38,168
Flights/Travel	51,670	-	-	-	-	-	51,670
Geology	107,274	-	-	-	-	-	107,274
Project Management	91,202	-	3,600	3,600	7,200	-	105,602
Property holding costs	10,289	-	-	-	-	-	10,289
Supplies (Operating)	94,017	-	-	-	-	-	94,017
Reports	27,220	-	-	-	-	-	27,220
	1,253,976	-	3,600	3,600	7,200	-	1,268,376
<b>Acquisition</b>	<b>649,655</b>	<b>127,438</b>	<b>63,795</b>	<b>20,608</b>	<b>16,335</b>	<b>-</b>	<b>877,831</b>
<b>Exploration</b>	<b>23,991,460</b>	<b>187,562</b>	<b>33,916</b>	<b>3,600</b>	<b>7,200</b>	<b>1,825</b>	<b>24,225,563</b>
<b>Balance, February 28, 2007</b>	<b>24,641,115</b>	<b>315,000</b>	<b>97,711</b>	<b>24,208</b>	<b>23,535</b>	<b>1,825</b>	<b>25,103,394</b>

(i) *The Yellowknife Gold Project*

The Company has a 100% interest in the Yellowknife Gold Project (the Company's primary focus) that consists of:

The Discovery Mine and Nicholas Lake properties. These two properties were purchased in 2001 and have a net smelter royalty payable to a director of the Company.

The properties are located 90 km north of Yellowknife, Northwest Territories, Canada.

## 6. EXPLORATION PROPERTIES (Continued)

### (ii) *Longtom Property*

The Company has a 50% ownership interest in the Longtom Property, which is located in the Northwest Territories, Canada. The other 50% was sold to Alberta Star Development Corp. for \$315,000 in 2002. The Longtom Property is comprised of the DAMP mining lease and encompasses the Damp Zone hosting mineralization and is equipped with existing camp facilities. It is registered in the name of Alberta Star Development Corp. ("Alberta Star"). To purchase the Company's 50% interest in the Longtom Property, Alberta Star must pay the purchase price of \$315,000 on the date which is the earlier of: 1) within 90 days from the date it has incurred \$5,000,000 in exploration expenditures on the Longtom Property; or 2) at the date Alberta Star advises the Company in writing that it will complete the purchase of the Company's 50% interest in the Property (Notice Date). At February 28, 2007, the Notice Date had not been triggered. The purchase price may be paid in cash or 50% in cash and 50% in common shares of Alberta Star.

### (iii) *BigSky Property*

The BigSky property is located 17 km north of Yellowknife, Northwest Territories. The Company staked 21 claims covering 7,576.1 hectares (18,721 acres) comprising the BigSky Property in fiscal 2006 for total acquisition costs approximating \$40,000. During the current quarter, two additional claim groups (the "Ken claims" and "Blue Claims") were added to this property. The Ken claims, covering 193 hectares (477 acres) were acquired for \$13,500 with a 2% net smelter royalty, one half of which can be purchased by the Company for \$500,000 at any time. The Company entered into a property option agreement to acquire the Blue claims covering 588 hectares (1,453 acres) with an arms-length Yellowknife businessman (the "Optionor") on January 15, 2007. The consideration payable is 60,000 common shares. The optionor retains a 2% net smelter return royalty, of which one-half may be purchased for \$500,000. The Company received TSX Venture Exchange acceptance of the agreement on February 12, 2007 and issued the first 20,000 shares at \$0.51 per share for a gross value of \$10,200 on February 14, 2007. An additional 20,000 shares are payable on or before February 12, 2008 and the final 20,000 shares are payable on or before February 12, 2009.

### (iv) *Goodwin Lake Property*

The Company optioned three mineral claims in November 2006 (Goodwin Lake Property) from an arms-length, Yellowknife-based prospector for 85,000 shares payable over two years and a 2% net smelter return royalty, half of which may be purchased by the Company for \$1 million. The property is located 60 km north of Yellowknife, Northwest Territories, Canada and covers approximately 459.8 hectares (1136.3 acres).

Upon TSX Venture Exchange acceptance of the agreement, on November 15, 2006, 35,000 shares at \$0.41 per share for a gross value of \$14,350, had been issued in accordance with the terms of the property option agreement. An additional 25,000 shares are payable on or before November 14, 2007 and the final 25,000 shares are payable on or before November 14, 2008. In the current quarter, the Company added another claim that will become part of the Goodwin

## 6. EXPLORATION PROPERTIES (Continued)

Lake Property Option agreement. Staking costs will be paid to the prospector; no other payments are required.

### (v) *Clan Lake Property*

The Company staked the Clan Lake property during the current quarter. The Clan Lake property is located 21 km north of the BigSky Property and 50 km north of the city of Yellowknife, Northwest Territories, Canada. It is comprised of mineral claims totalling approximately 2,370 hectares (5,850 acres). At February 28, 2007, the costs of staking this property totalled \$16,335.

### (vi) *Other Properties*

The Company has incurred an additional \$1,825 on exploration expenditures to assess other potential targets in the Yellowknife area.

## 7. SHARE CAPITAL

	<u>Number</u>	<u>Amount</u>
Balance, November 30, 2006	114,999,799	\$ 47,331,988
Issued during the year		
For cash - private placements	3,650,000	1,785,235
- exercise of warrants	3,297,500	807,143
- exercise of options	100,000	30,825
For services - mineral properties	20,000	10,200
<b>Balance, February 28, 2007</b>	<b>122,067,299</b>	<b>\$ 49,965,391</b>

### (a) *Private placements*

On December 21, 2006, the Company issued a total of 3,650,000 units at a price of \$0.55 for gross proceeds of \$2,007,500. Each unit consists of one common share, which has been designated as a flow through share and one half of one common share purchase warrant. Each whole warrant is exercisable to acquire a further common share on or before December 21, 2007 at \$0.65 per share. The agent received (i) a cash commission of \$132,055 and (ii) warrants to acquire up to 255,500 common shares at a price of \$0.51 per share for a period of twelve months expiring December 21, 2007. David Webb, President and CEO participated in this private placement for 50,000 units.

	<u>Number of Units</u>	<u>Proceeds</u>
December 21, 2006	3,650,000	\$ 2,007,500
Less: Share issue costs	-	(222,265)
	<b>3,650,000</b>	<b>\$ 1,785,235</b>

## 7. SHARE CAPITAL (continued)

### (b) Share purchase warrants

Share purchase warrants outstanding at February 28, 2007 are as follows:

Number of warrants	Class of shares	Expiry date	Exercise price
6,743,790	Common	March 31, 2007	0.50
*1,633,667 <sup>(1)</sup>	Common	December 1, 2007	0.15
5,000,000	Common	December 1, 2007	0.15
*165,000 <sup>(1)</sup>	Common	December 13, 2007	0.15
2,750,000	Common	December 21, 2007	0.45
1,825,000	Common	December 21, 2007	0.65
255,500	Common	December 21, 2007	0.51
1,583,500	Common	January 7, 2008	0.50
2,418,000	Common	January 13, 2008	0.45
226,312	Common	January 17, 2008	0.45
600,000	Common	January 31, 2008	0.30
8,646,352	Common	March 8, 2008	0.28
1,821,712	Common	April 13, 2008	0.28
<b>33,668,833</b>			

\*See subsequent events – Note 12

- (1) The Company may accelerate the expiry date if, for any ten consecutive trading days after December 1, 2005, the closing price of the Common Shares of the Company on the TSX Venture Exchange is equal to or greater than \$0.25 for 10 or more consecutive trading days, the Company shall have the right to accelerate the expiry of the warrants to such date that is not less than 30 days from the date on which the notice of the acceleration of the expiry date is sent by the Company to the warrant holder.

Warrants outstanding at November 30, 2006	34,885,833
Warrants issued during the three months ended February 28, 2007	2,080,500
Warrants exercised during the three months ended February 28, 2007	(3,297,500)
Warrants expired/cancelled during the three months ended February 28, 2007	-
<b>Warrants outstanding at February 28, 2007</b>	<b>33,668,833</b>

The fair value of the 1,825,000 warrants and the 255,500 broker compensation warrants issued with the private placement on December 21, 2006 were estimated at \$269,357 and \$49,394 respectively, using the Black-Scholes pricing model. The following assumptions were used: risk-free rate – 3.98%; expected volatility – 80%; dividend yield – Nil; and an expected life of one year.



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## 7. SHARE CAPITAL (Continued)

### (c) Stock options

At February 28, 2007, the following stock options were outstanding and exercisable:

<u>Date of grant</u>	<u>Number of shares</u>	<u>Exercise price</u>	<u>Expiry date</u>
May 22, 2002	189,100	\$ 0.52	May 22, 2007
July 31, 2002	147,500	0.50	July 31, 2007
September 29, 2003	469,000	0.60	September 29, 2008
February 6, 2004	150,000	0.50	February 6, 2009
September 3, 2004	780,000	0.38	September 3, 2009
March 2, 2005	1,393,000	0.45	March 2, 2010
May 16, 2005	190,000	0.33	May 16, 2010
March 21, 2006	4,206,500	0.21	March 21, 2011
May 1, 2006	250,000	0.34	May 1, 2011
May 1, 2006	500,000	0.35	May 1, 2011
October 25, 2006	2,050,000	0.42	October 25, 2011
October 25, 2006	50,000	0.50	October 25, 2011
	<b>10,375,100</b>		

	<u>Shares</u>	<u>Weighted-average exercise price</u>
Outstanding, November 30, 2006	<b>10,475,100</b>	<b>\$ 0.34</b>
Exercised	<b>(100,000)</b>	<b>0.21</b>
Outstanding, February 28, 2007	<b>10,375,100</b>	<b>\$ 0.34</b>

At February 28, 2007, the average remaining contractual life was 3.65 years (November 30, 2006 - 3.90 years).

### (d) Contributed Surplus

Balance, November 30, 2006	\$ 1,883,587
Fair value of warrants issued during the quarter	318,751
Fair value of options exercised during the quarter	(9,825)
<b>Balance, February 28, 2007</b>	<b>\$ 2,192,513</b>



# First Quarter Report

## 8. RELATED PARTY TRANSACTIONS

- (i) Related party transactions, measured at the exchange amount, with a director and companies controlled by directors for the three months ended February 28, 2007:

	<u>February 28, 2007</u>	<u>February 28, 2006</u>
Consulting fees		
Roger's Drilling Services Inc. ("RDS")	\$ 33,000	\$ 25,500
DRW Geological Consultants Ltd. ("DRW")	36,000	28,500
	<u>\$ 69,000</u>	<u>\$ 54,000</u>

An amount of \$32,100 has been recorded as consulting fees; the balance of fees relating to RDS and DRW have been charged to exploration properties for time spent managing operations, administration and review of properties.

- (ii) The following transactions were also included in the financial statements for the three months ended February 28, 2007:

- an amount of \$18,000 (at February 28, 2006: \$15,000) was paid in consulting fees to an officer of the Company.
- an amount of \$45,489 (at February 28, 2006: \$18,455) was paid or accrued in legal fees to a legal firm of which an associate is an officer of the Company.
- of the 3,650,000 units issued on December 21, 2006 at a price of \$0.55 per unit, David R. Webb, President and CEO of the Company, purchased 50,000 units.

- (iii)

Directors' fees (included in salaries and benefits)

Dave Nickerson	\$ 3,000
William D. Burton	3,000
Denis M. Taschuk	3,000
	<u>\$ 9,000</u>



# First Quarter Report

## 9. INVESTOR RELATIONS

	2007	2006
	February 28	February 28
Advertising	\$ 4,129	\$ 1,844
Consultants' fees and expenses	35,115	-
Courier and postage	61	188
Materials	8,112	317
Meals and entertainment	3,463	2,103
News releases	3,897	581
Shows and conventions	22,871	8,084
Subscriptions and dues	397	1,242
Telephone	1,663	1,778
Travel	22,676	10,962
	<b>\$ 102,384</b>	<b>\$ 27,099</b>

## 10. COMMITMENTS

- (a) The Company entered into a lease agreement for head office premises for a term of five years ending May 31, 2006. On June 1, 2005, the Company renewed and amended the lease agreement for a further term of three years ending May 31, 2009. The aggregate minimum future annual rentals under the lease for years ended November 30, including utilities, are as follows:

2007	41,247
2008	54,996
2009	54,996

- (b) Annual lease payments of \$15,650 are required to keep the Company's mining properties for the Yellowknife Gold Project in good standing.
- (c) A non-refundable advance net smelter royalty of US\$20,000 is payable yearly, as described in Note 6(i).
- (d) Future share issuances are required in accordance with property option agreements entered into relating to the BigSky and Goodwin properties (Note 6(iii) and 6(iv)).

## 11. GUARANTEES

Guarantees the Company has provided to third parties are as follows:

- (a) The Company entered into indemnity agreements with its directors/officers. Under the agreements, the Company will indemnify and save harmless the indemnitee from and against any and all claims, proceedings, whether civil, criminal, quasi-criminal or administrative, of every nature and kind whatsoever made or brought at any time against the indemnitee by reason that the indemnitee is or was a director of the Company or a subsidiary provided that, at all relevant times, the indemnitee acted honestly and in good faith with a view to the best interests of the Company and, in the case of a criminal or administrative action or proceeding, had reasonable grounds for believing that the indemnitee's conduct was lawful.
- (b) The Company also entered into flow through subscription agreements with subscribers in which the Company agreed to indemnify and save the subscriber harmless for the full amount of any additional tax payable by the subscriber under the Income Tax Act or the laws of any province of Canada as a consequence of any failure of the Company to renounce an amount to the subscriber as required under the agreement.

## 12. SUBSEQUENT EVENTS

On March 31, 2007, 6,743,790 unexercised warrants issued at an exercise price of \$0.50, expired.

Subsequent to quarter end, a total of 5,050,000 warrants with an exercise price of \$0.15 and an expiration date of December 1, 2007, were exercised for gross proceeds of \$757,500.



# First Quarter Report

## MANAGEMENT DISCUSSION AND ANALYSIS

February 28, 2007

The following is a discussion and analysis of the consolidated financial condition and operating results of Tyhee Development Corp. (the "Company") for the quarter ended February 28, 2007.

Some of the statements set forth are forward-looking statements relating to the Company's expected future operating results based on the information available to the Company at April 20, 2007. These forward-looking statements are subject to a variety of risks, uncertainties and other factors including, but not limited to, changes in government legislation, regulations and corporate assumptions. The actual results may vary from the results anticipated in these statements. The effective date of this report is April 20, 2007.

### Description of Business

Tyhee Development Corp. is an advanced exploration company that trades on the TSX Venture Exchange under the symbol TDC. The Company is a reporting issuer in British Columbia, Alberta and Ontario. Its focus is the exploration and development of mineral resource properties, located in politically and socially stable environments, where there is a reasonable expectation of identifying a world-class deposit. The Company strives to increase shareholder value by advancing projects in a manner that optimizes the potential of a property while minimizing costs.

All properties and licenses are owned by Tyhee NWT Corp., a wholly-owned subsidiary of Tyhee Development Corp.

### Yellowknife Gold Project

The Yellowknife Gold Project is located 90 kilometres north of Yellowknife, Northwest Territories, Canada and consists of two, 100% owned properties, the Discovery Mine Property and the Nicholas Lake Property. Both properties were purchased in 2001 for cash and royalties. The properties remain subject to a net smelter royalty held by a director and officer of the Company. In fiscal 2006, a new 349.1 hectare claim was staked and added to the existing leases on the Yellowknife Gold Project.

A total resource, for the Yellowknife Gold Project, of 7.26 million tonnes (measured and indicated) grading 3.99 grams of gold per tonne containing 932,000 ounces of gold at a cut-off of 1.25 grams per tonne was reported on December 21, 2006. An additional 4.49 million tonnes is estimated as an inferred resource, grading 3.42 grams per tonne gold containing 493,000 ounces of gold. The gold resource was calculated by independent consultants in compliance with National Instrument 43-101. Insufficient engineering work has been completed to determine whether the resource is economically mineable and if so, which would be the best method of extraction. An economic evaluation, is currently underway that may incorporate some of the inferred resource, and therefore must be referred to as a preliminary economic assessment under National Instrument 43-101.

## MANAGEMENT DISCUSSION AND ANALYSIS

February 28, 2007

### Gold Resource

#### Yellowknife Gold Project

Resource Category	Ormsby Zone	Nicholas Main Zone	Bruce Zone	West Zone	Total Resource
<b>Measured</b>					
Tonnes	2,477,000	96,000			<b>2,573,000</b>
Grade, Gold gpt	3.20	8.60			<b>3.41</b>
Ounces, Gold	255,000	27,000			<b>282,000</b>
<b>Indicated</b>					
Tonnes	3,417,000	1,013,000		255,000	<b>4,685,000</b>
Grade, Gold gpt	3.74	6.70		2.66	<b>4.31</b>
Ounces, Gold	410,000	218,000		22,000	<b>650,000</b>
<b>Measured and Indicated</b>					
Tonnes	5,894,000	1,109,000		255,000	<b>7,258,000</b>
Grade, Gold gpt	3.51	6.87		2.66	<b>3.99</b>
Ounces, Gold	665,000	245,000		22,000	<b>932,000</b>
<b>Inferred</b>					
Tonnes	3,233,000	554,000	244,000	458,000	<b>4,489,000</b>
Grade, Gold gpt	3.11	5.57	4.77	2.32	<b>3.42</b>
Ounces, Gold	323,000	99,000	37,000	34,000	<b>493,000</b>

*Pratico (2007) (announced December 2006) determined the Ormsby, Bruce and West Zone resources using an ID<sup>2</sup> estimate with a 1.25 grams per tonne cut-off and 60 grams per tonne cap. The search ellipsoid has dimensions of 30, 60, and 90 metres to estimate 5 metre<sup>3</sup> blocks. The Nicholas Lake Main Zone resource is reported by Dupre and Giroux (2003) and restated by Bullis et al. (2006). Estimation is by ordinary kriging, using a 2.5 grams per tonne cut-off and a 96 grams per tonne cap. Thirteen veins are modeled using 20 x 20 metre blocks and true widths or a minimum width of 1.5 metres. The dilution grade is the average measured grade of the adjacent material for each vein.*

*The full National Instrument 43-101 report is available on [www.sedar.com](http://www.sedar.com)*

A revised resource estimate was prepared, reported on December 21, 2006, to accommodate additional diamond drill information and all previously reported data. The Company has concentrated its efforts on a potentially open pit mineable resource. Further revisions are expected from ongoing exploration and development work.

## MANAGEMENT DISCUSSION AND ANALYSIS

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### Gold Mineralization

A number of potentially economic gold zones are located on mining leases of the Yellowknife Gold Project. Past production of 1,023,575 ounces of gold from 1,018,786 tonnes of ore occurred from the Discovery Main Zone between 1949 and 1969. Mineralization remains open to depth below the shaft bottom at 1,235 metres. The Ormsby Zone, located two kilometres southwest of the Discovery Main Zone, was partially developed by Ormsby Mines Ltd. in the 1950's. The Company has been focusing its recent exploration in the area between the Ormsby Zone and the Discovery Main Zone. Additional exploration targets tested this year include the Typhoon Zone, north of the Discovery Main Zone. Gold mineralization also occurs at the Nicholas Lake Main Zone, eight kilometres northeast of the Ormsby Zone.

Exploration since the mid 1990's has focused on a different form of mineralization in the Ormsby Zone that had previously not been recognized. By December 1, 2006, approximately 424 diamond drillholes totalling more than 99,000 metres, exclusive of Nicholas Lake, had been completed since the mid 1990's, expanding the known resource on the properties.

Additional untested potential occurs to depth and along strike of the Ormsby and Nicholas Lake Main Zones where gold values have been found. Two underground exploration programs, one completed in December 2004 and the second completed in September 2005, on the Ormsby Zone exposed mineralization that improved the understanding of the geological and engineering characteristics.

A number of gold zones occur in the northern portion of the Yellowknife Gold Project, the most developed of which is referred to as the Nicholas Lake Main Zone. Additional mineralization is identified at the MacAskill Zone, the East Zone, and the Teapot Zone. The Nicholas Lake Main Zone was discovered in 1985 and has been partially developed to a depth of 90 metres below surface via a decline. Four veins have been subdrifted on, and a bulk sample of development muck is on surface.

Gold mineralization at the Ormsby Zone is found within a hydrothermal breccia, which occurs within the Discovery Shear Zone. This shear zone has been traced for over three kilometres across the properties. The brecciated metavolcanic rocks encompassing the quartz veins have been sulphidized, with the introduction of various concentrations of gold, carbonate, biotite, garnet, and sulphides. Individual mineralized domains are subparallel and may coalesce to form larger zones. Elsewhere in the Discovery Shear Zone, similar mineralization has been identified at the West Zone and Bruce Lake Zone.

Gold mineralization at the Nicholas Lake Main Zone occurs within auriferous quartz veins transecting metasedimentary or metaintrusive rocks. The Nicholas Main Zone hosts at least 15 auriferous quartz sulphide veins that range from approximately one metre to several metres in width, and 50 to 100 metres in length. In the current quarter, assay results received indicate that the intervening material between the quartz veins may be sufficiently mineralized and close together to support a bulk mineable target. Work has commenced to confirm this.



# First Quarter Report

## MANAGEMENT DISCUSSION AND ANALYSIS

February 28, 2007

### Quarter in Review

The Company is pleased with the progress to date on the Yellowknife Gold Project.

The Company continues to diamond drill from surface, and to work to identify resources outside of the established Ormsby Zone resource. The Company presently has two diamond drills operating on the property.

In the last fiscal quarter of 2006, the Company staked the BigSky Property located 17 kilometres north of Yellowknife, Northwest Territories, Canada consisting of 7,576 hectares. Acquisition costs and additional exploration work total \$97,711 at February 28, 2007. In the current quarter, the Company acquired two new claim groups contiguous with its BigSky Project. The Ken Claims have been acquired for \$13,500. The prospector retains a 2% net smelter royalty, one half of which may be purchased for \$500,000 at any time. The Blue Claims have been optioned from an arms-length Yellowknife-based prospector through the issuance of 60,000 shares payable over two years. The first 20,000 shares were issued at \$0.51 per share for a gross value of \$10,200 on February 14, 2007.

Four additional claims have been added to the Clan Lake Property by staking, bringing the total Clan Lake Property to 2,370 hectares with total acquisition and exploration costs totalling \$23,535 to date.

The Goodwin Lake Property (located 60 kilometres north of Yellowknife, Northwest Territories, Canada) was optioned in November 2006 for 85,000 common shares of the Company, payable over a two-year period for a gross value of \$34,850. In the current quarter, the Company added another claim that will become part of the Goodwin Lake Property option agreement. Staking costs will be paid; no other payments are required.

### Ongoing and Future Developments

The Company is working on a preliminary economic assessment to ascertain the economic potential of the established resource. Additional exploration and development is ongoing, with surface diamond drilling stepping out from the known resource.

The Company continues to focus on the potential of its existing claims, the acquisition of claims immediately adjacent to the Yellowknife Gold Project, and other properties in the Yellowknife Greenstone Belt. Additional opportunities for exploration and development are considered on a case by case basis.

### Changes in Management and Board

No changes at the management or board level have occurred in the first quarter.



# First Quarter Report

## MANAGEMENT DISCUSSION AND ANALYSIS

February 28, 2007

### Discussion of Operations and Financial Condition

#### Accounting Policies

The Company has adopted four new accounting standards, applied on a prospective basis for fiscal and interim periods beginning December 1, 2006. These new accounting standards relate to Handbook Section 1530, Comprehensive Income, Handbook Section 3251, Equity, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges.

#### Overall Performance and Results of Operations

The Company realized net income of \$683,536 during the three month period ended February 28, 2007 compared to net income of \$936,226 realized during the three month period ended February 28, 2006.

An income tax recovery of \$1,296,389 was recorded in the first quarter of 2007 compared to an income tax recovery of \$1,143,409 recorded in the first quarter of 2006. Income tax recoveries were recognized in both years due to the renouncement of flow through expenditures that caused a recognition of the income tax benefit that had previously been subject to a valuation allowance. Excluding the income tax recovery, the loss before income taxes for the quarter ended February 28, 2007 was \$612,853 compared to loss before income taxes of \$207,183 for the quarter ended February 28, 2006.

The higher loss before income taxes for the three months ended February 28, 2007 is mainly attributed to an increase in stock based compensation expense and investor relations costs (details provided below).

Other Income has increased by \$26,245 in the current year. Interest earned on term deposits and bank accounts during the quarter ended February 28, 2007 was \$34,664 compared to \$2,853 for the quarter ended February 28, 2006. Interest charges of \$8,666 were incurred during the current quarter for amounts renounced to investors using the look-back tax rule.

Administrative expenses were \$639,266 for the quarter ended February 28, 2007 compared to \$207,015 for the quarter ended February 28, 2006. Material variances were:

- Stock based compensation expense of \$318,751 was recorded, representing the fair value of warrants issued during the current quarter. There was no stock based compensation recorded in the first quarter of 2006.
- Investor relations costs were \$102,384 at February 28, 2007 compared to \$27,099 at February 28, 2006. These costs have increased mainly due to the Company's engagement of an investor relations firm and other external advisory services to provide the Company with strategic communications support services and to increase its visibility. In the first quarter of 2006, the Company did not retain any external investor relations support. The Company also increased its presence at shows and conventions in the first quarter of 2007. In addition, travel costs relating



# First Quarter Report

## MANAGEMENT DISCUSSION AND ANALYSIS

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### Overall Performance and Results of Operations (continued)

to investor relations increased in the first quarter of 2007 due to increased investor relations and financing tours.

- Consulting fees were \$65,100 at February 28, 2007 compared to \$46,450 at February 28, 2006. Consulting fees have increased due to increases in fees for consulting, management and advisory services provided by Management to the Company, approved by the Board in fiscal 2006.
- Salaries and benefits have increased in the current quarter by \$8,374 due to an increase in administrative staff and professional fees have increased in the current quarter by \$5,051 due to higher corporate legal fees.

The Company increased its surface drill program in the first quarter of 2007 with exploration expenditures totalling \$1,268,376. In the first quarter of 2006, exploration expenditures were \$655,074.

### Summary of Quarterly Results

Period Ended	2007 Feb 28	2006 Nov 30	2006 Aug 31	2006 May 31	2006 Feb 28	2005 Nov 30	2005 Aug 31	2005 May 31
Other income (expenses)	26,413	32,525	64,976	4,432	(168)	(125,889)	33,988	138,632
Net earnings (loss)	683,536	(891,121)	(236,951)	(877,340)	936,226	(425,874)	(179,000)	(626,992)
Earnings (loss) per share	0.00	(0.01)	(0.00)	(0.01)	0.01	(0.01)	(0.00)	(0.01)
Earnings (loss) per share, fully diluted	0.00	(0.01)	(0.00)	(0.01)	0.01	(0.01)	(0.00)	(0.01)

With the exception of the two quarters ending February 28, 2007 and February 28, 2006, the Company has generally incurred net losses. For the quarters ending February 28, 2007 and February 28, 2006, income tax recoveries of \$1,296,389 and \$1,143,409, respectively, were recorded due to the benefit recognition of tax losses from the tax effect of issuing flow through shares. The positive earnings for those two quarters were a result of this recovery. The net losses for the quarters ending May 31, 2005, May 31, 2006 and November 30, 2006 were mainly due to stock based compensation expense recorded during those quarters.

### Liquidity and Solvency

On December 21, 2006, the Company issued a total of 3,650,000 units at a price of \$0.55 per unit, for gross proceeds of \$2,007,500. Each unit consists of one common share, which has been designated as a flow through share and one half of one common share purchase warrant. Each whole warrant is exercisable to acquire a further common share on or before December 21, 2007 at \$0.65 per share. The agent received (i) a cash commission of \$132,055 and (ii) warrants to acquire up to 255,000 common shares at a price of \$0.51 per share for a period of twelve months expiring December 21, 2007. TSX Venture Exchange acceptance was received on December 20, 2006.



# First Quarter Report

## MANAGEMENT DISCUSSION AND ANALYSIS

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### Liquidity and Solvency (continued)

Net proceeds of \$807,143 were received from the exercise of 3,297,500 warrants during the quarter ended February 28, 2007. In addition, the Company received net proceeds of \$21,000 from the exercise of 100,000 options for the quarter ended February 28, 2007.

The December 2006 flow through financing discussed above has been renounced to the investors in the current quarter; the expenditures from this financing will be incurred in 2007, using the look-back flow through tax rule.

At February 28, 2007, the Company had spent approximately \$890,000 of these funds on surface exploration. The Company expects the balance to be expended, as planned.

In fiscal 2006, a total of \$1,792,000 was raised through flow through financings. All of these funds were spent on exploration programs, as intended and have been renounced to the flow through investors for tax purposes in the current quarter.

At February 28, 2007, the Company had cash and cash equivalents of \$4,100,095 compared to \$2,963,569 at November 30, 2006. The Company had working capital of \$4,345,919 at February 28, 2007 compared to working capital of \$3,328,473 as at November 30, 2006.

For the quarters ended February 28, 2007 and February 28, 2006, cash used in operations was \$111,951 and \$750,391 respectively. Cash used in operations was higher for the quarter ended February 28, 2006 due to the payment of outstanding accounts payable in the amount of \$685,333.

The Company's investing activities are mainly additions to exploration properties and purchase of fixed assets. Expenditures on exploration properties of \$1,311,980 were incurred and fixed assets totalling \$102,921 were purchased during the quarter ended February 28, 2007. In the first quarter of 2006, expenditures on exploration properties of \$655,074 were incurred and fixed assets totalling \$4,975 were purchased.

Cash on hand at November 30, 2006 of \$2,963,569, net proceeds of \$1,785,235 from private placements, \$828,143 from the exercise of warrants and options, and a \$50,000 refund of a security deposit during the quarter ended February 28, 2007 were used for: exploration expenditures of \$1,268,376, fixed asset purchases of \$102,921, acquisition of exploration properties for \$43,604, and the balance for working capital requirements.

Cash on hand at February 28, 2007 of \$4.1 million will be used to continue with the Company's 2007 surface exploration program, for further engineering and permitting work, and for general corporate purposes.

The source of funds for continued operations is through the issuance of equity securities and the exercise of warrants and options. The Company will continue to require additional financings for further advancement.



# First Quarter Report

## MANAGEMENT DISCUSSION AND ANALYSIS

February 28, 2007

### **Financial Risks and Uncertainties**

Future financings cannot be guaranteed as external factors are beyond the control of management and development results cannot be assured. The Company does not have any operating revenues and does not anticipate any operating revenues until it is able to place a profitable mining operation into production. Share price, general market conditions and commodity prices may affect investor preferences and interest in resource properties and the development of, and production from the Company's properties. These factors may adversely affect the company's ability to raise capital to acquire, explore and develop its properties.

Substantial funding is required to advance the Yellowknife Gold Project. The funds raised through the issuance of equity securities, will reduce the percentage ownership of current shareholders and such equity securities may have rights, preferences, or privileges senior to those of the holders of the Company's common stock. No assurance can be given that additional financing will be available, or that it can be obtained on terms acceptable to the Company and its shareholders.

### **Operational Risks and Uncertainties**

Operations are still at an advanced exploration stage and while there are positive results, there is no assurance that the exploration and development activities will result in a profitable mine. Some of the operational obstacles that may pose problems include winter road access, recruitment of qualified individuals, obtaining necessary permits, environmental concerns, and title to surface and mineral rights.

The federal government is settling native land claim issues throughout Canada, and the Yellowknife Gold Project area lies within an area subject to native land claims. Agreements between the federal government and native groups may affect title, licensing, and access, and impose operational structures not currently contemplated.

Access to the winter road and all-weather airstrip is determined during the permitting process. Due to environmental concerns, these are seen as sensitive issues by the affected communities and the licensing authorities. It cannot be guaranteed that access will be permitted, or if permitted, that access will continue in the future. The Company also relies on winter road access for moving most of the heavy equipment and bulk supplies. The establishment of the winter road is weather dependent and available for only a short period. Missing the winter road season for any reason could delay development plans.

Mine development and operational permits require extensive baseline environmental, geotechnical and community studies and consultations with interested parties and are by no means assured. Other potential risks may result from changes in government regulations relating to land use, taxes and environmental policies.

The Company is dependent on its employees and contractors to carry out operations, as planned. The mining business is intensely competitive and skillful, qualified individuals may not be as readily available due to the cyclical nature of the industry. Also, failure of third parties such as mining contractors or drilling contractors in meeting their obligations under contracts or agreements may delay and/or negatively affect operations.



# First Quarter Report

## MANAGEMENT DISCUSSION AND ANALYSIS

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### Related Party Transactions

During the three months ended February 28, 2007, an aggregate of \$69,000 (2006: \$54,000) was paid to private companies owned by the President & CEO and Executive Vice-President for consulting services. Directors' fees of \$9,000 (2006: \$15,000) were paid or payable to the independent directors of the Company at February 28, 2007. (See Note 8 of the interim consolidated financial statements for the quarter ended February 28, 2007). Related party transactions are measured at the exchange amounts, which is their fair value as agreed between management and the related parties.

The Company also entered into the following related party transactions:

An amount of \$18,000 was paid in consulting fees to an officer of the Company.

An amount of \$45,489 was paid in legal fees to a legal firm of which a partner is an officer of the Company.

Of the 3,650,000 units issued at \$0.55 on December 21, 2006, David Webb, President and CEO of the Company, purchased 50,000 units.

### Investor Relations

Equicom Group Inc. ("Equicom") has been engaged since April 2006, to provide strategic communications support to the Company at \$6,500 per month. The Company has continued with Equicom's services on a month-to-month basis. The Company has also retained Axiom Consulting Corp. ("Axiom") as a Corporate Development consultant, to assist the Company in advancing its corporate objectives for a fee of \$500 per month, renewable on a month to month basis. A total of 850,000 stock options were also granted to Axiom in 2006. Additional external advisory services are sought on an "as needed" basis for services relating to marketing strategies and increased market awareness.

### Guarantees and Commitments

See Note 10 and Note 11 of the consolidated financial statements for the interim period ended February 28, 2007 outlining the contractual commitments and guarantees provided to third parties.

### Financial Instruments

The terms of any financial instruments are disclosed in the financial statements. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments and that their fair values approximate their carrying values.



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## MANAGEMENT DISCUSSION AND ANALYSIS

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### Disclosure for Venture Issuers Without Significant Revenue

See Note 6 of the consolidated financial statements for the three months ended February 28, 2007 for detail of the exploration and development costs.

An analysis of administrative expenses is provided in the consolidated statements of loss and deficit in the consolidated financial statements for the interim periods ended February 28, 2007 and February 28, 2006.

### Disclosure Controls and Procedures and Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. It includes those policies and procedures that:

- (i) pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to and dispositions of assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and receipts and expenditures are made only in accordance with authorization of management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on financial statements.

Due to its inherent limitations, internal control over financial reporting may or may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of internal controls over financial reporting as of December 1, 2006. Based on this assessment, management believes that, as of February 28, 2007, internal control over financial reporting was effective.



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### **Outstanding Share Data**

The Company has authorized an unlimited number of common shares without par value. At April 20, 2007, 127,117,299 common shares were issued and outstanding. There is no other class or series of voting or equity securities. There are a maximum number of 21,875,043 warrants outstanding which can be converted into 21,875,043 common shares and 10,375,100 options outstanding which can be converted into 10,375,100 common shares. At April 13, 2007, there are 159,367,442 fully diluted common shares outstanding.

### **Additional Information**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).



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