

SECOND QUARTER REPORT

FOR THE PERIOD ENDING
MAY 31, 2006

2006



These unaudited consolidated financial statements of Tyhee Development Corp. have not been reviewed by the auditors of the Company. This notice is being provided in accordance with National Instrument 51-102 Continuous Disclosure Obligations.



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SECOND QUARTER REPORT

CONSOLIDATED BALANCE SHEET

	<i>As at</i>	
	May 31, 2006 (Unaudited)	November 30, 2005 (Audited)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 861,664	\$ 178,520
Cash held in trust	-	600,000
Amounts receivable	166,455	282,275
Inventory (Note 3)	377,740	323,390
Prepaid expenses, deposits and advances	71,338	100,367
	1,477,197	1,484,552
DEPOSITS (Note 4)	432,000	432,000
FIXED ASSETS, net of accumulated amortization of \$356,079 (November 30, 2005 - \$213,606) (Note 5)	978,564	744,196
EXPLORATION PROPERTIES (Note 6)	20,599,435	18,631,509
	\$ 23,487,196	\$ 21,292,257
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 797,713	\$ 1,965,306
ASSET RETIREMENT OBLIGATION	75,000	75,000
	872,713	2,040,306
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Authorized		
Unlimited common shares without par value		
Issued (Note 7)	41,085,656	36,144,407
92,524,115 (2005; 57,718,552) common shares		
SHARE SUBSCRIPTIONS	-	1,028,080
CONTRIBUTED SURPLUS	1,346,204	812,318
DEFICIT	(19,817,377)	(18,732,854)
	22,614,483	19,251,951
	\$ 23,487,196	\$ 21,292,257

GOING CONCERN (Note 1)

Approved by the Directors:

David R. Webb, Director

Roger G. Sylvestre, Director



SECOND QUARTER REPORT

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

(Unaudited – Prepared by Management)

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	May 31, 2006	May 31, 2005	May 31, 2006	May 31, 2005
ADMINISTRATIVE EXPENSES:				
Amortization	\$ 82,858	\$ 38,322	\$ 142,473	\$ 63,358
Consulting	70,000	38,450	116,450	79,145
General corporate	11,516	12,083	25,588	23,602
Investor relations (Note 8)	108,783	125,400	135,882	219,202
Professional fees	13,039	18,454	18,972	25,255
Rent	12,934	9,382	25,767	18,701
Salaries and benefits	34,134	50,892	70,160	96,680
Stock based compensation	533,886	460,200	533,886	481,506
Telephone	1,587	2,188	3,393	4,030
Transfer agent and filing fees	11,060	6,651	12,129	8,375
Travel	1,975	3,602	4,086	5,295
	881,772	765,624	1,088,786	1,025,149
OTHER EXPENSES (INCOME)				
Foreign exchange loss	1,889	-	2,618	-
Interest income	(6,321)	(11,747)	(9,174)	(23,338)
Interest and penalties	-	-	2,293	20,489
Rental of camp	-	(126,885)	-	(126,885)
	(4,432)	(138,632)	(4,263)	(129,734)
LOSS BEFORE INCOME TAXES	(877,340)	(626,992)	(1,084,523)	(895,415)
INCOME TAX RECOVERY	-	-	1,143,409	1,788,569
NET INCOME (LOSS) FOR THE PERIOD	(877,340)	(626,992)	58,886	893,154
RENOUNCEMENT OF TAX DEDUCTIBILITY RELATING TO FLOW-THROUGH SHARES	-	-	(1,143,409)	(1,788,569)
DEFICIT, BEGINNING OF PERIOD	(18,940,037)	(17,500,988)	(18,732,854)	(17,232,565)
DEFICIT, END OF PERIOD	\$ (19,817,377)	\$ (18,127,980)	\$ (19,817,377)	\$ (18,127,980)
EARNINGS (LOSS) PER SHARE				
Basic	\$(0.01)	\$(0.01)	\$0.00	\$0.02
Diluted	\$(0.01)	\$(0.01)	\$0.00	\$0.02
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	74,488,385	43,160,644	73,726,641	46,560,537
Diluted	108,439,616	43,160,644	107,677,872	46,620,437



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CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited – Prepared by Management)

	<i>Three Months Ended</i>		<i>Six Months Ended</i>	
	<u>May 31, 2006</u>	<u>May 31, 2005</u>	<u>May 31, 2006</u>	<u>May 31, 2005</u>
OPERATING ACTIVITIES				
Net earnings (loss) for the period	\$ (877,340)	\$ (626,992)	\$ 58,886	\$ 893,154
Add (deduct) items not affecting cash -				
Amortization	82,858	38,322	142,473	63,358
Income tax recovery	-	-	(1,143,409)	(1,788,569)
Stock based compensation	533,886	460,200	533,886	481,506
	<u>(260,596)</u>	<u>(128,470)</u>	<u>(408,164)</u>	<u>(350,551)</u>
Changes in non-cash working capital				
Accounts receivable	120,888	(105,601)	115,820	(41,489)
Accounts payable and accrued liabilities	22,408	(65,495)	(115,524)	(21,237)
Prepaid expenses, deposits and advances	267,554	(271,363)	362,016	(270,386)
	<u>150,254</u>	<u>(570,929)</u>	<u>(45,852)</u>	<u>(683,663)</u>
INVESTING ACTIVITIES				
Purchase of fixed assets	(371,867)	(211,857)	(376,841)	(717,935)
Additions to exploration properties, net of accounts payable	(1,817,520)	(2,452,295)	(3,019,995)	(4,847,169)
Inventory	(122,551)	-	(54,350)	-
Prepaid expenses, deposits and advances	(257,901)	(659,487)	(332,987)	(541,425)
	<u>(2,569,839)</u>	<u>(3,323,639)</u>	<u>(3,784,173)</u>	<u>(6,106,529)</u>
FINANCING ACTIVITIES				
Issuance of shares, net of issue costs for:				
Private Placements	1,338,230	4,816,407	3,503,519	4,795,664
Stock Options	-	2,666	-	2,666
Warrants	409,650	-	409,650	-
	<u>1,747,880</u>	<u>4,819,073</u>	<u>3,913,169</u>	<u>4,798,330</u>
INCREASE (DECREASE) IN CASH	(671,705)	924,505	83,144	(1,991,862)
CASH, BEGINNING OF PERIOD	1,533,369	1,888,047	778,520	4,804,414
CASH, END OF PERIOD	\$ 861,664	\$ 2,812,552	\$ 861,664	\$ 2,812,552

Supplementary Cash Flow Information

Non-cash financing activity:

Issuance of common shares in exchange for a finder's fee	\$ -	\$ -	\$ 60,000	\$ -
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SECOND QUARTER REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2005 (UNAUDITED)

1. GOING CONCERN

Tyhee Development Corp. (the "Company") is a development stage 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 each 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

The Company did not have any changes in accounting policies in the current period.

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, 2005. For further information, refer to the financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended November 30, 2005.

These unaudited consolidated financial statements include all information and footnote disclosures required under Canadian generally accepted accounting principles for interim financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring adjustments) considered necessary for a fair presentation have been included.

Certain of the prior year's figures have been reclassified to conform to the current year presentation.

3. INVENTORY, at Cost	May 31, 2006 (Unaudited)	November 30, 2005 (Audited)
	\$ 377,740	\$ 323,390

At May 31, 2006, the inventory consists of diesel, gasoline and propane that will be charged to exploration expenditures on a monthly basis, based on consumption.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

4. DEPOSITS

	May 31, 2006 (Unaudited)	November 30, 2005 (Audited)
Mackenzie Valley Land and Water Board	<u>\$ 432,000</u>	<u>\$ 432,000</u>

Security Deposits totalling \$432,000 have been posted with the Mackenzie Valley Land and Water Board for a water license and land use permits on the Discovery and Nicholas Lake properties.

5. FIXED ASSETS

	May 31, 2006			2005
	Cost	Accumulated amortization	Net book value	Net book value
Automobiles	\$ 184,877	\$ 68,474	\$ 116,403	\$ 144,135
Boats and canoes	14,465	5,940	8,525	9,610
Computer/electronic equipment	84,258	52,351	31,907	41,116
Data network infrastructure	24,786	13,835	10,951	14,669
Office furniture	41,493	30,812	10,681	11,868
Mining equipment	984,764	184,667	800,097	522,798
	<u>\$1,334,643</u>	<u>\$ 356,079</u>	<u>\$ 978,564</u>	<u>\$ 744,196</u>

6. EXPLORATION PROPERTIES

	Yellowknife Gold Project (i)	Longtom Property (ii)	Total
November 30, 2005 Audited)			
- Acquisition	\$ 625,534	\$ 127,438	\$ 752,972
- Exploration	17,690,975	187,562	17,878,537
	<u>18,316,509</u>	<u>315,000</u>	<u>18,631,509</u>
Additions			
- Acquisition	24,121	-	24,121
- Exploration	1,943,805	-	1,943,805
	<u>1,967,926</u>	<u>-</u>	<u>1,967,926</u>
Writedowns/Writeoffs			
- Acquisition	-	-	-
- Exploration	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
May 31, 2006 (Unaudited)			
- Acquisition	649,655	127,438	777,093
- Exploration	19,634,780	187,562	19,822,342
	<u>\$ 20,284,435</u>	<u>\$ 315,000</u>	<u>20,599,435</u>



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

6. EXPLORATION PROPERTIES (continued)

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

The Discovery Mine and Nicholas Lake properties.

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

- (ii) The Longtom Property

The Company sold its 50% ownership interest in the Longtom Property, which is located in the Northwest Territories, Canada, to Alberta Star Development Corp for \$315,000 in 2002. The combined claim and lease group comprising the Longtom Property had been 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 the end of the current quarter, 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. Alberta Star has informed the Company of their intention to abandon certain claims and allow them to lapse due to limited exploration potential. Alberta Star has maintained the DAMP mining lease as it currently hosts the Damp Zone with mineralization and existing camp facilities (which now comprises the Longtom Property).

7. SHARE CAPITAL

	Number	Amount
Balance, November 30, 2005	57,718,552	\$ 36,144,407
Issued during the six months ended May 31, 2006		
For cash – private placements (net proceeds)	31,573,897	4,471,599
- exercise of warrants	2,731,666	409,650
For services	500,000	60,000
Balance, May 31, 2006	92,524,115	\$ 41,085,656



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

7. SHARE CAPITAL (continued)

(a) Private Placements

	Number of Units	Proceeds
December 1, 2005	13,817,333	\$ 1,658,080
December 13, 2005	165,000	19,800
January 19, 2006	1,637,500	262,000
January 31, 2006	650,000	126,750
March 8, 2006	13,482,352	2,292,000
April 13, 2006	1,821,712	309,691
	<u>31,573,897</u>	<u>\$ 4,668,321</u>
Less: Share issue costs	-	(196,722)
	<u>31,573,897</u>	<u>\$ 4,471,599</u>

(b) Share purchase warrants

Share purchase warrants outstanding at May 31, 2006 are as follows:

Number of Warrants	Class of Shares	Expiry Date	Exercise Price
2,750,000	Common	June 30, 2006	0.50
1,012,500	Common	June 30, 2006	0.40
6,025,000	Common	June 30, 2006	0.50
426,944	Common	June 30, 2006	0.45
⁽¹⁾ 602,500	Common	June 30, 2006	0.40
6,743,790	Common	March 31, 2007	0.50
496,846	Common	March 31, 2007	0.38
⁽²⁾ 539,503	Common	March 31, 2007	0.38
73,684	Common	April 15, 2007	0.38
⁽³⁾ 2,037,035	Common	September 2, 2007	0.40 / 0.55
⁽⁴⁾ 6,585,667	Common	December 1, 2007	0.15
5,000,000	Common	December 1, 2007	0.15
602,500	Common	December 1, 2006	0.12
⁽⁴⁾ 165,000	Common	December 13, 2007	0.15
1,637,500	Common	January 19, 2007	0.28
650,000	Common	January 31, 2008	0.30
13,482,352	Common	March 8, 2008	\$0.28
1,821,712	Common	April 13, 2008	\$0.28
<u>50,652,533</u>			

(1) Unit warrants can be exercised to acquire one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire a further common share at a price of \$0.50 per share.

(2) Unit warrants can be exercised to acquire one common share and one common share purchase warrant. Each warrant will entitle the holder to acquire a further common share at a price of \$0.38 per share.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

7. SHARE CAPITAL (continued)

- (3) Each warrant is exercisable to purchase a common share at \$0.40 per share if exercised during the first year and at \$0.55 if exercised during the second year.
- (4) 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, 2005	20,707,802
Warrants Issued during the six months ended May 31, 2006	32,676,397
Warrants exercised during the six months ended May 31, 2006	(2,731,666)
Warrants expired during the six months ended May 31, 2006	-
Warrants Outstanding at May 31, 2006	<u>50,652,533</u>

- (i) On December 1, 2005, the Company issued 13,817,333 units at a price of \$0.12 per unit for gross proceeds of \$1,658,080. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before December 1, 2007 at \$0.15 per share. An additional 500,000 units having the same terms as those issued to investors were issued in exchange for a cash commission of \$60,000 relating to a finder's fee. Also, 602,500 broker's warrants were issued to purchase 602,500 common shares, exercisable at any time on or before December 1, 2006 at \$0.12 per share. The company may accelerate the expiry date on 9,317,333 share purchase warrants 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 ten 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.
- (ii) On December 13, 2005, the Company issued 165,000 units at a price of \$0.12 per unit for gross proceeds of \$19,800. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before December 13, 2007 at \$0.15 per share.
- (iii) On January 19, 2006, the Company issued 1,637,500 units at a price of \$0.16 per unit for gross proceeds of \$262,000. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before January 19, 2007 at \$0.28.
- (iv) On January 31, 2006, the Company issued 650,000 units at a price of \$0.195 per unit for gross proceeds of \$126,750. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before January 31, 2008 at \$0.30.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

7. SHARE CAPITAL (continued)

- (v) On March 8, 2006, the Company issued 13,482,352 units at a price of \$0.17 per unit for gross proceeds of \$2,292,000. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before March 8, 2008 at \$0.28.
- (vi) On April 13, 2006, the Company issued 1,821,712 units at a price of \$0.17 per unit for gross proceeds of \$309,691. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before April 13, 2008 at \$0.28.

(c) Stock Options

As at May 31, 2006, the following stock options were outstanding:

Date of Grant	Number of Shares	Price	Expiry Date
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	4,656,500	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
Total options outstanding	8,725,100		

	Shares	Weighted-average Exercise Price
Outstanding, November 30, 2005	4,120,100	\$ 0.47
Granted	5,406,500	0.23
Exercised	-	-
Cancelled/expired	(801,500)	0.53
Outstanding, May 31, 2006	8,725,100	\$ 0.32

At May 31, 2006, the average remaining contractual life was: 4.18 years (November 30, 2005: 3.79 years).



SECOND QUARTER REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

7. SHARE CAPITAL (continued)

Stock based compensation expense of \$533,886 was recorded for the six months ended May 31, 2006 and added to Contributed Surplus in Shareholders Equity on the Balance Sheet.

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

Risk free interest rate	4.07 – 4.32%
Annual dividends	-
Expected stock volatility	77-78%
Expected life	3 years

8. RELATED PARTY TRANSACTIONS

(a) Related party transactions, measured at the exchange amount, with a director and companies controlled by directors for the six months ended May 31, 2005:

Consulting fees:	May 31, 2006	May 31, 2005
Roger's Drilling Services Inc. ("RDS")	\$ 58,500	\$ 57,000
DRW Geological Consultants Ltd. ("DRW")	64,500	63,000
	\$ 123,000	\$ 120,000

An amount of \$86,450 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. The following transactions were also included in the financial statements for the period ended May 31, 2006:

- an amount of \$30,000 (at May 31, 2005: \$5,000) was paid in consulting fees to an officer of the Company.
- an amount of \$47,442 was paid in legal fees to a legal firm of which a partner is an officer of the Company.

Of the 13,817,333 units issued on December 1, 2005 at a price of \$0.12 per unit. Dave Nickerson, a director of the Company, purchased 42,000 units and Lorne B. Anderson, the Chief Financial Officer of the Company, purchased 75,000 units.

Of the 1,637,500 units issued on January 19, 2006 at a price of \$0.16 per unit, Lorne B. Anderson, the Chief Financial Officer of the Company, purchased 75,000 units and DRW Geological Consultants Ltd., a company wholly-owned by David R. Webb, President and CEO purchased 42,000 units.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

8. RELATED PARTY TRANSACTIONS (continued)

Directors' fees (included in salaries and benefits):	
Dave Nickerson	6,000
Denis M. Taschuk	6,000
William D. Burton	6,000
	\$18,000

(b) Included in accounts payable and accrued liabilities at May 31, 2006, are the following balances with directors and companies controlled by directors:

Roger G. Sylvestre	10,646
Dave Webb (See Note 10(b))	22,777
	\$ 33,423

9. INVESTOR RELATIONS

	2006	2005
	May 31	May 31
Travel	\$ 23,940	\$ 59,049
Shows and Conventions	48,787	49,772
Consultants fees and Expenses	10,370	36,506
Annual General Meeting	33,517	31,507
Materials	2,638	15,932
Advertising	4,424	11,240
Meals and Entertainment	5,314	6,190
Telephone	3,716	3,702
Subscription and Dues	1,736	3,328
News Releases	1,119	1,231
Courier and Postage	321	507
Salaries and Benefits	-	238
Total Investor Relations	\$ 135,882	\$ 219,202

10. COMMITMENTS

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

2006	\$ 25,869
2007	51,739
2008	51,739
2009	25,869

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

10. COMMITMENTS (continued)

- (b) The Company entered into an agreement with a director which stipulated annual non-refundable advanced net smelter royalty payments of US\$20,000, commencing in April 2004. The advance is applied to future NSR payments calculated on the property if production does not start in 2004. The advance is an obligation of the Company, and is to be paid each year. As this NSR obligation relates to future earnings, no provision has been made in the current year reflecting future years' obligations.
- (c) Annual lease payments of \$15,650 are required to maintain the Company's Yellowknife Gold Project mining properties in good standing.
- (d) On April 4, 2006, the Company signed an agreement with Camlaren Mine Development Ltd. (the Company's contractor on the Yellowknife Gold Project) to purchase various fixed assets for the sum of \$300,000. The sum is to be paid in six monthly payments of \$50,000 commencing July 1, 2006. The total amount of \$300,000 is included in accounts payable and accrued liabilities.
- (e) Effective April 15, 2006, the Company engaged Equicom Group Inc. to provide the Company with strategic investor relations and financial communications services, subject to TSX Venture Exchange approval. The Company will pay Equicom a fee of \$6,500 per month for an initial contract term of six months.

11. GUARANTEES

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

- (a) The Company has 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 has purchased directors' and officers' liability insurance. There are no material indemnification claims known to the Company at this time and no amount has been accrued in the consolidated balance sheets with respect to any indemnifications.



SECOND QUARTER REPORT

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED MAY 31, 2006 (UNAUDITED)

11. GUARANTEES (continued)

- (c) 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 June 21, 2006, the Company issued 5,500,000 units at \$0.30 per unit for gross proceeds of \$1,650,000. Each unit consists of one flow through share and one half of one common share purchase warrant. Each whole warrant is exercisable to purchase a further common share for a period of eighteen months from closing, at \$0.45 per share. The finder received a cash commission and warrants to purchase 550,000 common shares, exercisable for a period of eighteen months from closing at \$0.45 per share.

On July 7, 2006, the Company issued 3,167,000 shares at a price of \$0.32 per share with 1,583,500 warrants attached to purchase 1,583,500 shares at \$0.50 per share for an eighteen month period.

On July 13, 2006, the Company issued 4,836,000 shares at a price of \$0.28 per share and one half of a common share purchase warrant at a price of \$0.45 per share for an eighteen month period. The placees must tender for cancellation their 4,836,000 warrants from the February 28, 2006 financing, which were exercisable for \$0.28 until March 8, 2008.

On July 17, 2006, the Company issued (i) 310,625 shares at a price of \$0.32 per share and one half of a common share purchase warrant at a price of \$0.45 per share for an eighteen month period and (ii) 142,000 shares at a price of \$0.30 per share and one half of one common share purchase warrant at a price of \$0.45 per share for an eighteen month period. The placement of 310,625 shares at a price of \$0.32 per share consists entirely of insider participation.

Subsequent to May 31, 2006, 4,631,250 warrants have been exercised for gross proceeds of \$744,687 and 4,836,000 warrants have been submitted for cancellation (See July 13, 2006 share issuance note above).



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

The following is a discussion and analysis of the consolidated financial condition and operating results of Tyhee Development Corp (the "Company") for the six months ended May 31, 2006.

Some of the statements set forth are forward-looking statements relating to the Company's future operating results based on the information available to the Company at May 31, 2006. These forward-looking statements are subject to a variety of risks, uncertainties and other factors including, but are not limited to, changes in government legislation, regulations and assumptions. The actual results may vary from the results anticipated in these statements. The effective date of this report is July 20, 2006.

Description of Business

Tyhee Development Corp. is a junior 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 to identify 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.

The current focus of corporate resources is on one project:

Yellowknife Gold Project

The Yellowknife Gold Project is located 90 kilometres north of Yellowknife, NT, 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 of the company.

A revised resource estimate, released Tuesday May 30, 2006 (NR. S7 R14) was prepared to accommodate additional diamond drill information and the completion of a substantial underground exploration program. It considered a reduced area of the Ormsby Zone in order to maximize the density of information, and it excluded previous areas that were less well studied. This was done to increase our confidence in the resource. We also refocused our efforts on a potentially open pit mineable resource from a previously reported resource that had been structured for potential underground mining. The increase in the price of gold made it possible to consider lower-grade material than would have been possible before.

A total resource of 8 million tonnes (measured and indicated) grading 3.80 grams of gold per tonne containing 1.0 million ounces of gold at a cut-off of 1.5 grams per tonne is reported. An additional 2.75 million tonnes occurs as an inferred resource, grading 3.75 grams per tonne gold containing 332,000 ounces of gold. The gold resource has been calculated by independent consultants in conformity with National Instrument 43-101. Insufficient engineering work has been completed to determine whether the resource is mineable and which method of extraction would be economically viable. An initial assessment will be made for an open pit operation. This will form the basis of an economic evaluation, This economic evaluation may incorporate some of the inferred resource, and therefore must be referred to as a preliminary economic assessment and not a preliminary feasibility study under National Instrument 43-101.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Gold Resource

Table 1. Gold Resource Estimate for Yellowknife Gold Project, 2006.

Measured	Ormsby Zone¹	Nicholas Lake Main Zone²	Total
Tonnes		96,000	96,000
Gold grade, gpt		8.60	8.60
Ounces		27,000	27,000
Indicated			
Tonnes	6,877,000	1,013,000	7,890,000
Gold grade, gpt	3.30	6.70	3.74
Ounces	730,000	218,000	948,000
Measured and Indicated			
Tonnes	6,877,000	1,109,000	7,986,000
Gold grade, gpt	3.30	6.87	3.80
Ounces	730,000	245,000	975,000
Inferred			
Tonnes	2,198,000	554,000	2,752,000
Gold grade, gpt	3.30	5.57	3.75
Ounces	233,000	99,000	332,000

¹ Bullis, Pratico, and Kirkham, 2006. A 1.5 gpt cut-off, 60 gpt cut and 39 gpt reduced area of influence on 5 x 5 x 5 metre blocks using ID² estimation.

² Dupre and Giroux, 2003. A 2.5 gpt cut-off, 96 gpt cut, 1.5 metre minimum width using ordinary kriging estimation.

The full National Instrument 43-101 report is available on www.sedar.com

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 tons 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 between the Ormsby Zone and the Discovery Main Zone. Additional exploration targets being tested this year include the Typhoon Zone, north of the Discovery Main Zone. Gold mineralization also occurs at Nicholas Lake in the Main Zone, eight kilometres northeast of the Ormsby Zone.

Exploration since the mid 1990's has focused on a new form of mineralization in the Ormsby Zone that had previously not been recognized. Over 350 diamond drillholes totalling more than 70,000 metres have been completed since the mid 1990's, expanding the known resource on the properties.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Gold Mineralization (continued)

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 some 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.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Quarter in Review

The Company is pleased with the progress to date on the Yellowknife Gold Project. The Company previously submitted its Project Description Report (2005) to the regulatory authorities, applying for permits to construct and operate a mine and mill complex on the property. Scoping sessions were held, and the final Terms of Reference and Final Work Plan have been received. The component reports are being drafted, and the final site and mining plans are awaiting the final engineering reports.

The Company continues to diamond drill from surface, and to work to identify resources outside of the established Ormsby Zone resource. The company successfully mobilized sufficient bulk supplies onto the property for the current planned work program and presently has two diamond drills operating on the property.

Ongoing and Future Developments

The Company is working on a preliminary economic evaluation 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.

Currently the Company is focusing 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 current fiscal year.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Discussion of Operations and Financial Condition

Overall Performance and Results of Operations

The Company realized net income of \$58,886 during the six month period ended May 31, 2006 compared to net income of \$893,154 in the six month period ended May 31, 2005. The difference is mainly due to an income tax recovery of \$1,143,409 being recorded in the first quarter of 2006 compared to an income tax recovery of \$1,788,569 recorded in the first quarter of 2005. 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 has previously been subject to a valuation allowance. Excluding the income tax recovery, the loss before income taxes for the six months ended May 31, 2006 was \$1,084,523 compared to loss before income taxes of \$895,415 for the six months ended May 31, 2005.

The following discussion explains any material variations between:

The six month period ended May 31, 2006 compared to the six month period ended May 31, 2005

- Amortization expense was \$142,473 at May 31, 2006 compared to \$63,358 at May 31, 2005. Amortization has increased in the current period due to fixed asset purchases in 2005 and in the current year to support ongoing operations on the Yellowknife Gold Project.
- Investor relations costs were \$135,882 at May 31, 2006 compared to \$219,202 at May 31, 2005. These costs have decreased in the current year as a result of decreased travel relating to investor relations and financing tours, decreased consultants' fees and expenses due to the absence of an investor relations counsel during the first part of the current year and decreased advertising and materials costs.
- Stock based compensation expense of \$533,886 was recorded at May 31, 2006 compared to \$481,506 recorded at May 31, 2005.
- Consulting fees at May 31, 2006 were \$116,450 compared to \$79,145 at May 31, 2005. The increase is mainly due to the addition of consulting fees for the Company's Chief Financial Officer, who joined the Company in May 2005.
- Other income for the rental of camp was recorded at May 31, 2005 for \$126,885 and was later re-allocated and credited to exploration expenditures. During the current year, funds received from the rental of camp have been directly offset against the Company's exploration expenditures.

For the six months ended May 31, 2006 and May 31, 2005, cash used in operations was \$45,852 and \$683,663, respectively.

The Company's historical investing activities have mainly arisen from additions to exploration properties and purchase of fixed assets; this trend has continued in the current quarter and is expected to continue into the future. Expenditures of \$1,967,926 were incurred on exploration and fixed asset purchases of \$376,841 were incurred during the first six months of the current financial year.

Financing activities provided net cash inflows of \$3,913,169 during the six months ended May 31, 2006 compared to net cash inflows of \$4,798,330 during the six months ended May 31, 2005.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Overall Performance and Results of Operations (continued)

The three month period ended May 31, 2006 compared to the three month period ended May 31, 2005

For the three months ended May 31, 2006, the net loss was \$877,340 compared to \$626,992 for the three months ended May 31, 2005. Administrative expenses at May 31, 2006 were \$881,772 compared to \$765,624 last year. The increase to amortization, consulting fees and stock based compensation is commensurate with the analysis provided above for the year-to-date results. Transfer agent costs have increased due to increased financings and warrant exercises.

Exploration expenditures of \$1,312,852 and fixed asset purchases of \$371,867 were incurred in the current quarter ended May 31, 2006.

Summary of Quarterly Results

Period Ended	2006 May 31	2006 Feb 28	2005 Nov 30	2005 Aug 31	2005 May 31	2005 Feb 28	2004 Nov 30	2004 Aug 31
Other Income	4,432	2,853	(125,889)	33,988	138,632	11,591	12,999	8,504
Net Earnings (loss)	(877,340)	936,226	(425,874)	(179,000)	(626,992)	1,520,146	438,159	(117,867)
Earnings (loss) per share	(0.01)	0.01	(0.01)	(0.00)	(0.01)	0.04	0.01	(0.00)
Earnings (loss) per share, fully diluted	(0.01)	0.01	(0.01)	(0.00)	(0.01)	0.03	0.00	(0.00)

With the exception of the three quarters ending February 28, 2006, February 28, 2005 and November 30, 2004, the Company has generally incurred net losses. At February 28, 2006, February 28, 2005 and November 30, 2004, income tax recoveries of \$1,143,409, \$1,788,569 and \$882,492, 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 three quarters were a result of this recovery. The net loss at May 31, 2005 and at May 31, 2006 was higher mainly due to stock compensation expense being recorded during those quarters.

Financings

On December 1, 2005, the Company issued 13,817,333 units at a price of \$0.12 per unit for gross proceeds of \$1,685,080. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before December 1, 2007 at \$0.15 per share. An additional 500,000 units having the same terms as those issued to investors were issued in exchange for a cash commission of \$60,000 relating to a finder's fee. Also, 602,500 broker warrants were issued to purchase 602,500 common shares, exercisable at any time or on before December 1, 2006 at \$0.12 per share. The Company may accelerate the expiry date on 9,317,333 share purchase warrants 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 ten or more consecutive trading days, the Company shall have the right to accelerate the expiry of the Warrants to such date as 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.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Financings (continued)

On December 13, 2005, the Company issued 165,000 units at a price of \$0.12 per unit for gross proceeds of \$19,800. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before December 13, 2007 at \$0.15 per share.

On January 19, 2006, the Company issued 1,637,500 units at a price of \$0.16 per unit for gross proceeds of \$262,000. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before January 19, 2007 at \$0.28.

On January 31, 2006, the Company issued 650,000 units at a price of \$0.195 per unit for gross proceeds of \$126,750. Each unit consists of one common share and one common share purchase warrant, each warrant exercisable to purchase a further common share at any time on or before January 31, 2008 at \$0.30 per share.

On March 8, 2006, the Company issued 13,482,352 units at a price of \$0.17 per unit for gross proceeds of \$2,292,000. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase a further common share on or before March 8, 2008 at \$0.28 per share.

On April 13, 2006, the Company issued 1,821,712 units at \$0.17 per unit for gross proceeds of \$309,691. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable to purchase a further common share at \$0.28 on or before April 13, 2008.

Subsequent to May 31, 2006 the Company issued 5,500,000 units at \$0.30 per unit for gross proceeds of \$1,650,000. Each unit consists of one flow through share and one half of one common share purchase warrant. Each whole warrant is exercisable to purchase a further common share on or before December 21, 2007 at \$0.45 per share. The finder received a cash commission and warrants to purchase 550,000 common shares, exercisable on or before December 21, 2007 at \$0.45 per share.

Also, subsequent to May 31, 2006, the Company issued 3,167,000 units at a price of \$0.32 per unit for gross proceeds of \$1,013,440. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant is exercisable to purchase a further common share at \$0.50 per share on or before January 7, 2008.

In addition, on July 13, 2006, the Company issued 4,836,000 units at a price of \$0.28 per unit for gross proceeds of \$1,354,080. Each unit consists of one common share and one half of one common share purchase warrant. One whole warrant is exercisable to purchase a further common share at a price of \$0.45 per share on or before January 13, 2008. Each placee was required to tender for cancellation, one \$0.28 share purchase warrant from the February 28, 2006 financing. Accordingly, the Company will cancel 4,836,000 outstanding share purchase warrants which were exercisable at \$0.28 until March 8, 2008.

Finally, the Company received gross proceeds of \$142,000 for a non-brokered private placement totalling 452,625 units comprised of 310,625 units at a price of \$0.32 per unit and 142,000 units at a price of \$0.30 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable to purchase a further common share on or before January 17, 2008 at \$0.45 per share.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Financings (continued)

The places in the private placement relating to 310,625 shares at \$0.32 are all insiders and family members of the insiders of the Company.

TSX Venture Exchange approval was received on all of these financings.

A further \$744,687 was received from the exercise of 4,631,250 warrants subsequent to May 31, 2006.

In 2005, a total of \$3,210,020 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 year.

Liquidity and Solvency

At May 31, 2006, the Company had cash and cash equivalents of \$861,664 compared to \$178,520 and a further \$600,000 held in trust at November 30, 2005. The Company had a working capital position of \$679,484 at May 31, 2006 compared to a working capital deficiency of \$480,754 at November 30, 2005.

Cash on hand (including cash held in trust) at November 30, 2005 of \$778,520 and net proceeds of \$3,913,169 from private placements and warrant exercises during the six months ended May 31, 2006 were used for: exploration expenditures, net of accounts payable of \$3,019,995, fixed asset purchases of \$376,841 and the balance for working capital requirements.

Gross proceeds of approximately \$4.9 million received subsequent to May 31, 2006 from share issuances, warrant exercises plus cash on hand at May 31, 2006, will be used to complete the Company's current surface exploration program, 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 require further cash to continue advancing the Yellowknife Gold Project.

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 these properties. This 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



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Financial Risks and Uncertainties (continued)

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.

Access to the winter road and all-weather airstrip is determined during the permitting process. These are seen as sensitive issues to the affected communities and the licensing board due to environmental concerns. 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, environmental policies and also the outcome of various settlements concerning title to surface and mineral rights which, in Canada, may be subject to First Nations claims.

The Company is dependent on its employees and contractors to carry out operations, as planned. The mining business is intensely competitive and skilful; qualified individuals may not be as readily available subsequent to a downturn in a cyclical industry as they might be in industries with steady growth prospects. 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.

Related Party Transactions

During the six months ended May 31, 2006, an aggregate of \$123,000 (2005; \$120,000) was paid to private companies owned by the President & CEO and Executive Vice-President for consulting services. Directors' fees of \$18,000 were paid to the independent directors of the Company at May 31, 2006. (See Note 8 in the interim financial statements for the quarter ended May 31, 2006). 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 \$30,000 was paid in consulting fees to an officer of the Company.

An amount of \$47,442 was paid in legal fees to a legal firm of which a partner is an officer of the Company.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Related Party Transactions (continued)

On March 22, 2006, the Company granted 4,656,500 new options, of which 4,113,000 were to directors and officers. These options can be exercised at \$0.21, have an expiry date of March 21, 2011 and a four-month hold period until July 23, 2006.

Of the 13,817,333 units issued on December 1, 2005 at a price of \$0.12 per unit, Dave Nickerson, a director of the Company, purchased 42,000 units and Lorne B. Anderson, the Chief Financial Officer of the Company, purchased 75,000 units.

Of the 1,637,500 units issued on January 19, 2006 at a price of \$0.16 per unit, Lorne B. Anderson, the Chief Financial Officer of the Company, purchased 75,000 units and DRW Geological Consultants Ltd., a company wholly-owned by David R. Webb purchased 42,000 units.

Subsequent to May 31, 2006, on July 17, 2006, the Company issued 310,625 units at \$0.32 per share. All of the placees were insiders and family members of insiders of the Company. Each unit consists of one common share and one half of one common share purchase warrant. Each whole warrant can be exercised at \$0.45 until January 17, 2008.

Investor Relations

In April, 2006 Equicom Group Inc. was engaged to provide strategic communications support to the Company for an initial six month term at \$6,500 per month.

Guarantees and Commitments

See Note 10 and Note 11 of the Consolidated Financial Statements for the interim period ended May 31, 2006 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 our financial instruments and that their fair values approximate their carrying values.

Disclosure for Venture Issuers Without Significant Revenue

See Note 6 of the Consolidated Financial Statements for the interim period ended May 31, 2006 for detail of the exploration and development costs.

An analysis of Administrative Expenses is provided in the Consolidated Financial Statements for the interim periods ended May 31, 2006 and May 31, 2005.



MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2006

Disclosure Controls and Procedures

Management is responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for the Company. Based on an evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this MD&A, management believes such controls and procedures are effective in providing reasonable assurance that material items requiring disclosure are identified and reported in a timely manner.

Outstanding Share Data

The Company has authorized an unlimited number of common shares without par value. At July 20, 2006, 111,110,990 common shares were issued and outstanding. There is no other class or series of voting or equity securities. There are a maximum number of 38,396,151 warrants outstanding which can be converted into 38,396,151 common shares and 8,725,100 options outstanding which can be converted into 8,725,100 common shares. At July 20, 2006, there are 158,232,241 fully diluted common shares outstanding.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.