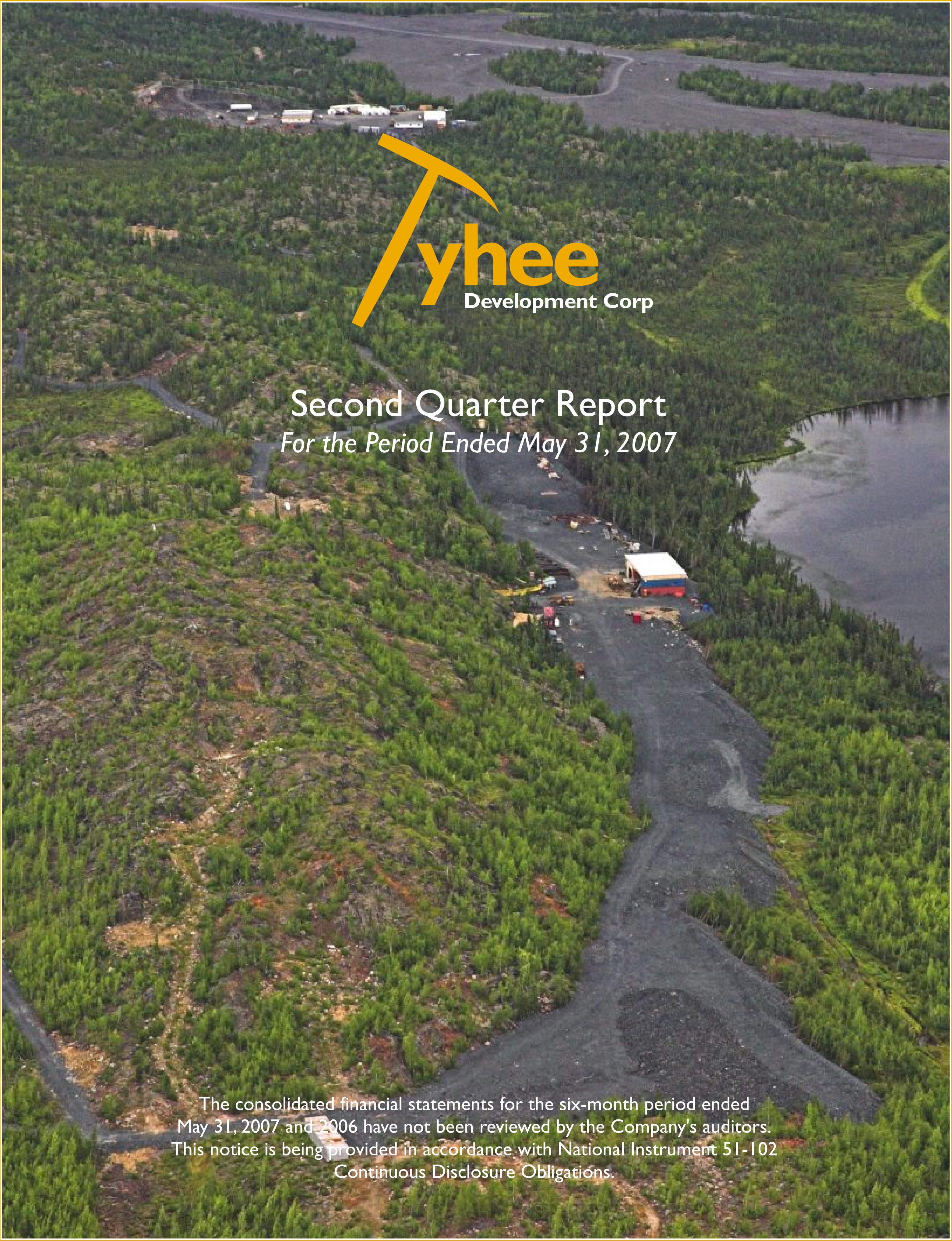

Tyhee Development Corp

Second Quarter Report

For the Period Ended May 31, 2007

The consolidated financial statements for the six-month period ended May 31, 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.

Tyhee Development Corp

Second Quarter Report

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

Unaudited – Prepared by Management

	Three Months Ended		Six Months Ended	
	May 31, 2007	**May 31, 2006**	**May 31, 2007**	**May 31, 2006**
ADMINISTRATIVE EXPENSES				
Amortization	**$ 67,213**	$ 82,858	**$ 130,283**	$ 142,473
Consulting	**45,000**	70,000	**110,100**	116,450
General corporate	**15,191**	11,516	**31,300**	25,588
Investor relations (Note 9)	**177,664**	108,783	**280,048**	135,882
Professional fees	**13,776**	13,039	**24,760**	18,972
Rent	**12,971**	12,934	**25,929**	25,767
Salaries and benefits	**40,852**	34,134	**85,251**	70,160
Stock based compensation	**8,919**	533,886	**327,670**	533,886
Telephone	**1,889**	1,587	**3,334**	3,393
Transfer agent and filing fees	**10,142**	11,060	**12,327**	12,129
Travel	**2,628**	1,975	**4,508**	4,086
	396,245	881,772	**1,035,510**	1,088,786
OTHER EXPENSES (INCOME)				
Foreign exchange loss	**244**	1,889	**(170)**	2,618
Interest income	**(43,366)**	(6,321)	**(69,364)**	(6,881)
	(43,122)	(4,432)	**(69,534)**	(4,263)
INCOME (LOSS) BEFORE INCOME TAXES	**(353,123)**	(877,340)	**(965,976)**	(1,084,523)
INCOME TAX RECOVERY	**-**	-	**1,296,389**	1,143,409
NET INCOME (LOSS) FOR THE PERIOD	**(353,123)**	(877,340)	**330,413**	58,886
RENOUNCEMENT OF TAX DEDUCTIBILITY RELATING TO FLOW-THROUGH SHARES	**-**	-	**(1,296,389)**	(1,143,409)
DEFICIT, BEGINNING OF PERIOD	**(21,510,151)**	(18,940,037)	**(20,897,298)**	(18,732,854)
DEFICIT, END OF PERIOD	**$ (21,863,274)**	$ (19,817,377)	**$ (21,863,274)**	$ (19,817,377)
EARNINGS (LOSS) PER SHARE				
Basic	**$(0.00)**	$(0.01)	**$0.00**	$0.00
Diluted	**$(0.00)**	$(0.01)	**$0.00**	$0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING				
Basic	**124,739,944**	74,488,385	**122,290,463**	73,726,641
Diluted	**151,162,153**	108,439,616	**148,712,672**	107,677,872

Tyhee Development Corp

Second Quarter Report

CONSOLIDATED BALANCE SHEET

Unaudited – Prepared by Managment

	As at	
	May 31, 2007 (Unaudited)	November 30, 2006 (Audited)
ASSETS		
CURRENT		
Cash and cash equivalents	**$ 2,651,494**	$ 2,963,569
Amounts receivable	**143,228**	303,678
Inventory (Note 3)	**418,362**	285,430
Prepaid expenses and advances	**227,988**	117,656
	3,441,072	3,670,333
SECURITY DEPOSITS (Note 4)	**362,000**	412,000
FIXED ASSETS, net of accumulated amortization (Note 5)	**945,966**	911,590
EXPLORATION PROPERTIES (Note 6)	**27,255,704**	23,781,214
	$ 32,004,742	$ 28,775,137
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**$ 655,865**	$ 341,860
ASSET RETIREMENT OBLIGATION	**115,000**	115,000
	770,865	456,860
SHAREHOLDERS' EQUITY		
SHARE CAPITAL		
Common shares (Unlimited, without par value) (Note 7)		
Issued 128,275,633 (November 30, 2006 – 114,999,799)	**50,895,719**	47,331,988
CONTRIBUTED SURPLUS (Note 7(d))	**2,201,432**	1,883,587
DEFICIT	**(21,863,274)**	(20,897,298)
	31,233,877	28,318,277
	$ 32,004,742	$ 28,775,137

GOING CONCERN (Note 1)

Approved by the Directors:

David R. Webb, Director

Roger G. Sylvestre, Director

Second Quarter Report

CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited – Prepared by Management

	Three Months Ended		*Six Months Ended*	
	May 31, 2007	**May 31, 2006**	**May 31, 2007**	**May 31, 2006**
OPERATING ACTIVITIES				
Net earnings (loss)	**$ (353,123)**	$ (877,340)	**$ 330,413**	$ 58,886
Add (deduct) items not affecting cash -				
Amortization	**67,213**	82,858	**130,283**	142,473
Income tax recovery	**-**	-	**(1,296,389)**	(1,143,409)
Stock-based compensation	**8,919**	533,886	**327,670**	533,886
	(276,991)	(260,596)	**(508,023)**	(408,164)
Changes in non-cash operating working capital				
Accounts receivable	**(67,995)**	120,888	**160,450**	115,820
Inventory	**(222,323)**	(122,551)	**(132,932)**	(54,350)
Prepaid expenses and advances	**64,540**	9,653	**(110,332)**	29,029
Accounts payable and accrued liabilities	**337,889**	(482,260)	**314,005**	(1,167,593)
	(164,880)	(734,866)	**(276,832)**	(1,485,258)
INVESTING ACTIVITIES				
Reduction of security deposits	**-**	-	**50,000**	-
Purchase of fixed assets	**(61,739)**	(371,867)	**(164,659)**	(376,841)
Additions to exploration properties	**(2,122,085)**	(1,312,852)	**(3,390,461)**	(1,967,926)
Acquisition of exploration properties	**(30,225)**	-	**(73,829)**	-
	(2,214,049)	(1,684,719)	**(3,578,949)**	(2,344,767)
FINANCING ACTIVITIES				
Issuance of shares and share subscriptions, net of issue costs for				
Private placements	**(604)**	1,338,230	**1,784,631**	3,503,519
Stock options	**(50)**	-	**20,950**	-
Warrants	**930,982**	409,650	**1,738,125**	409,650
	930,328	1,747,880	**3,543,706**	3,913,169
(DECREASE) INCREASE IN CASH	**(1,448,601)**	(671,705)	**(312,075)**	83,144
CASH, BEGINNING OF PERIOD	**4,100,095**	1,533,369	**2,963,569**	778,520
CASH, END OF PERIOD	**$ 2,651,494**	$ 861,664	**$ 2,651,494**	$ 861,664
Cash and cash equivalents is comprised of the following:				
Cash	**$ 573,494**	$ 861,664	**$ 573,494**	$ 861,664
Term deposits	**2,078,000**	-	**2,078,000**	-
	$ 2,651,494	$ 861,664	**$ 2,651,494**	$ 861,664
Supplementary Cash Flow Information				
Non-cash financing activity:				
Issuance of common shares in exchange for a finder's fee	**$ -**	$ -	**$ -**	$ 60,000
Issuance of common shares for acquisition of mineral property	**-**	-	**10,200**	-

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 financials 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 year 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

	May 31, 2007	November 30, 2006 (Audited)
At Cost	**$ 418,362**	$ 285,430

At May 31, 2007, the inventory consists of diesel, gasoline and propane that will be charged to exploration properties on a monthly basis, based on consumption.

4. SECURITY DEPOSITS

		May 31, 2007		November 30, 2006 (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. During the current year, $50,000 was refunded for a security deposit on a land use permit, no longer required.

5. FIXED ASSETS

	May 31, 2007			November 30, 2006 (Audited)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automobiles	$ 268,968	$ (112,609)	$ 156,359	$ 92,441
Boats & Canoes	14,465	(6,909)	7,556	8,168
Camp Facilities	328,814	(111,754)	217,060	328,814
Computer/electronic equipment	93,120	(59,329)	33,791	36,875
Data network infrastructure	33,537	(18,486)	15,051	17,706
Leasehold improvements	3,120	(867)	2,253	2,773
Mining equipment	752,882	(250,582)	502,300	413,670
Office furniture	44,631	(33,035)	11,596	11,143
	$ 1,539,537	**$ (593,571)**	**$ 945,966**	$ 911,590

6. EXPLORATION PROPERTIES

	(a) Yellowknife Gold Project	(b) Longtom Property	(c) Big Sky Property	(d) Goodwin Lake Property	(e) Clan Lake Property	(f) Other Properties	Total
	$	$	$	$	$	$	$
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
Additions							
Acquisition	24,802	-	36,500	1,440	21,287	-	84,029
Exploration							
Assaying/Preparation	535,637	-	-	-	-	-	535,637
Camp Costs	357,084	-	46	-	10,391	-	367,521
Drilling	1,157,737	-	-	-	-	-	1,157,737
Equipment Rentals/Repairs	28,967	-	325	-	-	-	29,292
Environmental	143,323	-	-	-	-	-	143,323
Flights/Travel	112,847	-	7,207	-	5,011	-	125,065
Geology	276,916	-	40,163	-	66,268	-	383,347
Project Management	190,795	-	10,800	7,200	13,211	-	222,006
Property holding costs	14,059	-	-	-	-	-	14,059
Supplies (Operating)	299,758	-	365	-	3,805	-	303,928
Reports	104,248	-	-	-	4,298	-	108,546
	3,221,371	-	58,906	7,200	102,984	-	3,390,461
Acquisition	**674,457**	**127,438**	**64,258**	**20,616**	**21,287**	**-**	**908,056**
Exploration	**25,958,855**	**187,562**	**89,222**	**7,200**	**102,984**	**1,825**	**26,347,648**
Balance, May 31, 2007	**26,633,312**	**315,000**	**153,480**	**27,816**	**124,271**	**1,825**	**27,255,704**

(a) 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 the President and CEO of the Company. In fiscal 2006, a new 349.1 hectare claim was staked and added to the Yellowknife Gold Project properties. In March 2007, another claim (approximately 565 hectares) was added to the Yellowknife Gold Project properties.

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

To May 31, 2007, the Company has spent $26,633,312 on acquisition and exploration of the Yellowknife Gold Project.

6. EXPLORATION PROPERTIES (continued)

(b) 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. 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 May 31, 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.

(c) 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 acquistion costs approximating $30,000. During the current fiscal year, 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.

To May 31, 2007, the Company has spent $153,480 on acquisition and exploration of the BigSky Property.

(d) 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).

6. EXPLORATION PROPERTIES (continued)

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 fiscal year, the Company added another claim that will become part of the Goodwin Lake Property Option agreement. Staking costs will be paid to the prospector; no other payments are required.

To May 31, 2007, the Company has spent $27,816 on the acquisition and exploration of the Goodwin Lake Property.

(e) Clan Lake Property

The Company staked claims, comprising the Clan Lake property during the current year. 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 May 31, 2007, the costs of staking this property totalled $21,287.

To May 31, 2007, the Company has spent $124,271 on the acquisition and exploration of the Clan Lake Property.

(f) 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

		Number	Amount
Balance, November 30, 2006		114,999,799	$ 47,331,988
Issued during the year			
For cash	- private placements	3,650,000	1,784,631
	- exercise of warrants	9,505,834	1,738,125
	- exercise of options	100,000	30,775
For acquisition	- mineral properties	20,000	10,200
Balance, May 31, 2007		**128,275,633**	**$ 50,895,719**

7. **SHARE CAPITAL** (continued)

(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.

	Number of Units	Proceeds
December 21, 2006	3,650,000	$ 2,007,500
Less: Share issue costs	-	(222,869)
	3,650,000	**$ 1,784,631**

(b) Share purchase warrants

Share purchase warrants outstanding at May 31, 2007 are as follows:

Number of warrants	Class of shares	Expiry date	Exercise price
425,333 (1)	Common	December 1, 2007	0.15
*165,000 (1)	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
20,716,709			

*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. 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.

7. **SHARE CAPITAL** (continued)

Warrants outstanding at November 30, 2006	34,885,833
Warrants issued during the six months ended May 31, 2007	2,080,500
Warrants exercised during the six months ended May 31, 2007	(9,505,834)
Warrants expired/cancelled during the six months ended May 31, 2007	(6,743,790)
Warrants outstanding at May 31, 2007	**20,716,709**

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.

(c) Stock options

At May 31, 2007, the following stock options were outstanding and exercisable:

Date of grant	Number of shares	Exercise price	Expiry date
May 22, 2002	184,100	$ 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
April 19, 2007	150,000	0.53	April 19, 2012
	10,520,100		

*The expiry date was extended on 184,100 options with an exercise price of $0.52 and an expiry date of May 22/07 due to a blackout on insider trading. See subsequent events – Note 12.

7. SHARE CAPITAL (continued)

	Shares	Weighted-average exercise price
Outstanding, November 30, 2006	**10,475,100**	**$ 0.34**
Granted	**150,000**	**0.53**
Exercised	**(100,000)**	**0.21**
Cancelled/expired	**(5,000)**	**0.52**
Outstanding, May 31, 2007	**10,520,100**	**$ 0.34**

At May 31, 2007, the average remaining contractual life was 3.42 years (November 30, 2006 - 3.90 years).

Stock based compensation expense of $37,188 was calculated for the 150,000 options granted on April 19, 2007. Due to vesting provisions on these options, stock based compensation expense of $8,919 has been recorded during the quarter ended May 31, 2007 and added to contributed surplus in shareholder's equity on the balance sheet. The balance of the expense will be recorded as the options vest.

The fair value of stock options is estimated using the Black-Scholes option pricing model with the following assumptions: risk-free rate – 4.16%; expected volatility – 74%; dividend yield – Nil; and an expected life of three years.

(d) Contributed Surplus

Balance, November 30, 2006	$ 1,883,587
Fair value of warrants issued during the six months ended May 31, 2007	318,751
Fair value of options granted and vested during the six months ended May 31, 2007	8,919
Fair value of options exercised during the six months ended May 31, 2007	(9,825)
Balance, May 31, 2007	**$ 2,201,432**

8. RELATED PARTY TRANSACTIONS

These transactions were in the normal course of operations and were measured at the exchange amount.

(a) Related party transactions with a director and companies controlled by directors for the six months ended May 31, 2007:

	May 31, 2007	May 31, 2006
Consulting fees		
Roger's Drilling Services Inc. ("RDS")	**$ 73,500**	$ 58,500
DRW Geological Consultants Ltd. ("DRW")	**79,500**	64,500
	$ 153,000	$ 123,000

8. RELATED PARTY TRANSACTIONS (continued)

An amount of $74,100 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.

(b) The following transactions were also included in the financial statements for the six months ended May 31, 2007:

- An amount of $36,000 (at May 31, 2006: $30,000) was paid in consulting fees to the Chief Financial Officer of the Company.

- An amount of $59,152 (at May 31, 2006: $47,442) was paid or accrued in legal fees to a legal firm of which a partner is an officer of the Company.

- An advance net smelter royalty payment of $22,200 (US$20,000) was paid to the President and Chief Executive Officer of the Company in accordance with a net smelter return royalty agreement on the Yellowknife Gold Project (see Note 6(a)).

(c) 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.

(d) Directors' fees (included in salaries and benefits) are as follows:

	May 31, 2007	May 31, 2006
Dave Nickerson	**$ 6,000**	$ 6,000
William D. Burton	**6,000**	6,000
Denis M. Taschuk	**6,000**	6,000
	$ 18,000	$ 18,000

(e) Included in accounts payable and accrued liabilities are the following balances with directors and companies controlled by directors:

	May 31, 2007	May 31, 2006
Roger G. Sylvestre	**$ 1,739**	$ 10,646
DRW Geological Consultants Ltd.	**20,989**	-
David R. Webb	**-**	22,777
	$ 22,728	$ 33,423

9. INVESTOR RELATIONS

	May 31, 2007	May 31, 2006
Advertising	**$ 16,848**	$ 4,424
Annual general meeting	**33,797**	33,517
Consultants' fees and expenses	**56,115**	10,370
Courier and postage	**309**	321
Materials	**16,956**	2,638
Meals and entertainment	**13,552**	5,314
News releases	**6,015**	1,119
Shows and conventions	**62,867**	48,787
Subscriptions and dues	**694**	1,736
Telephone	**2,918**	3,716
Travel	**69,977**	23,940
	$ 280,048	$ 135,882

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	27,498
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(a) and 8(b).

(d) Future share issuances are required in accordance with the BigSky property option agreement (Note 6(c)).

(e) Future share issuances are required in accordance with the Goodwin Lake property option agreement (Note 6(d)).

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

Subsequent to quarter end, 165,000 warrants with an exercise price of $0.15 and an expiration date of December 13, 2007, were exercised for gross proceeds of $24,750.

On June 27, 2007, the Company granted 1,876,000 new options to directors, officers, employees and consultants of the Company at an exercise price of $0.41 and an expiry date of June 27, 2012.

On July 1, 2007, 184,100 options with an exercise price of $0.52 and an expiry date that had been extended, due to a blackout on insider trading, were deemed to have expired. The original expiry date was May 22, 2007.

On July 23, 2007, the Company announced a brokered private placement to raise up to $4,000,000 through the issuance of up to 7,692,308 common shares which will be designated as flow through shares at a price of $0.52 per flow through share and up to $1,000,000 through the issuance of 2,381,000 of non-flow through common shares at a price of $0.42 per common share. The agent will receive (i) a cash commission equal to 7% of the proceeds of the offering of the flow through shares, (ii) a cash commission equal to 7% of the proceeds of the offering of the common shares and (iii) 7% agent's compensation options on the proceeds of the offering of the common shares consisting of an option to acquire one common share of the Company at $0.42 for eighteen months following the closing. In addition, the Company has agreed to sell 4,762,000 common shares at a price of $0.42 per common share to raise $2,000,000 in a separate private placement. A 5% cash finders fee is payable, on funds raised with respect to this placement. All securities are subject to a four-month hold period and TSX Venture Exchange approval. A total of $7,000,000 will be raised from the financings described above.

Second Quarter Report

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

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, 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 July 23, 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 July 23, 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 the President and Chief Executive Officer of the Company. In fiscal 2006, a new 349.1 hectare claim was staked and added to the Yellowknife Gold Project properties. In March 2007, another claim (approximately 565 hectares) was added to the Yellowknife Gold Project properties.

A total resource, for the Yellowknife Gold Project, of 9.60 million tonnes (measured and indicated) grading 3.90 grams of gold per tonne containing 1,203,000 ounces of gold at a cut-off of 1.25 grams per tonne was reported on June 20, 2007. An additional 3.22 million tonnes is estimated as an inferred resource, grading 3.41 grams per tonne gold containing 353,000 ounces of gold. The gold resource was calculated 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

May 31, 2007

Gold Resource

Revised resource, June 2007.

Category	Ormsby Zone	Nicholas Main Zone	Bruce Zone	Total Resource
Measured				
Tonnes	2,617,000	96,000		**2,713,000**
Gold grade, gpt	3.38	8.60		**3.57**
Ounces of gold	284,000	27,000		**311,000**
Indicated				
Tonnes	5,620,000	1,013,000	252,000	**6,885,000**
Gold grade, gpt	3.61	6.70	2.68	**4.03**
Ounces of gold	652,000	218,000	22,000	**892,000**
Measured plus Indicated				
Tonnes	**8,237,000**	**1,109,000**	**252,000**	**9,598,000**
Gold grade, gpt	**3.53**	**6.87**	**2.68**	**3.90**
Ounces of gold	**936,000**	**245,000**	**22,000**	**1,203,000**
Inferred				
Tonnes	2,004,000	554,000	661,000	**3,219,000**
Gold grade, gpt	3.02	5.57	2.79	**3.41**
Ounces of gold	195,000	99,000	59,000	**353,000**

Ormsby and Bruce Lake Zones use an ID^2 estimate using a 1.25 gpt cut-off and a 100 gpt top cut. A search ellipsoid having 30, 60, and 90 metre axes were used in this estimate, in two passes. The first pass considers data inside a silicified domain, and the second pass considers data outside of the silicified domain. All Ormsby data is constrained to a geologically defined solids model. Nicholas Lake Main Zone is reported by Dupre and Giroux (2003) using a 1.5 metre minimum mining width, a 2.5 gpt cut-off, 96 gpt top cut, using ordinary kriging estimation

A revised resource estimate, reported on June 20, 2007, was prepared 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.

Tyhee Development Corp

Second Quarter Report

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

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 April 2007, approximately 477 diamond drillholes totalling more than 100,000 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 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 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.

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.

Tyhee Development Corp

Second Quarter Report

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

Quarter in Review

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

In the quarter ended May 31, 2007, the Company completed its program to crush half of its 6,800 tonnes stockpile from the underground campaign on the Ormsby Zone. The Yellowknife Gold Camp has been operating with 42 personnel on site, involved in drilling, sampling, rock crushing, a contract laboratory operation, winter road maintenance and logistical support.

The Company, which has two diamond drills operating on the property, continues to drill from surface, and to work to identify resources outside of the established Ormsby Zone resource. Results continue to be as expected in and around the Ormsby Zone.

All of the Nicholas Lake drill core was relocated to the Yellowknife Gold Project's main camp and relogging and sampling is well underway. Initial results, released July 9, 2007 (NR S.8 R.13) indicates a bulk-mineable potential as well as previously unrecognized but significant tungsten values. Work continues to assess both of these items at the Nicholas Lake Main Zone.

Regional exploration on the Goodwin Lake, Clan Lake, and BigSky Properties to confirm the location, size and grade of previously known mineralization as well as to identify other prospective areas on these properties has commenced.

Ongoing and Future Developments

The Company is working on a preliminary economic assessment to ascertain the economic potential of the established resource. Delays in completing the revised NI 43-101 resource estimate (released June 20, 2007) and complexities in incorporating a mining plan for the Nicholas Lake Main Zone have delayed the completion of the Preliminary Economic Assessment. Studies are continuing on the Ormsby Zone and Bruce Zones while consultants examine alternatives for the Nicholas Lake Main Zone. 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 during the current fiscal year.

Tyhee Development Corp

Second Quarter Report

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 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 six month period ended May 31, 2007 compared to the six month period ended May 31, 2006

The Company realized net income of $330,413 during the six month period ended May 31, 2007 compared to net income of $58,886 realized during the six month period ended May 31, 2006.

An income tax recovery of $1,296,389 was recorded in the first half of 2007 compared to an income tax recovery of $1,143,409 recorded in the first half 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 six months ended May 31, 2007 was $965,976 compared to loss before income taxes of $1,084,523 for the six months ended May 31, 2006.

Although the change in net loss before income taxes for the six months ended May 31, 2007 is not significant, there are some variations in certain administrative expense categories and other income. These variations are analyzed and explained below.

Other Income has increased by $65,271 in the current year. Interest earned on term deposits and bank accounts during the six month ended May 31, 2007 was $78,030 compared to $9,174 for the six months ended May 31, 2006. Interest charges of $8,666 were incurred during the current year for amounts renounced to investors using the look-back tax rule compared to interest charges of $2,293 incurred at May 31, 2006.

Administrative expenses were $1,035,510 for the six months ended May 31, 2007 compared to $1,088,786 for the six months ended May 31, 2006. Again, there is no significant change in total administrative costs, but a further analysis shows that increases to some expenses were offset by decreases in other expenses.

- Stock based compensation expense of $327,670 was recorded during the six months ended May 31, 2007 compared to stock based compensation of $533,886 recorded during the six months ended May 31, 2006.

- Investor relations costs increased $144,166 to $280,048 at May 31, 2007 compared to $135,882 at May 31, 2006. This increase can be attributed to:

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

Overall Performance and Results of Operations (continued)

(i) Consultants' fees and expenses were $56,115 at May 31, 2007 compared to $10,370 at May 31, 2006. These expenses are higher in the current year 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. The Company did not retain any external investor relations or other advisory services during the first four months of fiscal 2006.

(ii) Travel expenses were $69,977 at May 31, 2007 compared to $23,940 at May 31, 2006. These costs have risen due to increased investor relations and financing tours in the first six months of fiscal 2007. Consequently, meals and entertainment has also increased.

(iii) The Company has increased its presence at shows and conventions and hence, costs at May 31, 2007 were $62,867 compared to $48,787 at May 31, 2006.

(iv) Greater efforts to increase visibility from increased advertising and wider dissemination of news releases has increased costs in these two categories.

- Salaries and benefits have increased during the six months ended May 31, 2007 by $15,091 due to an increase in administrative staff, professional fees have increased during the same period by $5,788 due to higher corporate legal fees and general corporate expenses have increased by $5,712 due to increases in office supplies, subscriptions and dues, and meals and entertainment.

- Offsetting these increases were decreases to amortization and consulting fees. A greater portion of consulting fees were allocated to exploration properties for time spent managing operations, administration and review of properties.

The Company expanded its surface drill program in the current year with exploration expenditures totalling $3,390,461 at May 31, 2007. At May 31, 2006, exploration expenditures were $1,967,926.

<u>The three month period ended May 31, 2007 compared to the three month period ended May 31, 2006</u>

For the three month period ended May 31, 2007, the net loss was $353,123 compared to $877,340 for the three month period ended May 31, 2006. Administrative expenses for the three months ended May 31, 2007 were $396,245 compared to $881,772 for the same period last year. The difference is mainly attributable to stock based compensation.

The analyses for the increases to investor relations by $68,881, salaries and benefits by $6,718 and general corporate expenses by $3,675, and the offsetting decreases to amortization by $15,645 and consulting fees by $25,000 are commensurate with the analyses provided above for the year-to-date results.

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

Overall Performance and Results of Operations (continued)

Exploration expenditures for the three month period ended May 31, 2007 was $2,122,085 compared to $1,312,852 for the same period in 2006. Fixed asset purchases were $61,739 for three month period ended May 31, 2007 compared to $371,867 for the three month period ended May 31, 2006.

Summary of Quarterly Results

Period Ended	2007 May 31	2007 Feb 28	2006 Nov 30	2006 Aug 31	2006 May 31	2006 Feb 28	2005 Nov 30	2005 Aug 31
Other income (expenses)	43,122	26,413	32,525	64,976	4,432	(168)	(125,889)	33,988
Net earnings (loss)	(353,123)	683,536	(891,121)	(236,951)	(877,340)	936,226	(425,874)	(179,000)
Earnings (loss) per share	(0.00)	0.00	(0.01)	(0.00)	(0.01)	0.01	(0.01)	(0.00)
Earnings (loss) per share, fully diluted	(0.00)	0.00	(0.01)	(0.00)	(0.01)	0.01	(0.01)	(0.00)

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, 2006 and November 30, 2006 were mainly due to stock based compensation expense being 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.

Net proceeds of $1,738,125 were received from the exercise of 9,505,834 warrants during the six months ended May 31, 2007. In addition, the Company received net proceeds of $21,000 from the exercise of 100,000 options for the six months ended May 31, 2007.

The December 2006 flow through financing discussed above has been renounced to the investors in the current year; the expenditures from this financing were incurred in 2007 on surface exploration, using the look-back flow through tax rule.

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 year.

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

Liquidity and Solvency (continued)

At May 31, 2007, the Company had cash and cash equivalents of $2,651,494 compared to $2,963,569 at November 30, 2006. The Company had working capital of $2,785,207 at May 31, 2007 compared to working capital of $3,328,473 as at November 30, 2006.

For the six months ended May 31, 2007 and May 31, 2006, cash used in operations was $276,832 and $1,485,258 respectively. Cash used in operations was higher for the three-month period ended May 31, 2006 due to the payment of outstanding accounts payable in the amount of $1,167,593.

The Company's investing activities are mainly additions to exploration properties and purchase of fixed assets. Expenditures on exploration properties of $3,390,461 were incurred and fixed assets totalling $164,659 were purchased during the six months ended May 31, 2007. In 2006, expenditures on exploration properties of $1,967,926 were incurred and fixed assets totalling $376,841 were purchased during the same period.

Cash on hand at November 30, 2006 of $2,963,569, net proceeds of $1,784,631 from private placements, $1,759,125 from the exercise of warrants and options, and a $50,000 refund of a security deposit during the six months ended May 31, 2007 were used for: exploration expenditures of $3,390,461, fixed asset purchases of $164,659, acquisition of exploration properties for $73,829, and the balance for working capital requirements.

Cash on hand at May 31, 2007 of approximately $2,650,000 will be used to continue with the Company's 2007 surface exploration program, for further engineering and permitting work, and for general corporate purposes.

Subsequent to May 31, 2007, 165,000 warrants with an exercise price of $0.15 and an expiration date of December 13, 2007, were exercised for gross proceeds of $24,750.

At July 23, 2007, the Company had 11,658,397 in the money warrants outstanding, which if exercised, would realize $3,199,608. In addition, on July 23, 2007, a private placement for $7,000,000 with an estimated closing date of August 15, 2007, was announced.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

Related Party Transactions

During the six months ended May 31, 2007, an aggregate of $153,000 (2006; $123,000) was paid to private companies owned by the President and Chief Executive Officer, and Executive Vice-President for consulting services. Directors' fees of $18,000 (2006: $18,000) were paid or payable to the independent directors of the Company at May 31, 2007. (See Note 8 of the interim consolidated financial statements for the six months ended May 31, 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 for the six months ended May 31, 2007:

An amount of $36,000 (2006: $30,000) was paid in consulting fees to the Chief Financial Officer of the Company.

An amount of $59,152 (2006: $47,442) was paid in legal fees to a legal firm of which a partner is an officer of the Company.

An advance net smelter royalty payment of $22,200 (US$20,000) was paid to the President and Chief Executive Officer of the Company in accordance with a net smelter royalty agreement on the Yellowknife Gold Project.

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.

An extension was granted by the TSX Venture Exchange on 184,100 options with an exercise price of $0.52, that were set to expire on May 22, 2007. An extension was provided due to a blackout on insider trading. The options were unexercised and deemed to have expired on July 1, 2007.

Subsequent to May 31, 2007, the Company granted 1,876,000 stock options, of which 1,341,000 were to directors and officers of the Company. These options can be exercised at $0.41 and have an expiry date of June 27, 2012.

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 granted to Axiom in 2006.

In April 2007, the Company contracted Dr. Leanne Baker to provide advisory services and to provide the Company with introductions to capital market opportunities not previously explored. The arrangement is for a

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

Investor Relations (continued)

twelve month period and the consideration is $600 per day for each day services are performed for the Company. Dr. Baker was granted 150,000 stock options at an exercise price of $0.53 with vesting provisions in accordance with the Company's Stock Option Plan. The Company received TSX Venture Exchange acceptance for the filing of the agreement on May 3, 2007.

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 May 31, 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.

Disclosure for Venture Issuers Without Significant Revenue

See Note 6 of the consolidated financial statements for the six months ended May 31, 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 May 31, 2007 and May 31, 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;

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2007

Disclosure Controls and Procedures and Internal Control over Financial Reporting (continued)

(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 May 31, 2007, internal control over financial reporting was effective.

Outstanding Share Data

The Company has authorized an unlimited number of common shares without par value. At July 23, 2007, 128,440,633 common shares were issued and outstanding. There is no other class or series of voting or equity securities. There are a maximum number of 20,551,709 warrants outstanding which can be converted into 20,551,709 common shares and 12,212,000 options outstanding which can be converted into 12,212,000 common shares. At July 23, 2007, there are 161,204,342 fully diluted common shares outstanding.

Additional Information

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

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