

# Tyhee Development Corp.

**TDC-TSXV \$0.125**

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## Speculative BUY 12-Month Target \$0.44

### Moving Towards Pre-feasibility Generating Value – Initiating Coverage

- ▶ The company has a NI 43-101 compliant 2.1 million ounces gold resource (dated January 2009) at its Yellowknife properties. We expect the company can increase this to 2.5 million within one year with the drilling at Clan Lake, NWT. The long term resource potential is much higher
- ▶ The company is moving from a preliminary assessment to a pre-feasibility study on its Yellowknife project. The inputs in the preliminary economic assessment (PEA) were conservative and the pre-feasibility study could show improved economics. Typically a company's valuation will improve when moving to pre-feasibility reflecting reduced project risk.
- ▶ The PEA was positive showing a pre-tax net present value of C\$143.6 million using a 5% discount rate and C\$750 per ounce gold. This also assumes a joint open pit underground mine producing 163,500 ounces per year at a cash operating cost of \$384 per ounce.
- ▶ We value the shares on the basis of C\$100 per ounce of our estimated projected reserves of 1.2 million ounces and 0.5 times the company's NPV of C\$143 million. If we use the mid value of the two methods we arrive at a target of \$0.44 per share or an appreciation of 283% from the current share price.

#### Share Data

52-Week Range	\$0.08-\$0.39
Mkt. Cap. Basic (mm)	\$21.6
Basic S/O (mm)	196.8
Diluted Shares (mm)	235.2
Cash (mm)	\$4.3
Enterprise Value (mm)	\$17.4
Fiscal Y/E	Nov. 30
Avg. Daily Vlm (3mths)	178,634

Resources ('000s) NI 43-101	Tonnes	Au gpt	Au oz
Measured + Indicated	16,952	3.39	1,847
Inferred	2,545	3.29	269
<b>2009 Exploration Budget (mm)</b>			
Cash on Hand (mm)	\$2.5		
Cash per Share	\$4.3		
Last Financing Amount (mm)	\$0.02		
Last Financing Date	\$2.7		
Total 2008 Financing (mm)	Jul-09		
	\$6.9		

NB. Cash on hand includes last raise

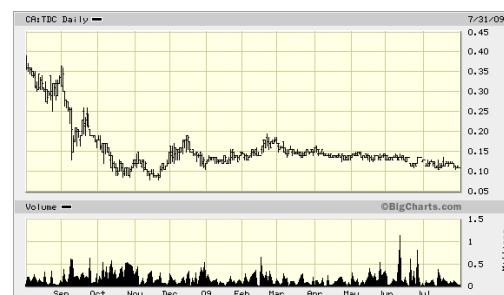
### Company Profile

Tyhee Development Corp (Tyhee) is a gold exploration company with properties located in the Northwest Territories north of the city of Yellowknife. Tyhee has been exploring for the last 9 years on prospective properties in greenstone belts.

(Website: [www.tyhee.com](http://www.tyhee.com))

**See important disclaimers on page 2 of this report.**

### Price Chart



Source: [www.bigcharts.com](http://www.bigcharts.com)

# Table of Contents

Market Outlook	1
Reasons to Invest	1
Valuation – Initiating Coverage with a C\$0.44 target	5
Valuation Risks – Normal Risks Of A Junior Explorer	7
Appendix A Management & Board of Directors	9

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## Market Outlook

Tyhee Development Corp (Tyhee) is a gold exploration company with properties located in the Northwest Territories north of the city of Yellowknife. Tyhee has been exploring for the last 9 years on prospective properties in greenstone belts. The main targets, which are 100% owned are: 1) the Ormsby property, which hosts the old Discovery Mine, 2) the Nicholas property, located to the north of the Ormsby zone, 3) the Clan Lake property, and 4) the Goodwin Lake property. All of these properties are accessible by a winter road. Presently the company has outlined 2.1 million ounces of gold resource.

### Exhibit 1: Location Map



Source: Company

## Reasons to Invest

- Despite The Northerly Location Accessibility Good:** Despite Tyhee's properties being located in NWT, they are reasonably accessible. Tyhee's properties, totalling 12,635 hectares, are located within 95 kilometres of the city of Yellowknife, which has a population of 18,000 people. Yellowknife is the capital of the Northwest Territories and has a strong mining history with two old gold mines located within the city. The city hosts numerous companies which provide support to the mining industry.

Tyhee's properties are accessible by a seasonal winter road and by aircraft. A hydroelectric (Blue Fish Hydro) station is located 70 kilometres away and could be used to provide power to the project.

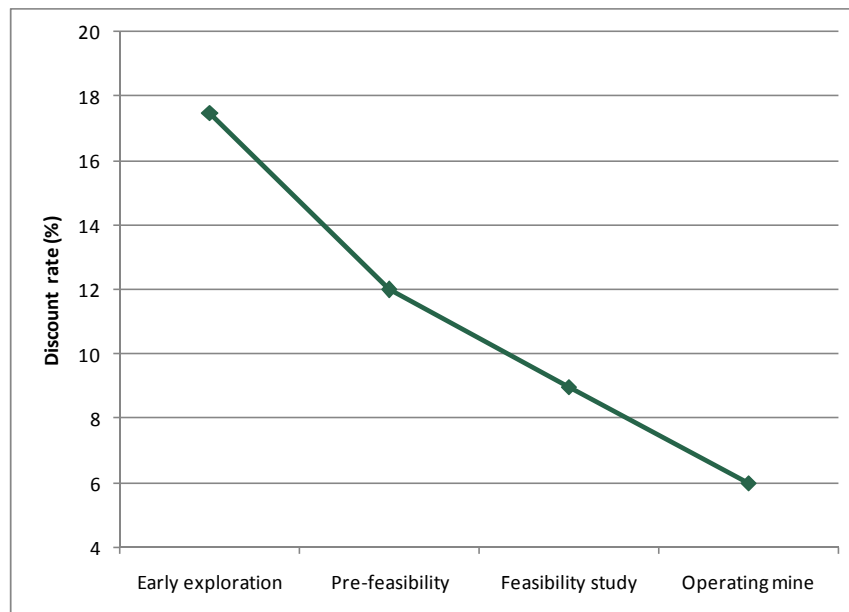
- Cost Inputs From PEA Should Improve Moving To Pre-feasibility-:** Tyhee has just raised \$2.65 million, \$1 million of which will advance its Yellowknife Gold project from a preliminary economic assessment (PEA) to a prefeasibility study and \$650,000 will be used to explore the Clan Lake property further. \$1 million will be used to advance

permitting. The PEA was in some respects conservative with respect to some of the inputs. The following input parameters should see some improvement as the company moves towards pre-feasibility. 1) The gold price used in the PEA was C\$750 per ounce and is now trading at C\$1000 per ounce. A higher base case for gold will be used in the pre-feasibility. 2) The PEA used C\$ par with the US\$ and now the C\$ trades at 92 cents US\$. 3) The PEA used \$140/barrel oil and oil is now trading at US\$65 per barrel 4) the PEA used 35cents/KW hour, whereas if a hydro line is built from Blue Fish Power this could be reduced by 20 cents/KW hour. 4) The PEA used a resource of 1.64 million ounces, but subsequent drilling has increased the resource base to 2.116 million, meaning that the prospective mine life could be longer.

A summary of PEA parameters is given in Exhibit 8.

- **Typically when moving from a PEA to pre-feasibility there is a valuation improvement** as shown by the table and diagrams below. The reason for this is that the risk associated with the project decreases with better obtained information.

**Exhibit 2: Decrease In Risk With Increased Project Status-Typical Corporate Discount Rates Used (i.e. Project Risk) vs. Project stage**



Source: LOM

### Exhibit 3: Increased valuation of exploration companies as they progress through to prefeasibility

Advanced Exploration	Company	Ticker	CLOSE 31/07/09	Enterprise Value (mm)	Total Gold Resources (mm ozs)	EV/Resources (C\$/oz)	Primary Deposit Location
	HAWTHORNE GOLD CORP	HGC	0.40	24.03	1.07	22.42	CND
AMERICAN BONANZA GOLD	BZA	0.10	9.75	1.46	6.69	CND	
CANARC RESOURCE CORP	CCM	0.10	6.88	1.27	5.42	CND	
GRANDVIEW GOLD INC	GVX	0.08	2.88	1.49	1.93	CND	
SKYGOLD VENTURES LTD	SKV	0.19	12.76	1.85	6.90	CND	
<b>TYHEE DEVELOPMENT CORP</b>	<b>TDC</b>	<b>0.11</b>	<b>17.36</b>	<b>2.10</b>	<b>8.27</b>	<b>CND</b>	
SKYLINE GOLD CORP	SK	0.06	4.74	3.40	1.40	CND	
RAINY RIVER RESOURCES LTD	RR	1.94	85.26	4.03	21.15	CND	
BRETT RESOURCES INC	BBR	0.86	52.67	4.79	11.00	CND	
SEABRIDGE GOLD INC	SEA	32.64	1191.37	61.53	19.36	CND	

Prefeasibility & Beyond	Company	Ticker	CLOSE 31/07/09	Enterprise Value (mm)	Total Gold Resources (mm ozs)	EV/Resources (C\$/oz)	Primary Deposit Location
	GOLDEN BAND RES INC	GBN	0.29	38.47	1.07	35.87	CND
APOLLO GOLD CORPORATION	APG	0.47	146.51	2.43	60.42	CND	
LAKE SHORE GOLD CORP	LSG	3.24	573.11	1.49	384.12	CND	
QUEENSTON MNG INC	QMI	4.95	253.33	0.90	281.75	CND	
SAN GOLD CORP	SGR	2.94	734.83	1.60	459.11	CND	
KIRKLAND LAKE GOLD INC	KGI	8.82	490.96	1.82	269.46	CND	
COMAPLEX MINERALS CORP	CMF	4.20	217.12	2.93	74.11	CND	
SAS (ST ANDREW GOLDFIELDS LTD)	SAS	0.45	159.55	3.74	42.69	CND	
OSISKO MINING CORPORATION	OSK	6.83	1389.43	10.76	129.17	CND	
DETOUR GOLD CORP	DGC	9.89	406.84	13.22	30.79	CND	

Source: Company documents. EV=Enterprise Value

- Exploration up-side:** The deposits which make up the Yellowknife Gold project come from the following sources. The largest is the Ormsby zone which contains 1.2 million ounces grading 3.42 grams per tonne. The Bruce zone is on the Ormsby property and is located adjacent and along strike from Ormsby, but it is small. The Nicholas Lake zone is located 6 kilometres from Ormsby and has a measured and indicated resource of 311,000 ounces grading 3.54 grams per tonne. The Clan Lake measured and indicated resource is 254,000 grading 3.12 grams per tonne. Exploration upside exists at all projects. **Clan Lake, in particular, has the potential in doubling its resource base and is likely to be amenable to open-pit methods.**

A table of gold resources is given below.

### Exhibit 4: NI 43-101 Gold Resource\*: January 2009

Category	Ormsby	Nicholas	Bruce	GL Vad	Clan	Total Resource
<b>Measured</b>						
tonnes	3,003,000	1,249,000				4,252,000
gold grade (gpt)	3.41	3.81				3.53
ounces of gold	329,000	153,000				482,000
<b>Indicated</b>						
tonnes	7,898,000	1,484,000	791,000		2,527,000	12,700,000
gold grade (gpt)	3.42	3.32	3.31		3.12	3.34
ounces of gold	869,000	158,000	84,000		254,000	1,365,000
<b>M&amp;I</b>						
tonnes	<b>10,901,000</b>	<b>2,733,000</b>	<b>791,000</b>		<b>2,527,000</b>	<b>16,952,000</b>
gold grade (gpt)	<b>3.42</b>	<b>3.54</b>	<b>3.31</b>		<b>3.12</b>	<b>3.39</b>
ounces of gold	<b>1,198,000</b>	<b>311,000</b>	<b>84,000</b>		<b>254,000</b>	<b>1,847,000</b>
<b>Inferred</b>						
tonnes	223,000	955,000	396,000	971,000		2,545,000
gold grade (gpt)	3.14	3.92	2.76	2.91		3.29
ounces of gold	23,000	120,000	35,000	91,000		269,000

Ormsby, Bruce, GL Vad and Clan Main Zones at 1.25 gpt cut-off. Nicholas Lake Main Zone at 1.1 gpt cut-off

\*NI 43-101 Gold Resource: January 2009, Practico, V. QP.

Source: Company

- **Good Well Rounded Management Expertise:** The company's CEO is David Webb, has spent 30 years in mineral exploration and development, most of which has been spent in the Yellowknife area. His PhD was based on the Yellowknife Gold Belt. Dr. Webb's expertise is augmented by Val Practico, who is a former production and reserve geologist for the Yellowknife Con mine. Mr. Levesque and Mr. Burton are mining engineers. The management team is rounded out with Mr. Anderson as the CFO, Mr. Sylvestre as the Executive Vice-President and Mr. Wilson in charge of Environmental and Community affairs.
- **Reasonable Balance Sheet Strength:** The company had \$1.63 million in cash at the end of May 2009. The \$2.65 million from the financing which closed on July 15 2009 is to be used to advance the pre-feasibility study and to explore the Clan Lake zone and increase resources at that property.

#### Exhibit 5: BALANCE SHEET

	<i>As at</i>	
	May 31, 2009	November 30, 2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,627,740	\$ 2,669,436
Amounts receivable	23,925	42,037
Inventory	228,284	263,010
Prepaid expenses and advances	56,729	42,853
	<u>1,936,678</u>	<u>3,017,336</u>
Security deposits	474,000	474,000
Plant and equipment	704,170	784,987
Exploration properties	44,566,634	43,646,610
	<u>47,681,482</u>	<u>47,922,933</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued li:	\$ 178,945	\$ 258,549
Asset retirement obligation	490,000	490,000
Future income tax liability	1,346,760	1,124,306
	<u>2,015,705</u>	<u>1,872,855</u>
<b>Shareholders' Equity</b>		
Share capital	61,166,574	61,077,210
Contributed surplus	3,982,985	3,796,038
Deficit	(19,483,782)	(18,823,170)
	<u>45,665,777</u>	<u>46,050,078</u>
	<u>\$ 47,681,482</u>	<u>\$ 47,922,933</u>

Source: Company documents

**NB: The company subsequently raised \$2.65 million in a private placement which closed on July 15, 2009**

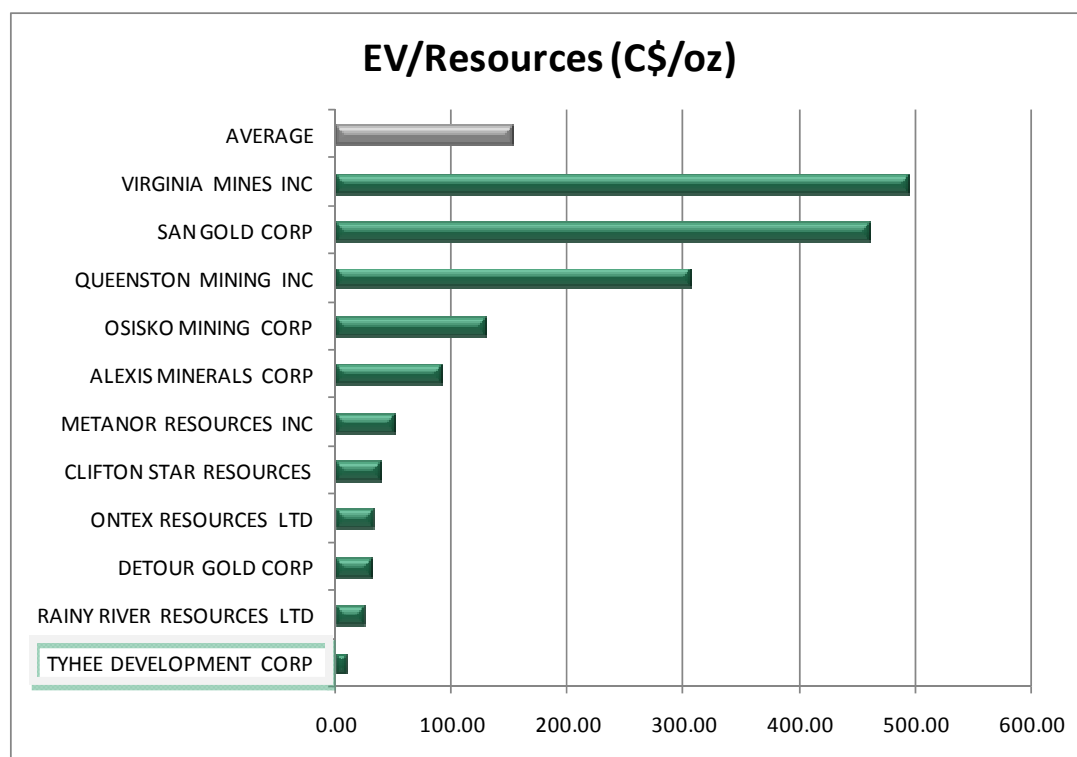
## Valuation – Initiating Coverage with a C\$0.44 target

We are initiating coverage of Tyhee Development Corp with a target price of C\$0.44 per fully diluted share. Our target price is based on current and projected market comparables of equivalent value per resource ounce (EV/resource ounce). We have also used the company's PEA to evaluate a fundamental value for the company. The target price is an average of the two methods used.

### Peer Comparison and Value Per Resource Ounce

We have compiled a list of development companies based on their adjusted market capitalization per resource ounce. These comparable companies have Canadian property and are in the same stage of development. Clearly Tyhee is inexpensive and one can expect a lift as the company moves to pre-feasibility.

#### Exhibit 6: Value Comparisons of Canadian Exploration Development Companies



Source: Company documents

We would also expect the company to trade at \$100 per resource ounce as it moves to pre-feasibility. The basis for this comes from the diagram above and a margin analysis using a projected gold price of US\$900 per ounce and a cost breakdown per ounce of a prospective operation based on the following.

**Exhibit 7: Breakdown per ounce of cost centre for a prospective mining operation**

Cost Centre	Amount
Cash operating cost/oz	\$400
Capital cost per ounce	\$150
Feasibility/Permitting	\$30
Pre-tax margin	\$320
Tax at 37%	\$120
Post-tax margin	\$200
50% of margin	*\$100

\*(Takes account of the time value of money by taking 50% of the per ounce margin)

Source: LOM

We can therefore value the shares at:  $1.2 * 100 / 235$  which equals \$0.51 per share.

NB. The equation is: potential resources for mining (in millions) times 100 (50% of the margin above) divided by the fully diluted share position (in millions)

**Fundamental Valuation-Using The PEA Economics**

In estimating the fundamental valuation of the company, we can use the company's PEA as a base. The PEA was authored by four experienced professionals and EBA Consultants Ltd. The PEA considered a joint open-pit and underground scenario with a throughput rate of 3,000 tonnes per day over a 7 year mine life. The Ormsby open pit mine would extract 2 million tonnes of ore grading 3.08 g/t with an overall strip ratio of 5.9, while the Nicholas Lake open pit mine would extract 470,000 tonnes grading 4.11 g/t with a strip ratio of 6.26. The underground operations would extract 3.8 million tonnes grading 5.55 g/t and 1.4 million tonnes grading 6.16 g/t from Nicholas Lake. The following table shows the major parameters used in the PEA:

**Exhibit 8: Parameters used in PEA**

PEA Parameters	
A	Total Resource Used - Measured and Indicated- 1.269 million ounces grading 3.52g/tonne
B	Inferred Resource - 374,000 ounces grading 3.21 g/tonne
C	Undiluted grade assumed
D	3,000 tpd processing rate for both open pit and underground mining
E	Open pit cut-off grade of 1.25 g/t gold and underground at 2.5 g/t gold
F	95% recovery for gold
G	Open pit slopes of 50 degrees
H	Underground bulk mining using open stope methodologies
I	Average gold price used C\$750 per ounce
J	C\$ at par with the US\$
K	\$140/barrel Oil
L	35c/KW hour power diesel generated
M	Capital costs C\$150 million which includes a 30% contingency
N	Open pit strip maximum 6:1. Max operating cost of \$36 per tonne all in including G&A
O	Underground all in \$56 per tonne including G&A
P	Average operating cost of \$390 per ounce
Q	Seven Year mine life

Source: Sedar, Company records

With above major assumptions the project has a net present value of \$143.58 million using a 5% discount rate and a pre-tax IRR of 21.44%

Normally companies will trade at a 50% discount to their net asset value (using a 5% discount rate and C\$750 per ounce gold) or 1 times net asset value (\$82 million) at a 10% discount rate when they reach the pre-feasibility stage. This would imply a value of \$0.35 cents per share for the company.

#### Exhibit 9: NPV Base Case Scenarios For The Yellowknife Project

Net Present Value Using Base Case Variations	
Economic Scenario	Pre-Tax Net Present Value @ 5% Discount
3,000 tdp @ \$750/ oz	143,576,211
3,000 tdp @ \$500/ oz	-61,638,497
3,000 tdp @ \$650/ oz	72,028,327
3,000 tdp @ \$900/ oz	239,073,552
3,000 tdp @ \$1,000/ oz	328,602,488
2,500 tdp @ \$750/ oz	149,565,717
3,500 tdp @ \$750/ oz	131,825,895
4,000 tdp @ \$750/ oz	93,101,452
1.5 g/t U/G Cutoff	73,353,589
3.5 g/t U/G Cutoff	142,738,912
Ore Grade +10%	210,581,643
Ore Grade -10%	76,570,779
Capital Cost +10%	125,517,765
Capital Cost -10%	161,634,656
Operating Cost +10%	109,807,268
Operating Cost -10%	177,345,154
Mine Life +1 yr	195,153,345
Mine Life -1 yr	89,420,220

Source: Sedar

## Valuation Risks – Normal Risks Of A Junior Explorer

**Political/Permitting Risk – Medium:** Tyhee operates in the North West Territories in an area widely known for mining and exploration. The area around Yellowknife has had a long history of gold mining and in the last 15 years diamond mining has become prevalent. The biggest challenges to starting a mine in the NWT is to do with permitting. Mines in the recent past have taken a long time to permit and need close consultation with native groups. Tyhee is going through the permitting process right now. The company appears to have good relationships with native groups. We are allowing for over one year to obtain operating permits.

**Exploration Risk – LOW:** We rarely classify exploration risk as low. This is because the company has drilled substantially.

**Financial Risk – MEDIUM:** The company will need further financings to put the mine into production. Currently the financing market is challenging and the company may have to seek a more senior partner.

**Production Risk – MEDIUM:** The prospective mine is likely to be of medium quality, because of the deposit's moderate grade.

**Forecast Risk – MEDIUM:** Our forecast depends on commodity prices and currency exchange rates which tend to be quite volatile. We have used estimates of long-term metal prices and exchange rates that we believe to be reliable. However, all natural resource projects are primarily sensitive to changes in commodity prices and currency exchange rates. Even relatively minor changes in commodity prices or currency exchange rates can have a major effect on project economics, both positive and negative.

## Appendix A

### Management & Board of Directors

**David R. Webb, B.A.Sc.,  
M.Sc., Ph.D., P.Geol.,**  
President & CEO, Director

David has over 30 years experience in gold exploration and mine development at Cominco, Gulf Minerals, the Geological Survey of Canada and in property acquisition evaluations for several private and junior companies. He is also a Director of the Northwest Territories and Nunavut Chamber of Mines.

**Lorne B. Anderson, C.A.,**  
Chief Financial Officer

Lorne was the former Chief Financial Officer and Treasurer of Glamis Gold Ltd. He has ten years experience in the mining industry, during which time he was involved with administration; both equity and bank financings, and investor relations programs. He is involved in the oil and gas industry and has agreed to be a director of another mining company.

**Roger G. Sylvestre, Dipl.T.,**  
Exec. Vice President,  
Director

Roger has over 45 years of international experience in exploration drilling in over twenty countries. He is a founding director of Tyhee.

**Val Pratico, B.Sc., P. Geol.,**  
Chief Geologist

Val has 26 years of mineral exploration and production experience and was an exploration and production geologist for the Yellowknife Con Mine from 1981 to 1990. Other recent positions include Chief Geologist for Leader Mining International's Nevada gold project, Chief Geologist for Birch Mountain Resources Ltd. and various executive positions with the Calgary Mineral Exploration Group Society. Val is a graduate of the University of British Columbia and the British Columbia Institute of Technology.

**Denis M. Taschuk, CA,**  
Chairman and Director

Denis is a partner and Chief Financial Officer of JAG Flocomponents n.a., a manufacturer of valves for the oil and gas industry. He was Chief Financial Officer and Vice-President of Finance and Administration for Cytovax Biotechnologies Inc. Prior to that he was Manager of Canadian Tax for Echo Bay Mines Ltd. He has over 16 years experience in the mining industry particularly in the areas of corporate finance and tax

**Dave Nickerson, M.Sc.,  
P.Eng.,**  
Director

Dave is a Professional Engineer and Geologist with vast experience in the NWT. He is a former Chairman of the NWT Water Board, a former MLA, NWT and a former Minister of Health & Social Services, and a former Member of Parliament.

**Bill Burton, P.Eng.,**  
Director

Bill was previously General Manager for Echo Bay's Lupin Mine and held other senior executive positions with Echo Bay Mines Ltd. He is currently VP Operations for Western Canadian Coal Corp.

Source: Company Documents, LOM



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