

LINUX GOLD CORP.

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

LINUX GOLD CORP.
(An Exploration Stage Company)

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
(Unaudited)

May 31, 2006

NOTICE TO READER

We have compiled the consolidated balance sheet of Linux Gold Corp. as at May 31, 2006 and the consolidated statements of loss and deficit and cash flows for the year then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

/s/ Lancaster & David

CHARTERED ACCOUNTANTS

Vancouver, BC
July 24, 2006

LINUX GOLD CORP.
(An Exploration Stage Company)
INTERIM CONSOLIDATED BALANCE SHEETS
(Stated in Canadian Dollars)
(Unaudited – See Notice to Reader)

	May 31, 2006	February 28, 2006 (Audited)
ASSETS		
Current		
Cash and cash equivalents	\$ 1,395,250	\$ 396,049
Amounts receivable	53,752	53,417
Marketable securities	336,000	72,000
Prepaid expenses and deposits	9,645	10,999
Total Current Assets	1,794,647	532,465
Debt Issue Costs, net of amortization of \$2,024	158,643	–
Property and Equipment (Note 5)	9,425	10,175
Total Assets	\$ 1,962,715	\$ 542,640
LIABILITIES		
Current		
Accounts payable	\$ 101,201	\$ 142,943
Accrued liabilities	28,440	26,643
Accrued liabilities to related parties (Note 7(a))	96,840	88,815
Due to related parties (Note 7(b))	345,421	204,394
Total Current Liabilities	571,902	462,795
Convertible Debentures, less unamortized discount of \$1,682,414 (Note 8)	73,302	–
Total Liabilities	645,204	462,795
Commitments (Note 12)		
STOCKHOLDERS' EQUITY		
Common Stock (Note 9)		
Authorized:		
200,000,000 common shares without par value		
Issued:		
68,387,773 common shares (2005 – 68,287,773 shares)	10,682,045	9,005,424
Donated Capital	312,466	295,195
Accumulated Other Comprehensive Income (Loss)	6,000	(8,000)
Deficit Accumulated from Prior Operations	(7,524,145)	(7,524,145)
Deficit Accumulated During the Exploration Stage	(2,158,855)	(1,688,629)
Total Stockholders' Equity	1,317,511	79,845
Total Liabilities and Stockholders' Equity	\$ 1,962,715	\$ 542,640

Approved by the Directors:

“John Robertson”
J. Robertson – Director

“Jennifer Lorette”
J. Lorette – Director

(The accompanying notes are an integral part of these consolidated financial statements)

LINUX GOLD CORP.
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(Stated in Canadian Dollars)
(Unaudited – See Notice to Reader)

	For the Three Months Ended May 31, 2006	For the Three Months Ended May 31, 2005
Revenue	\$ –	\$ –
General and Administrative Expenses		
Amortization	2,774	3,121
Consulting and subcontract	236,475	41,831
Filing and regulatory fees	6,631	1,509
Foreign exchange	13,301	878
Imputed interest (Note 7(b))	17,271	9,408
Interest expense (Note 8)	73,302	4,950
Management and directors fees (Note 7(a))	7,500	10,500
Office, rent and telephone	52,711	26,781
Professional fees	16,530	9,619
Travel	22,447	2,823
Less: Interest income	(5,103)	(1,646)
	<u>443,839</u>	<u>109,774</u>
Natural Resources		
Exploration costs	26,387	90,262
	<u>26,387</u>	<u>90,262</u>
Net Loss for the Period	(470,226)	(200,036)
Deficit, Beginning of Period	(9,212,774)	(8,393,078)
Deficit, End of Period	<u>\$ (9,683,000)</u>	<u>\$ (8,593,114)</u>
Basic and Diluted Loss Per Share	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>
Weighted Average Number Of Shares Outstanding	<u>68,325,000</u>	<u>64,952,000</u>

(The accompanying notes are an integral part of these consolidated financial statements)

LINUX GOLD CORP.
(An Exploration Stage Company)
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in Canadian Dollars)
(Unaudited – See Notice to Reader)

	For the Three Months Ended May 31, 2006	For the Three Months Ended May 31, 2005
Cash Flows Used In Operating Activities		
Net loss for the period	\$ (470,226)	\$ (200,036)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization	2,774	3,121
Interest expense relating to accretion of convertible debt	73,302	4,950
Imputed interest	17,271	9,408
	<u>(376,879)</u>	<u>(182,557)</u>
Changes in operating assets and liabilities		
Accounts receivable	16,311	(2,636)
Prepaid expenses	1,354	(6,335)
Accounts payable and accrued liabilities	(39,945)	(8,062)
Accrued liabilities to related parties	146,915	9,786
	<u>(124,635)</u>	<u>(7,247)</u>
	<u>(252,244)</u>	<u>(189,804)</u>
Cash Flows Used In Investing Activities		
Purchase of property and equipment	–	(337)
Marketable Securities	(250,000)	–
	<u>(250,000)</u>	<u>(337)</u>
Cash Flows Provided By Financing Activities		
Advances from related parties	2,137	–
Debt issue costs	(160,667)	–
Convertible note	1,647,904	–
Proceeds from sale of common stock	12,071	–
	<u>1,501,445</u>	<u>–</u>
(Decrease) Increase in Cash and Cash Equivalents	999,201	(190,141)
Cash and Cash Equivalents, Beginning of Period	396,049	398,433
Cash and Cash Equivalents, End of Period	<u>\$ 1,395,250</u>	<u>\$ 208,292</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ –	\$ –
Income taxes paid	\$ –	\$ –

(The accompanying notes are an integral part of these consolidated financial statements)

LINUX GOLD CORP.
(An Exploration Stage Company)
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2006
(Stated in Canadian Dollars)
(Unaudited – See Notice to Reader)

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

The Company was incorporated February 27, 1979 in Canada under the British Columbia Company Act and was extra-provincially registered in the Province of Alberta on October 12, 1995.

The Company voluntarily de-listed from the Canadian Venture Exchange on December 14, 1999. The Company's stock currently trades on the Over the Counter Bulletin Board in the United States under the symbol "LNXGF".

On February 20, 2003, the shareholders approved a change of name to Linux Gold Corp. and increased the authorized share capital to 200,000,000 common shares without par value. The Company had been previously pursuing various business opportunities and, elective March 1, 2003, the Company changed its principal operations to mineral exploration. Accordingly, as of March 1, 2003, the Company is considered an exploration stage company.

2. INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, and are presented in Canadian dollars. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited interim consolidated financial statements have been prepared in accordance with the accounting principles and policies described in the Company's annual financial statements for the year ended February 28, 2006, and should be read in conjunction with those statements. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the three-month period ended May 31, 2006 are not necessarily indicative of the results that may be expected for the year ended February 28, 2007.

3. COMPREHENSIVE INCOME (LOSS)

SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income (loss) and its components in the financial statements. As at May 31, 2006 and 2005, the Company's only component of comprehensive income (loss) was unrealized holding gains and losses on available for sale securities.

	Three Months Ended May 31, 2006	Three Months Ended May 31, 2005
Net loss for the period	\$ (470,226)	\$ (200,03
Other comprehensive income (loss)	\$ -	\$
Unrealized holding gain (loss) on investments	14,00	(16,00
Comprehensive loss for the period	\$ (456,22)	\$ (216,03

4. RECENT ACCOUNTING PRONOUNCEMENTS

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on their results of operations, financial position or cash flow.

LINUX GOLD CORP.
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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2006
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5. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	May 31, 2006 Net Carrying Value \$	February 28, 2006 Net Carrying Value \$
Computer hardware	25,358	25,358	–	–
Office furniture	1,408	923	485	510
Vehicle	15,531	6,591	8,940	9,665
	42,297	32,872	9,425	10,175

6. MINERAL PROPERTIES

a) Alaska Mineral Properties

- i) Fish Creek Property: The Company owns a 50% joint venture interest in 30 claims located in the Fairbanks Mining Division, Alaska, USA, known as the Fish Creek Claims. During fiscal 2003, the Company optioned its 50% interest in the 30 Fish Creek Claims to Teryl Resources Corp. ("Teryl") (a related company). Under the terms of the agreement, Teryl issued 200,000 common shares to the Company at a fair value of \$80,000 and must expend \$500,000 over three years. The Company retained a 5% net royalty interest, until US\$2,000,000 has been received, and may convert into a 25% working interest. The Company entered into an amending agreement with Teryl to extend the term of the original Fish Creek Claims agreement until March 7, 2007. Teryl will issue 100,000 common shares to the Company, and also agrees to expend a minimum of US\$500,000 within two years from the date of this amending agreement. All other terms of the original agreement remain the same.
- ii) Granite Mountain Property: The Company staked three claim blocks consisting of a total of 148 mining claims located in the State of Alaska.

b) British Columbia Mineral Properties

- i. TY Property: The Company acquired the TY Area, TY Grid 2 and 3 (21 units) mineral claims located in the Lillooet Mining Division in British Columbia under the following terms and conditions:
 - a. The Company must pay \$30,000 in various stages to December 1, 2004 (paid).
 - b. The Company must issue 150,000 shares as follows: 100,000 upon signing the agreement and receiving regulatory approval (issued), and 50,000 shares upon completion of Phase III (issued).
 - c. The vendor will retain a 2% net smelter return interest ("NSR"). The Company may purchase the NSR for \$1,000,000 for each 1% prior to commercial production, in shares or in cash.

During the year ended February 29, 2004, the Company staked an additional three mineral claims representing 35 units.

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6. MINERAL PROPERTIES (continued)

b) British Columbia Mineral Properties (continued)

ii. ORO Property: The Company acquired the ORO (20 units) claim in the Lillooet Mining Division in British Columbia under the following terms and conditions:

a. The Company paid \$10,000 and issued 100,000 common shares.

b. The vendor will retain a 2% net smelter return interest ("NSR"). The Company may purchase the NSR for \$1,000,000 for each 1% prior to commercial production, in shares or in cash.

During the year ended February 29, 2004, the Company staked an additional mineral claim representing 5 units. The President of the Company is the registered owner of the mineral properties. The Company is entered into a trust agreement stating that these mineral claims are held in trust on behalf of the Company. The Company has re-staked the TY property and acquired additional claims in the same area.

c) China Mineral Property

On January 20, 2004, the Company acquired an option to purchase 100% of the shares of Ginyen Recovery Inc. Ginyen Recovery Inc. has an 85% interest in a co-operative joint venture with Bo Luo Neo Wang Yuan Gold Mine Company ("BLN Gold") of Heibei Province, China. BLN Gold holds an operational gold recovery mill; the right and license to operate all existing small mines in the district; the right to explore, develop and produce gold and silver in the district and options to expand to other districts.

To complete the option agreement, the Company must:

i. pay \$55,000 as follows: \$10,000 upon regulatory approval; \$15,000 upon completion of Phase I; \$15,000 upon completion of Phase II; and a minimum of \$15,000 annually or 5% of net profits paid quarterly, which ever is greater.

ii. issue 200,000 shares as follows: 50,000 upon regulatory approval (issued); 50,000 upon completion of Phase I; 50,000 upon completion of Phase II; and 50,000 upon completion of Phase III. The Company also issued 50,000 common shares as a finders' fee.

iii. incur production expenses, subject to successful results in each phase, of \$500,000 as follows: \$160,000 (\$114,457 incurred) for Phase I; \$130,000 for Phase II; and \$210,000 for Phase III.

	Alaska Mineral Properties	British Columbia Mineral Properties	China Mineral Property	Three Months Ended May 31, 2006
<i>Acquisition costs:</i>	\$ -	\$ -	\$ -	\$ -
<i>Exploration and development costs:</i>				
Staking and recording fees	3,149	-	-	3,149
Geological consulting	23,238	-	-	23,238
Transportation	-	-	-	-
<i>Incurred during the period</i>	\$ 26,387	\$ -	\$ -	\$ 26,387

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7. RELATED PARTY TRANSACTIONS

- a) All related party transactions have been measured at their exchange amounts and were considered to be fair market value transactions. The Company incurred the following transactions during the period:
- i. Pursuant to a management services agreement, the Company paid management fees of \$7,500 (2005 - \$10,500), to a company where the President of the Company is a director. These amounts have been included in accrued liabilities at May 31, 2006.
 - ii. The Company paid a director's fee of \$3,000 (2005 - \$3,000) to the President of the Company.
 - iii. Refer to Note 6(a) for a joint venture agreement with a related company.
 - iv. Refer to Note 6(b) for ownership of mineral claims.
 - v. At May 31, 2006, the Company is indebted to a company where the President of the Company is a director in the amount of \$93,630, and to the President in the amount of \$3,210, representing unpaid management fees and rent. These amounts are non-interest bearing, unsecured and have no specific terms of repayment.
- b) Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Imputed interest, at 15%, totalling \$17,271 (May 31, 2005 - \$9,408) was charged to operations and treated as donated capital. Unless otherwise indicated, the following table represents companies controlled by the President and CEO of the Company or companies where he is the President and CEO.

	February 28 2006	Advances/ (Repayments)	May 31, 2006
Access Information Services, Inc.	\$ 48,287	\$ –	\$ 48,287
IAS Communications Inc.	(3,151)	–	(3,151)
JGR Petroleum, Inc.	66,099	–	66,099
J. Robertson, President and CEO	3,029	1,787	4,816
Rainbow Network	68,610	–	68,610
REGI U.S., Inc.	(38)	–	(38)
SMR Investments Ltd.	(18,658)	138,890	120,232
Teryl Resources Corp.	40,216	–	40,216
Monique Van Oord	–	350	350
	<u>\$ 204,394</u>	<u>\$ 141,027</u>	<u>\$ 345,421</u>

8. CONVERTIBLE DEBENTURES

The Company completed a private placement financing of US\$2,000,000 on May 8, 2006 with several institutional investors consisting of secured convertible discount notes (the "Discount Notes") with a principal amount of US\$2,105,250. The Discount Notes were issued at a discount of 5%, are convertible into common stock at a conversion price of \$0.40 per share and mature on November 8, 2007. The Company received proceeds of US\$1,500,000 at closing with the remaining US\$500,000 to be funded upon the filing of a resale registration statement with the United States Securities and Exchange Commission. The investors will also receive Series A warrants to purchase, in the aggregate, 5,000,000 shares of common stock at \$0.50 per share exercisable immediately for a term of five years, and Series B warrants to purchase, in the aggregate, an additional 2,500,000 shares of common stock at \$0.52 per share exercisable upon the earlier of one year after the effectiveness of the resale registration statement or ten years. The securities were issued in a private placement transaction pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company is obligated to file a registration statement registering the resale of shares of the Company's common stock issuable upon conversion of the Discount Notes and exercise of the Warrants. The Company will receive approximately \$1,825,000 net proceeds from this transaction. The funds will be used for continued exploration and development expenses on the Granite Mountain claims and for general working capital purposes.

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8. CONVERTIBLE DEBENTURES (Continued)

In accordance with EITF 98-5 “Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios”, the Company recognized the value of the embedded beneficial conversion feature of US\$578,117 (CDN\$641,536) as additional paid-in capital as the debt was issued with a fair value conversion feature. In addition, in accordance with EITF 00-27 “Application of Issue No. 98-5 to Certain Convertible Instruments”, the Company allocated the proceeds of issuance between the convertible debt and the detachable warrants based on their relative fair values. Accordingly, the Company recognized the fair value of the detachable warrants of US\$921,883 (CDN\$1,023,014) as additional paid-in capital. The Company will record further interest expense over the term of the Discount Notes of US\$1,578,939 (CDN\$1,752,149) resulting from the difference between the stated value and carrying value at the date of issuance. The carrying value of the Discount Notes will be accrued to the face value of US\$1,578,939 (CDN\$1,752,149) to maturity. To May 31, 2006, interest expense of \$73,302 has been accreted increasing the carrying value of the Discount Notes to \$73,302.

9. COMMON STOCK

Authorized:

200,000,000 common shares without par value.

Issued:

	NUMBER OF SHARES	AMOUNT
Balance, February 28, 2006	68,287,773	\$ 8,770,394
Issued during the period:		
Exercise of options	100,000	12,071
Balance, May 31, 2006	68,387,773	\$ 8,782,465

- a) During the three month period ended May 31, 2006, the Company issued 93,750 common shares upon the exercise of 93,750 stock options at US\$0.10 per share for cash proceeds of \$10,649.
- b) During the three month period ended May 31, 2006, the Company issued 6,250 common shares upon the exercise of 6,250 stock options at US\$0.20 per share for cash proceeds of \$1,422.

10. WARRANTS

A summary of the changes in the Company’s share purchase warrants is presented below:

	May 31, 2006		February 28, 2006	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	4,811,027	US\$ 0.20	3,563,527	US\$ 0.21
Granted	5,625,001	US\$ 0.51	1,500,000	US\$ 0.25
Exercised	–	–	(92,500)	US\$ 0.25
Forfeited / Expired	–	–	(160,000)	US\$ 0.23
Balance, end of period	10,436,028	US\$ 0.37	4,811,027	US\$ 0.20

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10. STOCK OPTIONS

The Company has a stock option plan to issue up to 10% of the issued common shares to certain directors and employees. A summary of the changes in the Company's common share purchase options is presented below:

	May 31, 2006		May 31, 2005	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of period	2,443,750	US\$ 0.11	3,587,500	US\$ 0.11
Granted	–	–		
Exercised	(100,000)	US\$ 0.13		
Forfeited / Expired	–	–	(25,000)	US\$ 0.11
Balance, end of period	2,343,750	US\$ 0.13	3,562,500	US\$ 0.11

Additional information regarding options outstanding as at May 31, 2006 is as follows:

Exercise prices	Outstanding			Exercisable	
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares	Weighted average exercise price
US\$ 0.00 – \$ 0.10	1,800,000	2.11	US\$ 0.10	1,800,000	US\$ 0.10
US\$ 0.11 – \$ 0.20	318,750	2.17	US\$ 0.18	318,750	US\$ 0.18
US\$ 0.21 – \$ 0.30	225,000	1.73	US\$ 0.30	225,000	US\$ 0.30
	2,343,750	2.08	US\$ 0.13	2,343,750	US\$ 0.13

11. COMMITMENT

The Company signed a consulting agreement with CEOcast, Inc. on March 8, 2006 for investor relations services at \$7,500 per month for six months, and 350,000 shares of the Company common stock.