

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)
31 August 2009
(Unaudited)

Linux Gold Corp.
(An Exploration Stage Company)
Interim Consolidated Balance Sheets
(Expressed in Canadian Dollars)
(Unaudited)

	As at 31 August 2009 (Unaudited) \$	As at 28 February 2009 (Audited) \$
Assets		
Current		
Cash and cash equivalents	254	13,894
Goods and Services Tax receivable	3,699	7,938
Available-for-sale investments (Note 3)	195,000	78,000
Prepaid expenses and deposits	4,866	4,012
	203,819	103,844
Property and equipment (Note 4)	7,665	9,098
	211,484	112,942
Liabilities		
Current		
Bank indebtedness	1,123	-
Accounts payable and accrued liabilities (Note 6)	188,662	188,787
Due to related parties (Note 7)	284,016	211,140
	473,801	399,927
Stockholders' deficiency		
Capital stock (Note 9)		
Authorized		
200,000,000 common shares without par value		
Issued and outstanding		
31 August 2009 – 87,650,825 common shares		
28 February 2009 – 87,650,825 common shares	15,052,102	15,051,086
Share subscriptions received in advance (Note 13)	63,648	-
Donated capital	397,982	383,961
Accumulated other comprehensive loss	(151,000)	(268,000)
Deficit, accumulated from prior operations	(7,524,145)	(7,524,145)
Deficit, accumulated during the exploration stage	(8,100,904)	(7,929,887)
	(262,317)	(286,985)
	211,484	112,942

Nature and Continuance of Operations (Note 1), **Commitments** (Note 10) and **Subsequent Events** (Note 13)

On behalf of the Board:

“John Robertson” _____

Director

“Jennifer 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 Operations
(Expressed in Canadian Dollars)
(Unaudited)

	Cumulative from inception of exploration stage on 1 March 2003 to 31 August 2009 \$	For the three month period ended 31 August 2009 \$	For the three month period ended 31 August 2008 \$	For the six month period ended 31 August 2009 \$	For the six month period ended 31 August 2008 \$
General and administrative expenses					
Amortization of debt issue costs	205,242	-	-	-	-
Amortization of property and equipment	28,329	717	717	1,433	1,434
Bad debt expense	84,952	-	-	-	-
Consulting and subcontracts	1,468,667	13,344	39,991	50,866	81,576
Filing and regulatory fees	144,910	4,416	8,677	4,937	16,769
Financing costs	608	-	-	608	-
Foreign exchange (gain) / loss	(26,692)	(2,112)	396	(17,170)	14,836
Imputed interest	192,482	7,408	6,808	14,021	13,447
Interest expense	2,302,583	-	-	-	-
Management fees	199,750	7,500	7,500	15,000	15,000
Mineral property exploration and development costs	1,816,755	583	11,420	1,668	20,948
Office, rent and telephone	675,463	7,298	11,620	17,788	23,649
Professional fees	425,697	43,083	19,282	48,533	19,469
Travel and promotion	913,034	30,075	49,183	33,333	77,364
Net loss before other items	(8,431,780)	(112,312)	(155,594)	(171,017)	(284,492)
Other items					
Mineral property acquisition costs written off	(126,417)	-	-	-	-
Gain on issue of shares	-	-	-	-	27,000
Accounts payable written off	46,281	-	-	-	-
Income from discontinued operations	369,213	-	-	-	-
Interest income	41,799	-	783	-	822
Net loss for the period	(8,100,904)	(112,312)	(154,811)	(171,017)	(256,670)
Loss per Share – Basic and Diluted		(0.001)	(0.002)	(0.001)	(0.003)
Weighted Average Shares Outstanding		87,650,825	87,339,363	87,650,825	85,373,879
Comprehensive loss					
Net loss for the period	(8,100,904)	(112,312)	(154,811)	(171,017)	(256,670)
Unrealized holding gain (loss) on available-for-sale investments	(151,000)	91,000	(104,000)	117,000	(182,000)
Comprehensive loss	(8,251,904)	(21,312)	(258,811)	(54,017)	(438,670)
Comprehensive loss per share		(0.001)	(0.003)	(0.001)	(0.005)

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
(Expressed in Canadian Dollars)
(Unaudited)

	Cumulative from inception of exploration stage on 1 March 2003 to 31 August 2009 \$	For the three month period ended 31 August 2009 \$	For the three month period ended 31 August 2008 \$	For the six month period ended 31 August 2009 \$	For the six month period ended 31 August 2008 \$
Cash flows used in operating activities					
Net loss for the period	(8,100,904)	(112,312)	(154,811)	(171,017)	(256,670)
Adjustments to reconcile loss to net cash used by operating activities					
Amortization of debt issue costs	205,242	-	-	-	-
Amortization of property and equipment	28,329	717	717	1,433	1,434
Receipt of marketable securities for property	(16,000)	-	-	-	-
Accretion of discount on convertible debt	2,291,794	-	-	-	-
Bad debt expense	84,952	-	-	-	-
Imputed interest	192,482	7,408	6,808	14,021	13,447
Accounts payable written off	(46,281)	-	-	-	-
Mineral property acquisition costs written off	126,417	-	-	-	-
Stock-based compensation	268,958	-	-	408	-
Shares issued for services	120,000	-	-	-	(27,000)
Shares issued for settlement of rent obligation	19,200	-	-	-	-
Financing costs	608	-	-	608	-
Income from discontinued operations	(369,213)	-	-	-	-
Changes in operating assets and liabilities					
Goods and Services Tax Receivable	41,206	6,183	(458)	4,239	301
Prepaid expenses and deposits	(4,375)	(854)	15,826	(854)	12,918
Accounts payable and accrued liabilities	(90,217)	1,801	14,470	(125)	(169,389)
Due to related parties	226,436	31,679	(18,375)	72,876	(28,209)
	<u>(5,021,366)</u>	<u>(65,378)</u>	<u>(135,823)</u>	<u>(78,411)</u>	<u>(453,168)</u>
Cash flows used in investing activities					
Mineral interest acquisition costs	(66,417)	-	-	-	-
Purchase of marketable securities	(35,994)	-	-	-	-
Purchase of property and equipment	(250,000)	-	-	-	-
	<u>(352,411)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from financing activities					
Advances from related parties	16,238	-	-	-	-
Debt issue costs	(205,242)	-	-	-	-
Proceeds from convertible debt	2,226,251	-	-	-	-
Repayment of debt	(153,400)	-	-	-	-
Proceeds from issuance of shares	3,446,649	-	16,459	-	638,321
Share subscriptions received	115,925	63,648	-	63,648	-
Private placement costs	(84,647)	-	-	-	-
	<u>5,361,774</u>	<u>63,648</u>	<u>16,459</u>	<u>63,648</u>	<u>638,321</u>
Increase (decrease) in cash and cash equivalents	(12,003)	(1,730)	(119,364)	(14,763)	185,153
Cash and cash equivalents, beginning of period	11,134	861	312,753	13,894	8,236
Cash and cash equivalents, end of period	<u>(869)</u>	<u>(869)</u>	<u>193,389</u>	<u>(869)</u>	<u>193,389</u>

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

Linux Gold Corp.
(An Exploration Stage Company)
Consolidated Statements of Changes in Stockholders' Equity (Deficiency)
(Expressed in Canadian Dollars)
(Unaudited)

	Shares of common stock issued	Common stock and paid-in capital \$	Subscriptions received, net \$	Donated capital \$	Deficit accumulate d from prior operations \$	Deficit accumulate d during the exploration stage \$	Accumulated other comprehensive income (loss) \$	Total stockholders' equity (deficiency) \$
Balance from prior operations at 1 March 2003	57,458,413	6,804,412	-	205,500	(7,524,145)	-	-	(514,233)
Common stock issued for mineral property	175,000	17,500	-	-	-	-	-	17,500
Common stock issued for services	1,000,000	100,000	-	-	-	-	-	100,000
Common stock issued for settlement of rent obligation	200,000	19,200	-	-	-	-	-	19,200
Options exercised	150,000	19,812	-	-	-	-	-	19,812
Warrants exercised	1,300,000	280,922	-	-	-	-	-	280,922
Imputed interest	-	-	-	22,960	-	-	-	22,960
Marketable securities adjustment	-	-	-	-	-	-	44,000	44,000
Net loss for the year	-	-	-	-	-	(3,738)	-	(3,738)
Balance at 29 February 2004	60,283,413	7,241,846	-	228,460	(7,524,145)	(3,738)	44,000	(13,577)
Common stock issued for mineral property	125,000	45,384	-	-	-	-	-	45,384
Common stock issued for cash	4,205,610	860,089	-	-	-	-	-	860,089
Options exercised	87,500	10,606	-	-	-	-	-	10,606
Warrants exercised	250,000	37,500	-	-	-	-	-	37,500
Imputed interest	-	-	-	35,013	-	-	-	35,013
Stock-based compensation	-	82,000	-	-	-	-	-	82,000
Marketable securities adjustment	-	-	-	-	-	-	(54,000)	(54,000)
Net loss for the year	-	-	-	-	-	(748,369)	-	(748,369)
Balance at 29 February 2005	64,951,523	8,277,425	-	263,473	(7,524,145)	(752,107)	(10,000)	254,646
Common stock issued for mineral property	50,000	20,500	-	-	-	-	-	20,500
Common stock issued for cash	3,100,000	715,127	-	-	-	-	-	715,127
Options exercised	93,750	10,838	-	-	-	-	-	10,838
Warrants exercised	92,500	21,825	-	-	-	-	-	21,825
Share issue costs	-	(42,571)	-	-	-	-	-	(42,571)
Imputed interest	-	-	-	31,722	-	-	-	31,722
Stock-based compensation	-	2,280	-	-	-	-	-	2,280
Marketable securities adjustment	-	-	-	-	-	-	2,000	2,000
Net loss for the year	-	-	-	-	-	(810,105)	-	(810,105)
Balance at 28 February 2006	68,287,773	9,005,424	-	295,195	(7,524,145)	(1,562,212)	(8,000)	206,262
Subscriptions received	-	-	52,277	-	-	-	-	52,277
Common stock issued for debt	2,586,076	644,749	-	-	-	-	-	644,749
Options exercised	323,750	75,670	-	-	-	-	-	75,670
Warrants exercised	52,500	15,329	(14,600)	-	-	-	-	729
Share issue costs	-	(2,613)	-	-	-	-	-	(2,613)
Imputed interest	-	-	-	53,657	-	-	-	53,657
Intrinsic value of beneficial conversion feature of convertible debentures	-	963,670	-	-	-	-	-	963,670
Fair value of warrants issued with convertible debentures	-	1,262,580	-	-	-	-	-	1,262,580
Stock-based compensation	-	109,228	-	-	-	-	-	109,228
Marketable securities adjustment	-	-	-	-	-	-	(130,000)	(130,000)
Net loss for the year	-	-	-	-	-	(3,571,183)	-	(3,571,183)
Balance at 28 February 2007	71,250,099	12,074,037	37,677	348,852	(7,524,145)	(5,133,395)	(138,000)	(334,974)
Subscriptions received	-	-	40,062	-	-	-	-	40,062
Common stock issued for debt redemption	8,378,226	1,493,911	-	-	-	-	-	1,493,911
Common stock issued for cash	2,825,000	615,195	(52,277)	-	-	-	-	562,918
Options exercised	212,500	24,020	-	-	-	-	-	24,020
Warrants exercised	430,000	94,501	14,600	-	-	-	-	109,101
Share issue costs	-	(4,003)	-	-	-	-	-	(4,003)
Imputed interest	-	-	-	8,966	-	-	-	8,966
Stock-based compensation	-	75,042	-	-	-	-	-	75,042
Marketable securities adjustment	-	-	-	-	-	-	78,000	78,000
Net loss for the year	-	-	-	-	-	(2,260,291)	-	(2,260,291)
Balance at 29 February 2008	83,095,825	14,372,703	40,062	357,818	(7,524,145)	(7,393,686)	(60,000)	(207,248)

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

Linux Gold Corp.**(An Exploration Stage Company)**

Consolidated Statements of Changes in Stockholders' Equity (Deficiency), continued

(Expressed in Canadian Dollars)

(Unaudited)

	Shares of common stock issued	Common stock and paid-in capital \$	Subscriptions received, net \$	Donated capital \$	Deficit accumulate d from prior operations \$	Deficit accumulate d during the exploration stage \$	Accumulated other comprehensive income (loss) \$	Total stockholders' equity (deficiency) \$
Balance at 29 February 2008	83,095,825	14,372,703	40,062	357,818	(7,524,145)	(7,393,686)	(60,000)	(207,248)
Common stock issued for cash	4,555,000	507,867	(40,062)	-	-	-	-	467,805
Fair value of warrants issued with common shares	-	205,975	-	-	-	-	-	205,975
Share issue costs	-	(35,459)	-	-	-	-	-	(35,459)
Imputed interest	-	-	-	26,143	-	-	-	26,143
Unrealized holding loss on available-for-sale investment	-	-	-	-	-	-	(208,000)	(208,000)
Net loss for the year	-	-	-	-	-	(536,201)	-	(536,201)
Balance at 28 February 2009	87,650,825	15,051,086	-	383,961	(7,524,145)	(7,929,887)	(268,000)	(286,985)
Subscriptions received	-	-	63,648	-	-	-	-	63,648
Imputed interest	-	-	-	14,021	-	-	-	14,021
Stock-based compensation	-	408	-	-	-	-	-	408
Financing costs	-	608	-	-	-	-	-	608
Marketable securities adjustment	-	-	-	-	-	-	117,000	117,000
Net loss for the period	-	-	-	-	-	(171,017)	-	(171,017)
Balance at 31 August 2009	87,650,825	15,052,102	63,648	397,982	(7,524,145)	(8,100,904)	(151,000)	(262,317)

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

Linux Gold Corp.

(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements
(Expressed in Canadian Dollars)

31 August 2009
(Unaudited)

1. Nature and Continuance of Operations

Linux Gold Corp. (the “Company”) was incorporated on 27 February 1979 in Canada under the British Columbia Company Act and was extra-provincially registered in the Province of Alberta on 12 October 1995. The Company’s stock trades on the Over the Counter Bulletin Board in the United States under the symbol “LNXGF”.

On 20 February 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, effective 1 March 2003, the Company changed its principal operations to mineral exploration. Accordingly, as of 1 March 2003, the Company is considered to be an exploration stage company.

The Company’s interim consolidated financial statements as at 31 August 2009 and for the six month period then ended have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The Company has a loss of \$171,017 for the six month period ended 31 August 2009 (2008 – \$256,670) and has a working capital deficit of \$269,982 at 31 August 2009 (28 February 2009 – \$296,083).

Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive, or raise additional debt and/or equity capital. Management believes that the Company’s capital resources should be adequate to continue operating and maintaining its business strategy. However, if the Company is unable to raise additional capital in the near future, due to the Company’s liquidity problems, management expects that the Company will need to curtail operations, liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. These consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

At 31 August 2009, the Company has suffered losses from exploration stage activities to date. Although management is currently seeking additional sources of equity or debt financing, there is no assurance these activities will be successful. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The interim consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Basis of Presentation and Consolidation

These unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information using the same accounting policies and methods of application as the audited consolidated financial statements of the Company for the year ended February 28, 2009. These unaudited interim consolidated financial statements do not include all the information and note disclosures required by generally accepted accounting principles for annual financial statements of the Company and should be read in conjunction with the audited consolidated financial statements of the Company as at February 28, 2009.

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(An Exploration Stage Company)

Notes to Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

31 August 2009

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Interim results are not necessarily indicative of the results expected for the fiscal year.

These unaudited interim consolidated financial statements include the accounts of the Company and its inactive wholly-owned subsidiary LinuxWizardry Inc., a United States corporation. All significant inter-company balances and transactions have been eliminated.

Recent accounting pronouncements

In July 2009, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*". SFAS No. 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP), superseding existing FASB, American Institute of Certified Public Accountants (AICPA), Emerging Issues Task Force (EITF) and related accounting literature. SFAS No. 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS No. 168 will be effective for financial statements issued for reporting periods that end after 15 September 2009. The adoption of SFAS No. 168 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*". SFAS No. 167 is intended to establish general standards of financial reporting for companies with variable interest entities. It requires timely and useful disclosure of information related to the Company's involvement with variable interest entities. This disclosure should alert all users to the effects on specific provisions of FASB Interpretation No. 46 (revised December 2003), *Consolidation of Variable Interest Entities*, related to the changes to the special-purpose entity proposal in SFAS No. 166, *Accounting for Transfers of Financial Assets*, and the treatment of specific provisions of Interpretation 46(R). SFAS No. 167 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. The Company has determined that the adoption of SFAS No. 167 will have no impact will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 166, "*Accounting for Transfers of Financial Assets—an amendment of FASB Statement*". SFAS No. 166 is intended to establish standards of financial reporting for the transfer of assets and transferred assets to improve the relevance, representational faithfulness, and comparability. SFAS No. 166 was established to clarify derecognition of assets under SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 166 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. The Company has determined that the adoption of SFAS No. 166 will have no impact will have on its consolidated financial statements.

In May 2009, the FSAB issued SFAS No. 165, "*Subsequent Events*". SFAS No. 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date—that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. SFAS No. 165 is effective for financial statements

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issued for fiscal years and interim periods ending after June 15, 2009. The Company is evaluating the impact that the adoption of SFAS No. 165 will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *“The Hierarchy of Generally Accepted Accounting Principles”*. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP for nongovernmental entities. Prior to the issuance of SFAS No. 162, GAAP hierarchy was defined in the American Institute of Certified Public Accountants (“AICPA”) Statement on Auditing Standards (“SAS”) No. 69, *“The Meaning of Present Fairly in Conformity with GAAP”*. SAS No. 69 has been criticized because it is directed to the auditor rather than the entity.

SFAS No. 162 addresses these issues by establishing that the GAAP hierarchy should be directed to entities because it is the entity, not its auditor, that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. SFAS No. 162 is effective 60 days following the Securities and Exchange Commission’s (“SEC”) approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *“The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles”*. The Company does not expect SFAS No. 162 to have a material effect on its consolidated financial statements.

3. Available-for-Sale Investments

	31 August 2009		28 February 2009	
	Book value	Fair value	Book value	Fair value
	\$	\$	\$	\$
1,300,000 (28 February 2009 – 1,300,000) common shares of Teryl Resources Corp.	<u>346,000</u>	<u>195,000</u>	<u>346,000</u>	<u>78,000</u>

4. Property and Equipment

	Cost	Accumulated amortization	Net book value	
			31 August 2009	28 February 2009
	\$	\$	\$	\$
Office furniture	11,194	6,134	5,060	5,783
Vehicle	<u>15,531</u>	<u>12,926</u>	<u>2,605</u>	<u>3,315</u>
	<u>26,725</u>	<u>19,060</u>	<u>7,665</u>	<u>9,098</u>

During the six month period ended 31 August 2009, total additions to property, plant and equipment were \$nil (year ended 28 February 2009 - \$nil).

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Notes to Interim Consolidated Financial Statements

(Expressed in Canadian Dollars)

31 August 2009

5. Mineral Properties

Alaska Mineral Properties

Granite Mountain Property and Dime Creek Property

The Company has a total of 176 mining claims in Granite Mountain and 12 mining claims in Dime Creek, which are located near Nome in the State of Alaska.

Livengood Property

The Company has a total of 8 mining claims located in the Livengood-Tolovana Mining District, Alaska, USA, known as the Livengood Claims.

Fish Creek Property

The Company owns a 50% joint interest in 30 claims located in the Fairbanks Mining Division, Alaska, USA, known as the Fish Creek Claims. During fiscal 2003, the Company optioned a 50% interest in the 30 Fish Creek Claims to Teryl Resources Corp. ("Teryl"), a related company (Note 8). 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 agreement until 7 March 2007, in which Teryl issued 100,000 common shares to the Company, and also agreed to expend a minimum of US\$500,000 within two years from the date of that amending agreement. All other terms of the original agreement remain the same. Subsequently, the Company entered into a further agreement with Teryl to extend the term of the original agreement until 5 March 2010.

The following is a summary of mineral property expenditures related to the Alaska Mineral Properties for the six month periods ended 31 August 2009 and 2008:

	For the six month period ended 31 August 2009 \$	For the six month period ended 31 August 2008 \$
Exploration and development costs		
Field supplies and other	103	-
Geological consulting	1,565	10,681
Staking and recording fees	-	10,267
	<hr/>	<hr/>
	1,668	20,948
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6. Accounts Payable and Accrued Liabilities

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31 August 2009

Accounts payable and accrued liabilities are non-interest bearing, unsecured and have settlement dates within one year.

7. Due to Related Parties

Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. During the six month period, imputed interest at 15%, totalling \$14,021 (2008 - \$13,447) was charged to operations and treated as donated capital (Note 11). As at 31 August 2009, amounts due to related parties consist of advances or repayments to the President, Chief Executive Officer (“CEO”) and shareholder of the Company and/or companies controlled by the President, CEO and shareholder of the Company.

	28 February 2009	Advances (repayments)	31 August 2009
	\$	\$	\$
Access Information	-	1,106	1,106
Imaging Technologies	-	1,018	1,018
Information Highway.com	2,000	-	2,000
JGR Petroleum, Inc.	79,733	23,027	102,760
KLR Petroleum Ltd.	6,739	18,531	25,270
Rainbow Networks	-	4,369	4,369
REGI U.S., Inc.	1,176	-	1,176
SMR Investments Ltd.	31,500	24,825	56,325
Teryl Resources Corp.	89,992	-	89,992
	<u>211,140</u>	<u>72,876</u>	<u>284,016</u>

8. Related Party Transactions

Pursuant to a management services agreement, during the six month period ended 31 August 2009, the Company accrued management fees of \$15,000 (2008 - \$15,000) to a company where the President of the Company is a director. At 31 August 2009, the Company is indebted in the amount of \$81,595 (28 February 2009 - \$38,239) which is included in accrued liabilities to related parties. These amounts are non-interest bearing, unsecured and have no specific terms of repayment.

During the six period ended 31 August 2009, the Company paid investor relations fees of \$3,857 (2008 - \$2,000) to a company related to the Company by way of director in common.

During the six month period ended 31 August 2009, the Company paid consulting fees of \$2,835 (2008 - \$4,807) to a company where the President of the Company is a director.

The Company had certain mineral property transactions and a joint venture agreement with related parties (Note 5).

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9. Capital Stock

Authorized

The total authorized capital is 200,000,000 common shares without par value.

Issued and outstanding

The total issued and outstanding capital stock is 87,650,825 common shares without par value.

On 27 March 2008, the Company issued 500,000 units pursuant to a private placement at a price of US\$0.20 per unit for proceeds of \$99,364 (US\$100,000) before finders' fee of \$3,588. Each unit consisted of one common share and one warrant, with each warrant entitling the holder to purchase one share at an exercise price of US\$0.25 per share for a one year term expiring on 27 March 2009. The Company allocated \$77,244 to the common shares and \$22,120 to the share purchase warrants based on the relative fair values. On 27 March 2009, the Company extended the expiry date of these share purchase warrants to 27 March 2010. A further \$608 was allocated to financing costs as a result of the extension.

On 5 June 2008, the Company issued 4,055,000 units pursuant to a private placement at a price of US\$0.15 per unit for proceeds of \$614,478 (US\$608,250) before finders' fee of \$31,871. Each unit consisted of one common share and one warrant, with each warrant entitling the holder to purchase one share at an exercise price of US\$0.20 per share for a one year term expiring on 5 June 2009. The Company allocated \$430,623 to the common shares and \$183,855 to the share purchase warrants based on the relative fair values. On 5 June 2009, the Company extended the expiry date of these share purchase warrants to 5 June 2010.

Subsequent to the end of the quarter, on 19 October 2009 the Company issued 5,000,000 units pursuant to a private placement at a price of US\$0.04 per unit for gross proceeds of US\$200,000 (CAD\$207,512). Each unit consists of one common share and one share purchase warrant. Each warrant shall entitle the holder to purchase one additional share of common stock at a price of US\$0.075 in the first year or at a price of US\$0.10 in the second year from the date of issue (Note 13).

Warrants

The following share purchase warrants were outstanding at 31 August 2009:

	Exercise price US\$	Number of warrants	Remaining contractual life (years)
Warrants expiring 27 March 2010	0.25	500,000	0.57
Warrants expiring 1 June 2010	0.30	1,412,500	0.78
Warrants expiring 5 June 2010	0.20	4,055,000	0.76
Warrants expiring 8 May 2011	0.20	9,275,000	1.68
Warrants expiring 28 June 2011	0.20	<u>3,125,000</u>	1.82
		<u>18,367,500</u>	

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The following is a summary of the Company's warrant activities during the six month period ended 31 August 2009:

	Number of warrants	Weighted average exercise price US\$
Outstanding and exercisable at 1 March 2009	18,367,500	0.21
Granted	-	-
Exercised	-	-
Expired	-	-
Cancelled	-	-
	<u>18,367,500</u>	<u>0.21</u>
Outstanding and exercisable at 31 August 2009	<u>18,367,500</u>	<u>0.21</u>
Weighted average fair value of warrants granted during the year		<u>nil</u>

Stock Options

The Company has a stock option plan to issue up to 10% of the issued common shares to certain directors and employees. All options granted under the plan vest upon date of grant and are subject to the following exercise schedule:

- i) Up to 25% of the options may be exercised at any time during the term of the option (the "First Exercise");
- ii) The second 25% of the options may be exercised at any time after 90 days from the date of the First Exercise (the "Second Exercise");
- iii) The third 25% of the options may be exercised at any time after 90 days from the date of the Second Exercise (the "Third Exercise"); and
- iv) The fourth and final 25% of the options may be exercised at any time after 90 days from the date of the Third Exercise.

On 22 April 2009, a total of 75,000 stock options exercisable at a price of US\$0.30 per common share expired.

Also on 22 April 2009, a total of 75,000 stock options exercisable at a price of US\$0.10 per common share were granted.

During the six month periods ended 31 August 2009 and 2008, the Company recorded stock-based compensation of \$408 and \$nil, respectively.

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The following stock options were outstanding and exercisable at 31 August 2009:

	Exercise price US\$	Number of options outstanding	Number of options exercisable	Remaining contractual life (years)
Options expiring 9 November 2009	0.20	12,500	12,500	0.19
Options expiring 9 August 2011	0.35	1,500,000	375,000	1.94
Options expiring 2 November 2011	0.25	25,000	6,250	2.17
Options expiring 8 December 2011	0.25	50,000	12,500	2.27
Options expiring 7 November 2012	0.31	50,000	12,500	3.19
Options expiring 21 February 2013	0.10	1,525,000	381,250	3.48
Options expiring 22 April 2014	0.10	75,000	18,750	4.64
		<u>3,237,500</u>	<u>818,750</u>	

The following is a summary of the Company's stock option activities during the six month period ended 31 August 2009:

	Number of options	Weighted average exercise price US\$
Outstanding at 1 March 2009	3,237,500	0.23
Granted	75,000	0.10
Exercised	-	-
Expired	(75,000)	0.30
Cancelled	-	-
Outstanding at 31 August 2009	<u>3,237,500</u>	<u>0.23</u>
Exercisable at 31 August 2009	<u>818,750</u>	<u>0.25</u>
Weighted average fair value of stock options granted during the year		<u>0.02</u>

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The fair value of each option granted was estimated on the date of the grant or modification using the Black-Scholes pricing model with the following weighted average assumptions:

	For the six month period ended 31 August 2009	For the six month period ended 31 August 2008
Risk free interest rate	1.63%	-
Expected life	4.14	-
Annualized volatility	78.17%	-
Expected dividends	-	-

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

10. Commitments

The Company has the following commitments:

- a) The Company entered into a consulting agreement dated 9 August 2006 for the provision of financial development services. Under the terms of the agreement, the Company agreed to pay US\$1,000 per month plus expenses for a term of two years and issue stock options for 1,000,000 common shares exercisable at US\$0.35 per share (granted). The agreement may be terminated by either party before the end of the term by giving 90-day written notice. During the six month period ended 31 August 2009, consulting fees of \$nil (2008 - \$8,116) were incurred.
- b) The Company entered into a consulting agreement dated 9 August 2006 for the provision of financial development services. Under the terms of the agreement, the Company agreed to pay expenses incurred for a term of two years, and issue stock options for 500,000 common shares exercisable at US\$0.35 per share (granted). The agreement may be terminated by either party before the end of the term by giving 90-day written notice. During the six month period ended 31 August 2009, consulting fees of \$nil (2008 - \$nil) were incurred.
- c) The Company entered into a consulting agreement dated 25 May 2009 for the provision of investor relations services. Under the terms of the month-to-month agreement, the Company agreed to pay US\$8,000 plus expenses in the first month and US\$11,000 plus expenses per month thereafter. The agreement may be terminated by either party by giving 60-day written notice. During the six month period ended 31 August 2009, investor relations fees of \$22,610 (2008 - \$nil) were incurred.

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- d) The Company entered into a lease agreement dated 7 September 2006 for a term of three years commencing 1 November 2006 to 31 October 2009. Under the terms of the agreement, the Company will pay monthly rent of \$1,833 plus a proportionate share of operating costs. On 30 November 2007, the monthly rent increased to \$2,017 and on 30 November 2008, the monthly rent increased to \$2,200. The Company shares the rentable area with related parties who reimburse the Company for two-thirds of the total monthly rental fee. The future commitment is as follows:

	\$
Fiscal year ending 28 February 2010	<u>27,280</u>

11. Supplemental Disclosures With Respect to Cash Flows

	Cumulative from inception of exploration stage on 1 March 2003 to 31 August 2009	For the six month period ended 31 August 2009	For the six month period ended 31 August 2008
	\$	\$	\$
Cash paid during the year for interest	-	-	-
Cash paid during the year for income taxes	-	-	-

During the six month period ended 31 August 2009, imputed interest at 15% per annum totalling \$14,021 (2008 - \$13,447) on amounts due to related parties was charged to operations and treated as donated capital (Note 7).

12. Financial Instruments

- a) Fair value

The carrying values of all held-for-trading and held-to-maturity instruments, represented by cash and cash equivalents, Goods and Service Tax receivable, accounts payable and accrued liabilities and amounts due to related parties, approximate their fair values because of the short-term maturity of these financial instruments. The aggregate fair value of all held-for-trading instruments is \$254 (28 February 2009 - \$13,894). The aggregate carrying value and fair value of all held-to-maturity assets is \$3,699 (28 February 2009 - \$7,938).

Available-for-sale securities consist of common shares in a company related by common directors and is represented as marketable securities on the consolidated financial statements. The fair value of these securities is \$195,000 (28 February 2009 - \$78,000) and losses included in accumulated other comprehensive loss is \$151,000 (28 February 2009 - \$268,000).

- b) Interest rate risk

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The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

c) Credit risk

The Company's financial asset that is exposed to credit risk consists primarily of cash and cash equivalents. To manage the risk, cash is placed with major financial institutions. The Company does not have significant concentrations of credit risk in regards to its amounts receivable and allows for any uncollectible accounts on a specific identification basis based on payment history.

d) Currency risk

The Company translates the results of its foreign operations into Canadian currency using rates approximating the average exchange rate for the period.

The Company is exposed to foreign currency risk through the following financial assets and liabilities denominated in currencies other than Canadian dollars:

	As at 31 August 2009 US\$	As at 28 February 2009 US\$
Cash and cash equivalents	(869)	4,296
Accounts payable and accrued liabilities	31,500	85,446

As at 31 August 2009, with other variables unchanged, an approximately 10% change in exchange rates would increase/decrease pre-tax loss by \$3,345.

13. Subsequent Events

The following events occurred subsequent to 31 August 2009:

- a) On 19 October 2009 the Company issued 5,000,000 units pursuant to a private placement at a price of US\$0.04 per unit for gross proceeds of US\$200,000 (CAD\$207,512). Each unit consists of one common share and one share purchase warrant. Each warrant shall entitle the holder to purchase one additional share of common stock at a price of US\$0.075 in the first year or at a price of US\$0.10 in the second year from the date of issue