

Linux Gold Corp.
(An Exploration Stage Company)

Consolidated Financial Statements
(Expressed in Canadian Dollars)
28 February 2010

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ACAL GROUP
CHARTERED ACCOUNTANTS
PCAOB & CPAB Registrant

REPORT ON INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To: the Board of Directors and Stockholders of
Linux Gold Corp. (An Exploration Stage Company)

We have audited the accompanying consolidated balance sheet of Linux Gold Corp. (the "Company") (An Exploration Stage Company) as of February 28, 2010, and the related consolidated statements of operations and comprehensive loss, stockholders' equity (deficit), and cash flows for the year ended February 28, 2010 and the period from inception of exploration stage on March 1, 2003 through February 28, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Company for the year ended February 28, 2009 and the period from inception of exploration stage on March 1, 2003 through February 28, 2009 were reported upon by other auditors whose report, dated June 15, 2009, expressed an unqualified opinion on those statements and included an explanatory paragraph regarding the Company's ability to continue as a going concern. The consolidated financial statements of the Company for the period from inception of exploration stage on March 1, 2003 through February 28, 2009 reflect a net loss of \$7,929,887 of the accumulated deficit as of February 28, 2010. The other auditors' report have been furnished to us, and our opinion, insofar as it relates to amounts included for such prior periods, is based solely on the report of such other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 28, 2010, and the results of its operations and its cash flows for the year ended February 28, 2010 and the period from inception of exploration stage on March 1, 2003 through February 28, 2010 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has not generated revenues since inception, has incurred losses in developing its business, and further losses are anticipated. The Company requires additional funds to meet its obligations and the costs of its operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in this regard are described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

"ACAL Group"
Chartered Accountants

Vancouver, British Columbia
June 28, 2010

JAMES STAFFORD

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Linux Gold Corp. (An Exploration Stage Company)

We have audited the consolidated balance sheet of **Linux Gold Corp.** (the “Company”) as at 28 February 2009 and the related consolidated statements of operations, cash flows and changes in stockholders’ equity (deficiency) for the year ended 28 February 2009. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 28 February 2009 and the results of its operations, cash flows and changes in stockholders’ equity (deficiency) for the year ended 28 February 2009 in conformity with accounting principles generally accepted in the United States of America.

The consolidated balance sheet of the Company as at 29 February 2008 and the related consolidated statements of operations, cash flows and changes in stockholders’ equity (deficiency) for the years ended 29 February 2008 and 28 February 2007 were audited by other auditors whose report dated 18 June 2008 expressed an unqualified opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, conditions exist which raise substantial doubt about the Company’s ability to continue as a going concern unless it is able to generate sufficient cash flows to meet its obligations and sustain its operations. Management’s plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Vancouver, Canada

15 June 2009

/s/ James Stafford
Chartered Accountants

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

| | As at 28 February 2010 \$ | As at 28 February 2009 \$ |
|--|------------------------------------|------------------------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | 182 | 13,894 |
| Goods and services tax receivable | 3,922 | 7,938 |
| Marketable securities (Note 3) | 191,330 | 78,000 |
| Prepaid expenses and deposits | 3,863 | 4,012 |
| | <u>199,297</u> | <u>103,844</u> |
| Property and equipment (Note 4) | <u>6,947</u> | <u>9,098</u> |
| | <u>206,244</u> | <u>112,942</u> |
| Liabilities | | |
| Current | | |
| Accounts payable (Note 6) | 131,628 | 156,330 |
| Accrued liabilities | 19,000 | 32,457 |
| Due to related parties (Note 7) | 313,490 | 211,140 |
| | <u>464,118</u> | <u>399,927</u> |
| Stockholders' deficit | | |
| Capital stock (Note 9) | | |
| Authorized | | |
| 200,000,000 common shares without par value | | |
| Issued and outstanding | | |
| 28 February 2010 – 92,650,825 common shares | | |
| 28 February 2009 – 87,650,825 common shares | 15,259,388 | 15,051,086 |
| Donated capital | 423,030 | 383,961 |
| Accumulated other comprehensive loss | (76,687) | (268,000) |
| Deficit, accumulated from prior operations | (7,524,145) | (7,524,145) |
| Deficit, accumulated during the exploration stage | (8,339,460) | (7,929,887) |
| | <u>(257,874)</u> | <u>(286,985)</u> |
| | <u>206,244</u> | <u>112,942</u> |

Nature and Continuation 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)**

Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

| | Cumulative from inception of exploration stage on 1 March 2003 to 28 February 2010 \$ | For the year ended 28 February 2010 \$ | For the year ended 28 February 2009 \$ | For the year ended 29 February 2008 \$ |
|--|--|---|---|---|
| General and administrative expenses | | | | |
| Amortization of debt issue costs | 205,242 | - | - | 173,175 |
| Amortization of property and equipment | 29,047 | 2,151 | 2,867 | 4,852 |
| Bad debt expense | 84,952 | - | - | 84,952 |
| Consulting and subcontracts | 1,555,082 | 137,281 | 124,751 | 210,313 |
| Filing and regulatory fees | 158,814 | 18,841 | 22,034 | 24,319 |
| Foreign exchange loss (gain) | (35,532) | (26,010) | 29,459 | (7,130) |
| Imputed interest (Note 7) | 217,530 | 39,069 | 26,143 | 8,966 |
| Interest expense | 2,302,583 | - | - | 1,041,913 |
| Management fees (Note 8) | 214,750 | 30,000 | 30,000 | 30,000 |
| Mineral property exploration and development costs (Note 5) | 1,866,062 | 50,975 | 61,885 | 170,663 |
| Office, rent and telephone | 696,842 | 39,167 | 57,228 | 35,406 |
| Professional fees | 414,487 | 37,323 | 79,189 | 94,132 |
| Travel and promotion | 957,526 | 77,825 | 104,249 | 262,766 |
| Net loss before other items | (8,667,385) | (406,622) | (537,805) | (2,134,327) |
| Other items | | | | |
| Realized gain on sale of marketable security | 57,452 | 57,452 | - | - |
| Realized loss on reallocation from Accumulated Other Comprehensive Loss | (60,403) | (60,403) | - | - |
| Mineral property acquisition costs written off | (126,417) | - | - | (126,417) |
| Accounts payable written off | 46,281 | - | - | - |
| Income from discontinued operations | 369,213 | - | - | - |
| Interest income | 41,799 | - | 1,604 | 453 |
| Net loss for the period | (8,339,460) | (409,573) | (536,201) | (2,260,291) |
| Basic and diluted net loss per share | | (0.01) | (0.01) | (0.03) |
| Weighted average number of common shares used in per share calculations | | 89,464,012 | 86,536,209 | 78,776,000 |
| Comprehensive loss | | | | |
| Net loss for the period | (8,339,460) | (409,573) | (536,201) | (2,260,291) |
| Loss realized on investments disposal transferred to earning | 60,403 | 60,403 | - | - |
| Unrealized holding gain (loss) on available-for-sale investments | (137,090) | 130,910 | (208,000) | 78,000 |
| Comprehensive loss | (8,416,147) | (218,260) | (744,201) | (2,182,291) |
| Comprehensive loss per share | | (0.00) | (0.01) | (0.03) |

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

Linux Gold Corp.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

| | Cumulative from inception of exploration stage on 1 March 2003 to 28 February 2010 \$ | For the year ended 28 February 2010 \$ | For the year ended 28 February 2009 \$ | For the year ended 29 February 2008 \$ |
|--|---|--|---|---|
| Cash flows used in operating activities | | | | |
| Net loss for the period | (8,339,460) | (409,573) | (536,201) | (2,260,291) |
| Adjustments to reconcile loss to net cash used by operating activities | | | | |
| Amortization of debt issue costs | 205,242 | - | - | 173,175 |
| Amortization of property and equipment | 29,047 | 2,151 | 2,867 | 4,852 |
| Receipt of marketable securities for property | (16,000) | - | - | - |
| Accretion of discount on convertible debt | 2,291,794 | - | - | 1,093,413 |
| Bad debt expense | 84,952 | - | - | 84,952 |
| Imputed interest | 217,530 | 39,069 | 26,143 | 8,966 |
| Accounts payable written off | (46,281) | - | - | - |
| Mineral property acquisition costs written off | 126,417 | - | - | 126,417 |
| Stock-based compensation | 269,340 | 790 | - | 75,042 |
| Shares issued for services | 120,000 | - | - | - |
| Shares issued for settlement of rent obligation | 19,200 | - | - | - |
| Net loss on sale of marketable securities | 2,951 | 2,951 | - | - |
| Income from discontinued operations | (369,213) | - | - | - |
| Changes in operating assets and liabilities | | | | |
| Goods and Services Tax receivable | 40,983 | 4,016 | (3,647) | (32,205) |
| Prepaid expenses and deposits | (3,372) | 149 | 14,419 | 11,422 |
| Accounts payable and accrued liabilities | (128,251) | (38,159) | (120,587) | 107,757 |
| Due to related parties | 255,910 | 102,350 | (15,657) | (244,165) |
| | <u>(5,239,211)</u> | <u>(296,256)</u> | <u>(632,663)</u> | <u>(850,665)</u> |
| Cash flows used in investing activities | | | | |
| Mineral interest acquisition costs | (66,417) | - | - | - |
| Disposal (purchase) of marketable securities | (174,968) | 75,032 | - | - |
| Purchase of property and equipment | (35,994) | - | - | (330) |
| | <u>(277,379)</u> | <u>75,032</u> | <u>-</u> | <u>(330)</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 common shares | 3,654,161 | 207,512 | 713,842 | 696,305 |
| Share subscriptions received | 52,277 | - | (40,062) | 40,062 |
| Share issue costs | (84,647) | - | (35,459) | (4,003) |
| | <u>5,505,638</u> | <u>207,512</u> | <u>638,321</u> | <u>732,364</u> |
| Increase (decrease) in cash and cash equivalents | (10,952) | (13,712) | 5,658 | (118,631) |
| Cash and cash equivalents, beginning of period | <u>11,134</u> | <u>13,894</u> | <u>8,236</u> | <u>126,867</u> |
| Cash and cash equivalents, end of period | <u>182</u> | <u>182</u> | <u>13,894</u> | <u>8,236</u> |

Supplemental Disclosures with Respect to Cash Flows (Note 11)

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 (Deficit)

(Expressed in Canadian Dollars)

| | 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 (deficit) \$ |
|--|-------------------------------------|---|--------------------------------------|--------------------------|---|---|---|---|
| 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 (Deficit), continued (Expressed in Canadian Dollars)

| | 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 (deficit) \$ |
|--|-------------------------------------|---|--------------------------------------|--------------------------|---|---|---|---|
| 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) |
| Common stock issued for cash | 5,000,000 | 85,277 | - | - | - | - | - | 85,277 |
| Fair value of warrants issued with common shares | - | 122,235 | - | - | - | - | - | 122,235 |
| Imputed interest | - | - | - | 39,069 | - | - | - | 39,069 |
| Stock-based compensation | - | 790 | - | - | - | - | - | 790 |
| Realized loss reallocated on disposal of investments | - | - | - | - | - | - | 60,403 | 60,403 |
| Marketable securities adjustment | - | - | - | - | - | - | 130,910 | 130,910 |
| Net loss for the period | - | - | - | - | - | (409,573) | - | (409,573) |
| Balance at 28 February 2010 | 92,650,825 | 15,259,388 | - | 423,030 | (7,524,145) | (8,339,460) | (76,687) | (257,874) |

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

Linux Gold Corp.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)

For the Years Ended February 28, 2010 and 2009

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 consolidated financial statements as at 28 February 2010 and for the year 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 \$409,573 for the year ended 28 February 2010 (28 February 2009 – \$536,201) and has a working capital deficit of \$264,821 at 28 February 2010 (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 28 February 2010, 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Significant Accounting Policies

Basis of accounting

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States ("GAAP") and are presented in Canadian dollars. The accompanying financial statements have been prepared in accordance with the FASB ASC 915 "Development-Stage Entities". A development-stage enterprise is one in which planned principle operations have not commenced or if its operations have commenced, there has been no significant revenue there from. Development-stage companies report cumulative loss from the inception of its development stage activities.

Linux Gold Corp.
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the Years Ended February 28, 2010 and 2009

2. Significant Accounting Policies (continued)

Principles of consolidation

These 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.

Foreign currency translation

The Company's functional and reporting currency is the Canadian dollar. The consolidated financial statements of the Company are translated to Canadian dollars in accordance with FASB ASC 830 "Foreign Currency Matters". Foreign currency transactions are primarily undertaken in U.S. dollars. Monetary assets and liabilities denominated in U.S. dollars are translated using the exchange rate prevailing at the balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. The Company has not, to the date of these consolidated financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States necessarily requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of rates for amortization, the impairment of marketable securities, fair value of imputed interest and the assumptions used in computing the fair value of stock-based compensation and warrants. Actual results could differ from those estimates.

Basic and diluted net loss per share

The Company computes net loss per share in accordance with FASB ASC 260, "Earnings per Share", which requires presentation of both basic and diluted earnings per share ("EPS") on the face of the income statement. Basic EPS is computed by dividing net loss available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all potentially dilutive common shares outstanding during the period using the treasury stock method and convertible preferred stock using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options or warrants. Diluted EPS excludes all potentially dilutive shares if their effect is anti-dilutive.

Linux Gold Corp.
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
For the Years Ended February 28, 2010 and 2009

2. Significant Accounting Policies (continued)

Stock-based compensation

The Company records stock-based compensation in accordance with FASB ASC 718 “Compensation – Stock Compensation” which establishes accounting for stock-based payment transactions for employee services and goods and services received from non-employees.

The Company uses the fair-value based method to account for all stock-based payments to employees and non-employees granted by measuring the compensation cost of the stock-based payments using the Black-Scholes option-pricing model. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date. The fair value of the stock-based compensation is recorded as a charge to net earnings based on the vesting period with a credit to contributed surplus. Upon exercise of the stock options, consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. In calculating compensation to be recognized for employees, it is required to estimate forfeitures while, in general, estimated forfeitures for non-employees equal to the entire term of options.

Cash and cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the time of issuance to be cash equivalents.

Marketable securities

The Company reports investments in debt and marketable equity securities at fair value based on quoted market prices or, if quoted prices are not available, discounted expected cash flows using market rates commensurate with credit quality and maturity of the investment. All investment securities are designated as available-for-sale with unrealized gains and losses included in stockholders’ equity. Unrealized losses that are other than temporary are recognized in earnings. Realized gains and losses are accounted for on the specific identification method.

Mineral exploration expenditures

The Company is primarily engaged in the acquisition, exploration and development of mineral properties.

Mineral property acquisition costs are capitalized when management has determined that probable future benefits consisting of a contribution to future cash inflows have been identified and adequate financial resources are available or are expected to be available as required to meet the terms of property acquisition and budgeted exploration and development expenditures. Mineral property acquisition costs are expensed as incurred if the criteria for capitalization are not met. In the event that mineral property acquisition costs are paid with Company shares, those shares are recorded at the estimated fair value at the time the shares are due in accordance with the terms of the property agreements.

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2. Significant Accounting Policies (continued)

Mineral exploration expenditures (continued)

Mineral property exploration costs are expensed as incurred.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves and pre feasibility, the costs incurred to develop such property are capitalized.

Estimated future removal and site restoration costs, when determinable are provided over the life of proven reserves on a units-of-production basis. Costs, which include production equipment removal and environmental remediation, are estimated each period by management based on current regulations, actual expenses incurred, and technology and industry standards. Any charge is included in exploration expense or the provision for depletion and depreciation during the period and the actual restoration expenditures are charged to the accumulated provision amounts as incurred.

As of the date of these consolidated financial statements, the Company has incurred only exploration costs which have been expensed.

To date the Company has not established any proven or probable reserves on its mineral properties.

Asset retirement obligation

The basis of this policy is the recognition of a legal liability for obligations related to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development or normal operations of those assets. Such asset retirement costs must be recognized at fair value when a reasonable estimate of fair value can be estimated, and accretion expense is recognized over time as the discounted fair value is accreted to the expected settlement value. A corresponding increase to the carrying amount of the related asset, when one is identifiable, is recorded and amortized over the life of the asset. Where a related future value is not easily identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements.

It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation, or changes in cost estimates. Changes in estimates are accounting for prospectively commencing in the period the estimate is revised. To date, the Company has not recognized any asset retirement obligations as a reasonable estimate cannot be made at this time.

Long-lived assets

Long-lived assets, including property and equipment and the carrying value of intangible assets are reviewed on a regular basis for the existence of facts or circumstances that may suggest impairment. The Company recognizes impairment when the sum of the expected undiscounted future cash flows is less than the carrying amount of the asset. Impairment losses, if any, are measured as the excess of the carrying amount of the asset over its estimated fair value.

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2. Significant Accounting Policies (continued)

Property and equipment

Property and equipment consists of office furniture and vehicle, which are recorded at cost. Office furniture is amortized on a declining-balance basis at 20% per annum and the vehicle is amortized on a declining-balance basis at 30% per annum.

Financial instruments

Fair Value

The carrying values of the Company's financial instruments, consisting of cash and cash equivalents, marketable securities, amounts due to related parties and accounts payable approximate their fair values because of the short-term maturity of these financial instruments.

Interest Rate Risk

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

Credit Risk

The Company's financial asset that is exposed to credit risk consists primarily of cash. To manage the risk, cash is placed with major financial institutions.

Currency Risk

The Company's functional and reporting currency is the Canadian dollar. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate prevailing at the balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in U.S. dollars. The Company has not, to the date of these consolidated financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Fair value measurement

The Company adopted FASB ASC 820-10-50, "Fair Value Measurements". This guidance defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the assets or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

All of the Company's financial instruments measured at fair value are applied using Level 1 inputs.

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2. Significant Accounting Policies (continued)

Income taxes

The Financial Accounting Standards Board (FASB) has issued FASB ASC 740-10. FASB ASC 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with prior literature FASB Statement No. 109, Accounting for Income Taxes. This standard requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more likely than not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of this standard, the Company performed a review of its material tax positions in accordance with recognition and measurement standards established by FASB ASC 740-10.

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Comprehensive loss

FASB ASC 220, "Comprehensive Income", establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at 28 February 2010 and 2009, the Company's only component of other comprehensive loss was unrealized holding gains and losses on available-for-sale securities.

Recent accounting pronouncements

In June 2009, the FASB issued FASB ASC 105, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162". Under FASB ASC 105 the "FASB Accounting Standards Codification" ("Codification") will become the source of authoritative US GAAP to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification became effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. The Company changed the Company's references to U.S. GAAP accounting standards but did not impact the Company's results of operations, financial position or cash flows.

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2. Significant Accounting Policies (continued)

Recent accounting pronouncements (continued)

In June 2009, the Securities and Exchange Commission's Office of the Chief Accountant and Division of Corporation Finance announced the release of Staff Accounting Bulletin (SAB) No. 112. This staff accounting bulletin amends or rescinds portions of the interpretive guidance included in the Staff Accounting Bulletin Series in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and Securities and Exchange Commission rules and regulations. Specifically, the staff is updating the Series in order to bring existing guidance into conformity with recent pronouncements by the Financial Accounting Standards Board, namely, Statement of Financial Accounting Standards No. 141 (revised 2007) (ASC Topic 805), Business Combinations, and Statement of Financial Accounting Standards No. 160 (ASC Topic 810), Non-controlling Interests in Consolidated Financial Statements. The statements in staff accounting bulletins are not rules or interpretations of the Commission, nor are they published as bearing the Commission's official approval. They represent interpretations and practices followed by the Division of Corporation Finance and the Office of the Chief Accountant in administering the disclosure requirements of the Federal securities laws.

In April 2009, an update was made to the FASB ASC 820, "Fair Value Measurements and Disclosures", that provides additional guidance for estimating fair value when the volume and level of activity for the assets or liability have significantly decreased. This update is effective for interim and annual periods ending after June 15, 2009 with early adoption permitted for periods ending after March 15, 2009. The adoption of this guidance did not impact the Company's results of operations, financial position or cash flows.

In April 2009, an update was made to FASB ASC 825, "Financial Instruments", which requires a publicly traded company to include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. This update is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The adoption of this guidance did not impact the Company's results of operations, financial position or cash flows.

In May 2009, the FASB announced the issuance of FASB ASC 855, "Subsequent Events", formerly referenced as SFAS No. 165, Subsequent Events. FASB ASC 855 should not result in significant changes in the subsequent events that an entity reports. Rather, FASB ASC 855 introduces the concept of financial statements being available to be issued. Financial statements are considered available to be issued when they complete in a form and format that complies with generally accepted accounting principles (GAAP) and all approvals necessary for issuance have been obtained. The Company has already adopted this policy and its full disclosure is included in Note 13.

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Notes to Consolidated Financial Statements
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3. Marketable Securities

| | 28 February 2010 | | 28 February 2009 | |
|---|------------------|------------------|------------------|------------------|
| | Cost \$ | Fair value \$ | Cost \$ | Fair value \$ |
| 1,007,000 (28 February 2009 – 1,300,000) common shares of Teryl Resources Corp. | 268,017 | 191,330 | 346,000 | 78,000 |

During the year period ended 28 February 2010 a total of 293,000 (2009 – nil) shares of Teryl Resources Corp. were sold at prices ranging from \$0.14 to \$0.34 for total proceeds of \$75,032 (2009 - \$nil) with average cost of \$77,983 and average carrying value of \$17,580.

4. Property and Equipment

| | Cost \$ | Accumulated Amortization \$ | Net book value | |
|------------------|------------|-----------------------------------|---------------------------|---------------------------|
| | | | 28 February 2010 \$ | 28 February 2009 \$ |
| Office furniture | 11,194 | 6,567 | 4,627 | 5,783 |
| Vehicle | 15,531 | 13,211 | 2,320 | 3,315 |
| | 26,725 | 19,778 | 6,947 | 9,098 |

During the year ended February 28, 2010, total additions to property, plant and equipment were \$nil (2009 - \$nil).

5. Mineral Properties

Alaska Mineral Properties
Granite Mountain Property and Dime Creek Property

The Company has a total of 33 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 13 mining claims located in the Livengood-Tolovana Mining District, Alaska, USA, known as the Livengood Claims.

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5. Mineral Properties

Fish Creek Property

The Company has a 50% joint lease 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 lease 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 2011.

Trout Claims

On January 27, 2010 the Company entered into a mining agreement with the 100% owner (the “Owner”) of eleven mining claims named Trout Claims located in the Fairbanks Recording District, Alaska, for an option to execute a five year lease. In accordance with the mining agreement, upon payment of US\$7,500 (paid) to the Owner the Company obtains the option to execute the five year lease by August 1, 2010. The terms of the lease option are as follows:

- Initial non-refundable payment of US\$1,500 at signing of the lease agreement;
- Annual work commitment of US\$10,000;
- Consideration to the Owner on August 1 of each of the five years:
 - 2011: Cash payment of US\$5,000
 - 2012: Cash payment of US\$10,000
 - 2013: Cash payment of US\$15,000 and issuance of 10,000 common shares of the Company
 - 2014: Cash payment of US\$15,000 and issuance of 50,000 common shares of the Company
 - 2015: Cash payment of US\$500,000 and issuance of the Company’s common shares valued at US\$500,000 to a maximum of one million shares and granting of 4% Net Smelter Return to the Owner in exchange for 100% ownership in Trout Claims

Coho Claims

On January 27, 2010 the Company entered into a mining agreement with the 100% owner (the “Owner”) of ten mining claims named Coho Claims located in the Fairbanks Recording District, Alaska, for an option to execute a five year lease. In accordance with the mining agreement, upon payment of US\$7,500 (not paid) to the Owner the Company obtains the option to execute the five year lease by August 1, 2010. The terms of the lease option are as follows:

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5. Mineral Properties (continued)

Coho Claims (continued)

- Initial non-refundable payment of US\$1,500 at signing of the lease agreement;
- Annual work commitment of US\$10,000;
- Consideration to the Owner on August 1 of each of the five years:
 - 2011: Cash payment of US\$5,000
 - 2012: Cash payment of US\$10,000
 - 2013: Cash payment of US\$15,000 and issuance of 10,000 common shares of the Company
 - 2014: Cash payment of US\$15,000 and issuance of 50,000 common shares of the Company
 - 2015: Cash payment of US\$500,000 and issuance of the Company's common shares valued at US\$500,000 to a maximum of one million shares and granting of 4% Net Smelter Return to the Owner in exchange for 100% ownership in Coho Claims

The following is a summary of mineral property expenditures related to the Alaska Mineral Properties for years ended February 28, 2010 and 2009:

| | For the Year Ended February 28, 2010 | For the Year Ended February 28, 2009 | For the Year Ended February 29, 2008 |
|--|---|---|---|
| | \$ | \$ | \$ |
| Exploration and development costs | | | |
| Assaying | 1,910 | 363 | 26,357 |
| Field supplies and other | 212 | - | - |
| Geological consulting | 7,837 | 14,121 | 43,999 |
| Staking and recording fees | 41,016 | 47,401 | 96,344 |
| Transportation | - | - | 3,963 |
| | <u>50,975</u> | <u>61,885</u> | <u>170,663</u> |

6. Accounts Payable

Accounts payable 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 year ended February 28, 2010, imputed interest at 15%, totalling \$39,069 (2009 - \$26,143) was charged to operations and treated as donated capital (Note 11). As at February 28, 2010, 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.

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7. Due to Related Parties (continued)

| | February 28, 2009 | Advances (repayments) | February 28, 2010 |
|-------------------------|----------------------|--------------------------|----------------------|
| | \$ | \$ | \$ |
| Access Information | - | 1,106 | 1,106 |
| Imaging Technologies | - | 1,018 | 1,018 |
| Information Highway.com | 2,000 | 500 | 2,500 |
| IAS Energy, Inc. | - | 1,700 | 1,700 |
| JGR Petroleum, Inc. | 79,733 | 23,027 | 102,760 |
| KLR Petroleum Ltd. | 6,739 | 26,129 | 32,868 |
| Rainbow Networks | - | 4,369 | 4,369 |
| Reg Technologies Inc. | - | 1,210 | 1,210 |
| REGI U.S., Inc. | 1,176 | - | 1,176 |
| SMR Investments Ltd. | 31,500 | 17,950 | 49,450 |
| Teryl Resources Corp. | 89,992 | 25,341 | 115,333 |
| | <u>211,140</u> | <u>102,350</u> | <u>313,490</u> |

8. Related Party Transactions

Pursuant to a management services agreement, during the year ended February 28, 2010 the Company paid or accrued management fees of \$30,000 (2009 - \$30,000) to a company of which the President of the Company is a director. At February 28, 2010, the Company had an outstanding balance of \$49,450 (2009 - \$38,239) owed to this related party.

During the year ended February 28, 2010, the Company paid or accrued investor relations fees of \$3,500 (2009 - \$11,000) to a company related to the Company by way of a common director.

During the year ended February 28, 2010, the Company paid consulting fees of 14,362 (2009 - \$16,067) 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).

Related party transactions incurred during the normal course of the Company's operations and are measured at the exchange amount, which is the amount agreed between the related parties.

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9. Capital Stock

Authorized

The Company's authorized capital is 200,000,000 common shares without par value.

Issued and outstanding

The total issued and outstanding capital stock is 92,650,825 common shares without par value.

On March 27, 2008, the Company issued 500,000 units pursuant to a private placement at a price of US\$0.20 per unit for gross proceeds of \$99,364 (US\$100,000) before finders' fees of \$3,588. Each unit consisted of one common share and one share purchase 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 March 27, 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 March 27, 2009 the Company extended the expiry date of these share purchase warrants to March 27, 2010, resulting in a further \$11,144 allocated to the value of the warrants. The additional fair value of warrants was determined using the Black-Scholes warrant pricing model using the following weighted average assumptions: risk free interest rate of 1.06%, expected life of 1 year, annualized volatility of 189.40% and expected dividend of 0%.

On June 1, 2009, the Company extended the expiry date of 1,412,500 warrants granted on June 1, 2008 to June 1, 2010, resulting in a further \$26,335 allocated to these warrants. The additional fair value of warrants was determined using the Black-Scholes warrant pricing model using the following weighted average assumptions: risk free interest rate of 1.01%, expected life of 1 year, annualized volatility of 193.40% and expected dividend of 0%.

On June 5, 2008 the Company issued 4,055,000 units pursuant to a private placement at a price of US\$0.15 per unit for gross proceeds of \$614,478 (US\$608,250) before finders' fees of \$31,871. Each unit consisted of one common share and one share purchase 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 June 5, 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 June 5, 2009 the Company extended the expiry date of these share purchase warrants to June 5, 2010, resulting in a further \$123,476 allocated to the value of these warrants. The additional fair value of warrants was determined using the Black-Scholes warrant pricing model using the following weighted average assumptions: risk free interest rate of 1.31%, expected life of 1 year, annualized volatility of 194.66% and expected dividend of 0%.

On October 19, 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 \$207,512 (US\$200,000). Each unit consists of one common share and one share purchase warrant. Each warrant entitles 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. The Company allocated \$85,277 to the common shares and \$122,235 to the share purchase warrants based on the relative fair values.

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9. Capital Stock (continued)

Warrants

The following share purchase warrants were outstanding at February 28, 2010:

| Expiry date | Exercise price US\$ | Number of warrants | Remaining contractual life (years) |
|--------------------|-------------------------------|-------------------------------------|--|
| March, 27, 2010 | 0.25 | 500,000 | 0.07 |
| June 1, 2010 | 0.30 | 1,412,500 | 0.25 |
| June 5, 2010 | 0.20 | 4,055,000 | 0.26 |
| May 8, 2011 | 0.20 | 9,275,000 | 1.19 |
| June 28, 2011 | 0.20 | 3,125,000 | 1.33 |
| October 19, 2011 | 0.075/0.10 | 5,000,000 | 1.63 |
| | | <u>23,367,500</u> | <u>1.06</u> |

The following is a summary of the Company's warrant activities during the year ended February 28, 2010:

| | Number of warrants | Weighted average exercise price US\$ |
|--|-------------------------------------|--|
| Outstanding and exercisable at February 28, 2009 | 18,367,500 | 0.21 |
| Issued | <u>5,000,000</u> | <u>0.08</u> |
| Outstanding and exercisable at February 28, 2010 | <u>23,367,500</u> | <u>0.18</u> |
| Weighted average fair value of warrants issued during the year | <u>-</u> | <u>0.025</u> |

The weighted average fair value of warrants issued during the year ended February 28, 2010 was \$0.025 per warrant. The fair value of each warrant granted was determined using the Black-Scholes warrant pricing model using the following weighted average assumptions: risk free interest rate of 1.62%, expected life of 2 years, annualized volatility of 160% and expected dividend of 0%.

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:

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9. Capital Stock (continued)

Stock Options

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

On April 22, 2009, the Company granted 75,000 stock options to two consultants of the Company. The options are exercisable at a price of US\$0.10 per common share for five years expiring on April 22, 2014.

On November 9, 2009, 12,500 stock options exercisable at a price of US\$0.20 per common share expired.

On December 18, 2009 the Company granted 25,000 stock options to a consultant of the Company. The options are exercisable at a price of US\$0.10 per common share for five years expiring on December 18, 2014.

During the year ended February 28, 2010, the Company recorded stock-based compensation of \$791 (2009 - \$nil) for options granted.

The following stock options were outstanding and exercisable at February 28, 2010:

| Expiry date | Exercise price US\$ | Number of options outstanding | Number of options exercisable | Remaining contractual life (years) |
|--------------------|--------------------------------|--|--|---|
| August 9, 2011 | 0.35 | 1,500,000 | 375,000 | 1.44 |
| November 2, 2011 | 0.25 | 25,000 | 6,250 | 1.67 |
| December 8, 2011 | 0.25 | 50,000 | 12,500 | 1.77 |
| November 7, 2012 | 0.31 | 50,000 | 12,500 | 2.69 |
| February 21, 2013 | 0.10 | 1,525,000 | 381,250 | 2.98 |
| April 22, 2014 | 0.10 | 75,000 | 18,750 | 4.14 |
| December 18, 2014 | 0.10 | 25,000 | 6,250 | 4.81 |
| | | 3,250,000 | 812,500 | 2.28 |

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9. Capital Stock (continued)

Stock Options

The following is a summary of the Company's stock option activities during the year ended February 28, 2010:

| | Number of options | Weighted average exercise price US\$ |
|--|------------------------------|---|
| Outstanding at February 28, 2009 | 3,237,500 | 0.23 |
| Granted | 100,000 | 0.10 |
| Expired | (87,500) | 0.30 |
| Outstanding at February 28, 2010 | <u>3,250,000</u> | <u>0.22</u> |
| Exercisable at February 28, 2010 | <u>812,500</u> | <u>0.22</u> |
| Weighted average fair value of stock options granted during the period | | <u>0.01</u> |

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 assumptions:

| | For the Year ended February 28, 2010 | For the Year ended February 28, 2009 |
|-------------------------|---|---|
| Risk free interest rate | 1.63 - 2.32% | - |
| Expected life | 4 – 5 years | - |
| Annualized volatility | 78.17 – 124.38% | - |
| Expected dividends | <u>-</u> | <u>-</u> |

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.

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10. Commitments

On September 17, 2009 the Company entered into an office rent agreement for the duration of November 1, 2009 to October 31, 2010 at monthly rate of \$3,355. The Company shares the office space and rent fees equally with two related parties. As at February 28, 2010 the Company is committed to eight months' rent charge of \$26,840 of which \$17,893 will be reimbursed by the two related parties.

11. Supplemental Disclosures With Respect to Cash Flows

| | Cumulative from inception of exploration stage on 1 March 2003 to February 28, 2010 \$ | For the year ended February 28, 2010 \$ | For the year ended February 28, 2009 \$ | For the year ended February 29, 2008 |
|--|--|---|---|---|
| Cash paid during the year for interest | - | - | - | - |
| Cash paid during the year for income taxes | - | - | - | - |

During the year ended February 28, 2010, imputed interest at 15% per annum totalling \$39,069 (2009 - \$26,143) on amounts due to related parties was charged to operations and treated as donated capital (Note 7).

12. Income Taxes

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

| | 2010 \$ | 2009 \$ |
|---|------------|------------|
| Loss before income taxes | (409,573) | (536,201) |
| Canadian federal and provincial income tax rates | 29% | 30.75% |
| Income tax recovery based on the above rates | (118,777) | (164,882) |
| Increase due to: | | |
| Non-deductible items and other | 13,853 | 8,534 |
| Losses and temporary differences for which no future income benefit has been recognized | 90,451 | 127,112 |
| Reduction in long-term Canadian income tax rates | 14,473 | 29,236 |
| Income tax recovery | - | - |

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12. Income Taxes (continued)

The components of future income taxes are as follows:

| | 2010 | 2009 |
|---------------------------------|--------------------|--------------------|
| | \$ | \$ |
| <i>Future income tax assets</i> | | |
| Non-capital losses | 860,049 | 782,945 |
| Mineral property costs | 673,852 | 661,108 |
| Property and equipment | 3,548 | 3,010 |
| Marketable securities and other | <u>26,267</u> | <u>64,306</u> |
| Total future income tax assets | 1,563,716 | 1,511,369 |
| Valuation allowance | <u>(1,563,716)</u> | <u>(1,511,369)</u> |
| Net future income tax assets | <u>-</u> | <u>-</u> |

The Company has non-capital loss carry-forwards of approximately \$3,440,195 that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian operations and expire as follows:

| | \$ |
|------|------------------|
| 2011 | 347,428 |
| 2015 | 398,612 |
| 2026 | 402,360 |
| 2027 | 1,036,715 |
| 2028 | 417,682 |
| 2029 | 472,218 |
| 2030 | <u>365,180</u> |
| | <u>3,440,195</u> |

Additionally, the Company has approximately \$2,695,406 of development expenses and exploration expenditures as at February 28, 2010 which, under certain circumstances, may be utilized to reduce taxable income of future years. The potential income tax benefits of these losses have been offset by a full valuation allowance.

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13. Subsequent Events

Stock Options Granted

On April 19, 2010 the Company granted to a consultant of the Company 50,000 stock options exercisable into the Company's common shares at a price of \$0.10 per share for five years expiring April 19, 2015.

Warrants Expired

As of the issuance date of these consolidated financial statements, 5,967,500 warrants with exercise prices between \$0.20 and \$0.30 expired, unexercised.

Private Placement

As of the issuance date of these consolidated financial statements, two investors have subscribed 492,000 units pursuant to a private placement of the Company, consisting of up to 3,000,000 units for gross proceeds of up to US\$150,000, at a price of US\$0.05 per unit for gross proceeds of \$25,900 (US\$24,600).

Each unit consisted of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one share at an exercise price of US\$0.075 per share for a one year term expiring from date of closing.

The Company has evaluated subsequent events through the date of these consolidated financial statements were issued in accordance with FASB ASC 855 and all material subsequent events have been disclosed as stated above.