

Linux Gold Corp.
(An Exploration Stage Company)

Consolidated Financial Statements
(Expressed in Canadian Dollars)
28 February 2009

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE DIRECTORS AND STOCKHOLDERS OF LINUX GOLD CORP.
(An Exploration Stage Company)

We have audited the accompanying consolidated balance sheets of Linux Gold Corp. (An Exploration Stage Company) as of February 29, 2008 and February 28, 2007 and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for the years ended February 29, 2008, February 28, 2007 and February 28, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The statements of operations, stockholders' equity (deficiency) and cash flows from March 1, 2003 (date of inception of exploration stage) to February 28, 2005 were audited by other auditors whose report dated July 15, 2005 expressed an unqualified opinion, with an explanatory paragraph discussing the Company's ability to continue as a going-concern. Our opinion on the statements of operations, stockholders' equity (deficiency) and cash flows from inception of the exploration stage to February 29, 2008, insofar as it related to amounts for prior periods through February 28, 2005, is solely based on the reports of other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform an audit to obtain reasonable assurance 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 audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at February 29, 2008 and February 28, 2007 and the results of its operations and its cash flows for the years ended February 29, 2008, February 28, 2007 and February 28, 2006, and the cumulative totals for the exploration stage of operations from March 1, 2003 (date of inception of exploration stage) through February 29, 2008 in conformity with US generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going-concern. As discussed in Note 2 to the financial statements, the Company has no revenues and limited capital, which together raise substantial doubt about its ability to continue as a going-concern. Management plans in regard to these matters are also described in Note 2. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
June 18, 2008, except as to Note 16
which is as of August 29, 2008.

CLARITY. PASSION. BALANCE.

Linux Gold Corp.
(An Exploration Stage Company)

Consolidated Balance Sheets
(Expressed in Canadian Dollars)

	As at 28 February 2009 \$	As at 29 February 2008 \$
Assets		
Current		
Cash and cash equivalents	13,894	8,236
Goods and Services Tax receivable	7,938	4,291
Available-for-sale investments (Note 3)	78,000	286,000
Prepaid expenses and deposits	4,012	18,431
	<u>103,844</u>	<u>316,958</u>
Property and equipment (Note 4)	<u>9,098</u>	<u>11,965</u>
	<u>112,942</u>	<u>328,923</u>
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 6)	188,787	309,374
Due to related parties (Note 7)	<u>211,140</u>	<u>226,797</u>
	<u>399,927</u>	<u>536,171</u>
Stockholders' deficiency		
Capital stock (Note 10)		
Authorized		
200,000,000 common shares without par value		
Issued and outstanding		
28 February 2009 – 87,650,825 common shares		
29 February 2008 – 83,095,825 common shares	15,051,086	14,372,703
Share subscriptions received in advance	-	40,062
Donated capital	383,961	357,818
Accumulated other comprehensive loss	(268,000)	(60,000)
Deficit, accumulated from prior operations	(7,524,145)	(7,524,145)
Deficit, accumulated during the exploration stage	<u>(7,929,887)</u>	<u>(7,393,686)</u>
	<u>(286,985)</u>	<u>(207,248)</u>
	<u>112,942</u>	<u>328,923</u>

Nature and Continuance of Operations (Note 1), **Commitments** (Note 11) and **Subsequent Events** (Note 15)

On behalf of the Board:

“John Robertson” _____

Director

“Jennifer Lorette” _____

Director

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

	Cumulative from inception of exploration stage on 1 March 2003 to 28 February 2009 (unaudited) \$	For the year ended 28 February 2009 \$	For the year ended 29 February 2008 \$	For the year ended 28 February 2007 \$
General and administrative expenses				
Amortization of debt issue costs	205,242	-	173,175	32,067
Amortization of property and equipment (Note 4)	26,896	2,867	4,852	3,145
Bad debt expense	84,952	-	84,952	-
Consulting and subcontracts	1,417,801	124,751	210,313	541,438
Filing and regulatory fees	139,973	22,034	24,319	26,772
Foreign exchange loss	(9,522)	29,459	(7,130)	(6,941)
Imputed interest (Note 7)	178,461	26,143	8,966	53,657
Interest expense (Note 9)	2,302,583	-	1,041,913	1,260,670
Management fees (Note 8)	184,750	30,000	30,000	30,000
Mineral property exploration and development costs (Note 5)	1,815,087	61,885	170,663	1,074,870
Office, rent and telephone	657,675	57,228	35,406	110,824
Professional fees	377,164	79,189	94,132	79,037
Travel and promotion	879,701	104,249	262,766	445,132
Net loss before other items	(8,260,763)	(537,805)	(2,134,327)	(3,650,671)
Other items				
Mineral property acquisition costs written off	(126,417)	-	(126,417)	-
Accounts payable written off	46,281	-	-	46,281
Income from discontinued operations	369,213	-	-	-
Interest income	41,799	1,604	453	33,207
Net loss for the period	(7,929,887)	(536,201)	(2,260,291)	(3,571,183)
Basic and diluted net loss per share		(0.01)	(0.03)	(0.05)
Weighted average number of common shares used in per share calculations		86,536,209	78,776,000	69,105,000
Comprehensive loss				
Net loss for the period	(7,929,887)	(536,201)	(2,260,291)	(3,571,183)
Unrealized holding gain (loss) on available-for-sale investments	(268,000)	(208,000)	78,000	(130,000)
Comprehensive loss	(8,197,887)	(744,201)	(2,182,291)	(3,701,183)
Comprehensive loss per share		(0.01)	(0.03)	(0.05)

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 2009 (unaudited) \$	For the year ended 28 February 2009 \$	For the year ended 29 February 2008 \$	For the year ended 28 February 2007 \$
Cash flows used in operating activities				
Net loss for the period	(7,929,887)	(536,201)	(2,260,291)	(3,571,183)
Adjustments to reconcile loss to net cash used by operating activities				
Amortization of debt issue costs	205,242	-	173,175	32,067
Amortization of property and equipment	26,896	2,867	4,852	3,144
Receipt of marketable securities for property	(16,000)	-	-	(16,000)
Accretion of discount on convertible debt	2,291,794	-	1,093,413	1,198,381
Bad debt expense	84,952	-	84,952	-
Imputed interest	178,461	26,143	8,966	53,657
Accounts payable written off	(46,281)	-	-	(46,281)
Mineral property acquisition costs written off	126,417	-	126,417	-
Stock-based compensation	268,550	-	75,042	109,228
Shares issued for services	120,000	-	-	-
Shares issued for settlement of rent obligation	19,200	-	-	-
Income from discontinued operations	(369,213)	-	-	-
Changes in operating assets and liabilities				
Goods and Services Tax receivable	36,967	(3,647)	(32,205)	42,660
Prepaid expenses and deposits	(3,521)	14,419	11,422	(18,854)
Accounts payable and accrued liabilities	(90,092)	(120,587)	107,757	32,031
Due to related parties	153,560	(15,657)	(244,165)	177,753
	<u>(4,942,955)</u>	<u>(632,663)</u>	<u>(850,665)</u>	<u>(2,003,397)</u>
Cash flows used in investing activities				
Mineral interest acquisition costs	(66,417)	-	-	-
Purchase of marketable securities	(250,000)	-	-	(250,000)
Purchase of property and equipment	(35,994)	-	(330)	(9,456)
	<u>(352,411)</u>	<u>-</u>	<u>(330)</u>	<u>(259,456)</u>
Cash flows from financing activities				
Advances from related parties	16,238	-	-	-
Debt issue costs	(205,242)	-	-	(205,242)
Proceeds from convertible debt	2,226,251	-	-	2,226,251
Repayment of debt	(153,400)	-	-	(153,400)
Proceeds from issuance of common shares	3,446,649	713,842	696,305	76,399
Share subscriptions received	52,277	(40,062)	40,062	52,277
Share issue costs	(84,647)	(35,459)	(4,003)	(2,614)
	<u>5,298,126</u>	<u>638,321</u>	<u>732,364</u>	<u>1,993,671</u>
Increase (decrease) in cash and cash equivalents	2,760	5,658	(118,631)	(269,182)
Cash and cash equivalents, beginning of period	<u>11,134</u>	<u>8,236</u>	<u>126,867</u>	<u>396,049</u>
Cash and cash equivalents, end of period	<u>13,894</u>	<u>13,894</u>	<u>8,236</u>	<u>126,867</u>

Supplemental Disclosures with Respect to Cash Flows (Note 12)

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)

	Shares of common stock issued	Common stock and paid-in capital \$	Subscriptions received, net \$	Donated capital \$	Deficit accumulated from prior operations \$	Deficit accumulated during the exploration stage \$	Accumulated other comprehensive income (loss) \$	Total stockholders' equity (deficiency) \$
Balance from prior operations at 1 March 2003 (unaudited)	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 (unaudited)	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 (unaudited)	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 (unaudited)	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 (Note 7)	-	-	-	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 (Note 9)	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 (Note 7)	-	-	-	8,966	-	-	-	8,966
Stock-based compensation (Note 10)	-	75,042	-	-	-	-	-	75,042
Marketable securities adjustment (Note 14)	-	-	-	-	-	-	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)
Common stock issued for cash (Note 10)	4,555,000	507,867	(40,062)	-	-	-	-	467,805
Fair value of warrants issued with common shares (Note 10)	-	205,975	-	-	-	-	-	205,975
Share issue costs (Note 10)	-	(35,459)	-	-	-	-	-	(35,459)
Imputed interest (Note 7)	-	-	-	26,143	-	-	-	26,143
Unrealized holding loss on available-for-sale investment (Note 14)	-	-	-	-	-	-	(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)

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)

28 February 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 2009 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 \$536,201 for the year ended 28 February 2009 (29 February 2008 – \$2,260,291, 28 February 2007 – \$3,571,183) and has a working capital deficit of \$296,083 at 28 February 2009 (29 February 2008 – \$219,213).

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 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 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. There are no consolidated financial statements prepared using Canadian generally accepted accounting principles. The Company is an exploration stage company, as defined by the Statement of Financial Accounting Standard (“SFAS”) No. 7, “*Accounting and Reporting by Development Stage Enterprises*”.

Linux Gold Corp.
(An Exploration Stage Company)
Notes to Consolidated Financial Statements
(Expressed in Canadian Dollars)
28 February 2009

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 SFAS No. 52, "*Foreign Currency Translation*". 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 GAAP 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. Actual results could differ from those estimates.

Basic and diluted net loss per share

The Company computes net loss per share in accordance with SFAS No. 128, "*Earnings per Share*". SFAS No. 128 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.

Stock-based compensation

The Company records stock-based compensation in accordance with SFAS No. 123(R), "*Share-Based Payments*", using the fair value method. All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. Equity instruments issued to employees and the cost of the services received as consideration are measured and recognized based on the fair value of the equity instruments issued.

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28 February 2009

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 in accordance with Emerging Issue Task Force ("EITF") 04-2 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.

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

Linux Gold Corp.
(An Exploration Stage Company)
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28 February 2009

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. 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

In accordance with SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*", the carrying value of intangible assets and other long-lived assets is 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.

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

The Company classifies its financial instruments into held-to-maturity, trading or available-for-sale categories. Financial instruments are classified as held-to-maturity when the Company has the positive intent and ability to hold the instruments to maturity. Financial instruments for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity instruments are recorded as either short-term or long-term on the balance sheet based on contractual maturity date and are stated at amortized cost. Financial instruments that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Financial instruments not classified as held-to-maturity or as trading are classified as available-for-sale and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in stockholders' equity.

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Income taxes

Potential benefits of income tax losses are not recognized in the accounts until realization is more likely than not. The Company has adopted SFAS No. 109, "*Accounting for Income Taxes*", as of its inception. Pursuant to SFAS No. 109, the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefits of net operating losses have not been recognized in these consolidated financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

Comprehensive loss

SFAS No. 130, "*Reporting Comprehensive Income*", establishes standards for the reporting and display of comprehensive loss and its components in the financial statements. As at 28 February 2009 and 29 February 2008, the Company's only component of other comprehensive loss was unrealized holding gains and losses on available-for-sale securities.

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after 1 January 2011. The transition date of 1 January 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended 30 November 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Recent accounting pronouncements

In May 2008, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts – an interpretation of SFAS No. 60*". SFAS No. 163 provides enhanced guidance on the recognition and measurement to be used to account for premium revenue and claim liabilities and related disclosures and is limited to financial guarantee insurance (and reinsurance) contracts, issued by enterprises included within the scope of SFAS No. 60, "*Accounting and Reporting by Insurance Enterprises*". SFAS No. 163 also requires that an insurance enterprise recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation. SFAS No. 163 is effective for financial statements issued for fiscal years and interim periods beginning after 15 December 2008, with early application not permitted. The Company does not expect SFAS No. 163 to have an impact on its consolidated financial statements.

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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.

In March 2008, the FASB issued SFAS No. 161, *“Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133”*, which amends and expands the disclosure requirements of SFAS No. 133 to provide an enhanced understanding of an entity’s use of derivative instruments, how they are accounted for under SFAS No. 133 and their effect on the entity’s financial position, financial performance and cash flows. The provisions of SFAS No. 161 are effective for periods beginning after 15 November 2008. The Company is currently reviewing the effect, if any, that the adoption of this statement will have on the Company’s consolidated financial statements.

3. Available-for-Sale Investments

	28 February 2009		29 February 2008	
	Book value	Fair value	Book value	Fair value
	\$	\$	\$	\$
346,000 (2008 – 346,000) common shares of Teryl Resources Corp.	346,000	78,000	346,000	286,000

4. Property and Equipment

	Cost	Accumulated amortization	Net book value	
			2009	2008
	\$	\$	\$	\$
Office furniture	11,194	5,411	5,783	7,229
Vehicle	15,531	12,216	3,315	4,736
	26,725	17,627	9,098	11,965

During the year ended 28 February 2009, total additions to property, plant and equipment were \$Nil (29 February 2008 - \$330).

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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.

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 2009, in which all other terms of the original agreement remain the same. Subsequent to the year end, the Company entered into an agreement to extend the expenditure date on the Fish Creek mineral claim to 5 March 2010 (Note 15).

The following is a summary of mineral property expenditures related to the Alaska Mineral Properties for the years ended 28 February 2009, 29 February 2008 and 28 February 2007:

	For the year ended 28 February 2009 \$	For the year ended 29 February 2008 \$	For the year ended 28 February 2007 \$
Exploration and development costs			
Assaying	363	26,357	130,544
Field supplies and other	-	-	609,856
Geological consulting	14,121	43,999	105,655
Staking and recording fees	47,401	96,344	26,357
Transportation	-	3,963	202,458
	<u>61,885</u>	<u>170,663</u>	<u>1,074,870</u>

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British Columbia Mineral Properties

Ty Property

The Company acquired the TY Area, TY Grid 2 and 3 (21 units) mineral claims located in the Lillooet Mining Division in British Columbia under the following terms and conditions:

- a) the Company must pay \$30,000 in various stages to 1 December 2004 (paid);
- b) the Company must issue 150,000 shares as follows: 100,000 upon signing of the agreement and receiving regulatory approval (issued) and 50,000 shares upon completion of Phase III (issued); and
- c) the vendor will retain a 2% net smelter return interest (“NSR”). The Company may purchase the NSR for \$1,000,000 for each 1% prior to commercial production, in shares or cash.

During the year ended 29 February 2004, the Company staked an additional three mineral claims representing 35 units. The Company elected not to file the necessary assessments in 2008. These mineral claims have now lapsed.

ORO Property

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

- a) the Company must pay \$10,000 (paid) and issue 100,000 common shares (issued); and
- b) the vendor will retain a 2% NSR. The Company may purchase the NSR for \$1,000,000 for each 1% prior to commercial production, in shares or cash.

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

During the year ended 29 February 2008, the Company discontinued active exploration on both British Columbia properties and wrote off its acquisition costs. The Company elected not to file the necessary assessments in 2008. These mineral claims have now lapsed.

China Mineral Property

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

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To complete the option agreement, the Company must:

- a) pay \$55,000 as follows: \$10,000 upon regulatory approval (paid), \$15,000 upon completion of Phase 1, \$15,000 upon completion of Phase II and a minimum of \$15,000 annually or 5% of net profits paid quarterly, whichever is greater. The Company is currently in Phase 1;
- b) issue 200,000 shares as follows: 50,000 upon regulatory approval (issued), 50,000 upon completion of Phase 1, 50,000 upon completion of Phase II and 50,000 upon completion of Phase III. The Company also issued 50,000 common shares as a finders' fee. The Company is currently in Phase 1; and
- c) incur production expenses, subject to successful results in each phase, of \$500,000 as follows: \$160,000 (\$114,457 incurred) for Phase 1, \$130,000 for Phase II and \$210,000 for Phase 3.

During the year ended 29 February 2008, the Company discontinued active exploration on the property and wrote off the related acquisition costs.

6. Accounts Payable and Accrued Liabilities

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 year, imputed interest at 15%, totalling \$26,143 (29 February 2008 - \$8,966, 28 February 2007 - \$53,657) was charged to operations and treated as donated capital (Note 12). As at 28 February 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.

	29 February 2008	Advances (repayments)	28 February 2009
	\$	\$	\$
Information Highway.com	3,000	(1,000)	2,000
JGR Petroleum, Inc.	82,533	(2,800)	79,733
J. Robertson, President, CEO and shareholder	11,584	(11,584)	-
KLR Petroleum Ltd.	2,150	4,589	6,739
REGI U.S., Inc.	(38)	1,214	1,176
SMR Investments Ltd.	29,250	2,250	31,500
Teryl Resources Corp.	98,318	(8,326)	89,992
	<u>226,797</u>	<u>(15,657)</u>	<u>211,140</u>

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8. Related Party Transactions

Pursuant to a management services agreement, during the year ended 28 February 2009, the Company accrued management fees of \$30,000 (29 February 2008 - \$30,000, 28 February 2007 - \$30,000) to a company where the President of the Company is a director. At 28 February 2009, the Company is indebted in the amount of \$38,239 (29 February 2008 - \$31,400) 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 year ended 28 February 2009, the Company paid investor relations fees of \$11,000 (29 February 2008 - \$12,000, 28 February 2007 - \$12,000) to a company related to the Company by way of director in common.

During the year ended 28 February 2009, the Company paid consulting fees of \$16,067 (29 February 2008 - \$12,851, 28 February 2007 - \$9,083) to a company where the President of the Company is a director.

During the year ended 28 February 2009, the Company incurred consulting fees valued at US\$45,000 which were delivered by a company not related to the Company (the "Third Party"). The payment for these consulting fees was made by way of payment of US\$45,000 by the Company to a company related to the Company by way of director in common (the "Related Party"). The Related Party then settled the debt with the Third Party by transferring 300,000 shares of the Company's common stock (valued at US\$45,000), held by the Related Party as an investment, to the Third Party.

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

9. Convertible Debentures

The Company completed a private placement financing of \$2,226,250 (US\$2,000,000) on 8 May 2006 with several institutional investors consisting of secured convertible discount notes (the "Discount Notes") with a principal amount of US\$2,105,250. The Discount Notes were issued at a discount of 5%, are convertible into common stock at a conversion price of \$0.40 per share at the option of the investor. Effective 1 October 2006, the Company was required to repay 1/15 of the principal amount per month. Upon required monthly repayment, the Discount Notes were converted to common stock at a conversion price calculated at the 15-day volume weighted average stock price less a 15% discount. The Discount Notes matured on 8 November 2007.

The securities were issued in a private placement transaction pursuant to Section 4(2) of the Securities Act of 1933, as amended. The Company is obligated to file a registration statement with the United States SEC registering the resale of shares of the Company's common stock issuable upon conversion of the Discount Notes and exercise of the warrants. This resale registration was filed on 9 August 2006 and became effective 1 September 2006.

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The Company received proceeds of US\$1,500,000 at first closing on 8 May 2006, and the remaining US\$500,000 was received upon the filing of a resale registration statement. The investors received Series A warrants to purchase, in the aggregate, 5,000,000 shares of common stock at \$0.50 per share for a term of five years, and Series B warrants to purchase, in the aggregate, an additional 2,500,000 shares of common stock at \$0.52 per share for a term expiring upon the earlier of one year after the effectiveness of the resale registration statement or ten years. These warrants were subject to a price adjustment clause whereby any future equity financing at a share price less than the exercise price of the warrants would result in the re-pricing of the warrants' exercise price to equal the share price of the financing and additional warrants would be issued so that the aggregate exercise price of the re-priced warrants would aggregate the exercise price of the originally issued warrants.

The Company received US\$1,815,000 net proceeds from this transaction. The funds were used for continued exploration and development expenses on the Granite Mountain claims and for general working capital.

During the year ended 29 February 2008, the Company redeemed \$1,493,911 (US\$1,403,518) of principal paid by the issuance of 8,378,226 common shares.

In accordance with EITF 98-5 "*Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*", the Company recognized the value of the embedded beneficial conversion feature of \$963,670 (US\$864,866) as additional paid-in capital as the debt was issued with a fair value conversion feature. In addition, in accordance with EITF 00-27 "*Application of Issue No. 98-5 to Certain Convertible Instruments*", the Company allocated the proceeds of issuance between the convertible debt and the detachable warrants based on their relative fair values. Accordingly, the Company recognized the fair value of the detachable warrants of \$1,262,580 (US\$1,135,134) as additional paid-in capital. The carrying value of the Discount Notes has been accreted to the face value of the principal. During the year ended 28 February 2009, interest expense of \$Nil (29 February 2008 - \$1,041,913, 28 February 2007 - \$1,260,670) has been accreted.

10. 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. The Company extended the expiry date of these share purchase warrants to 27 March 2010 subsequent to 28 February 2009 (Note 15).

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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. The Company extended the expiry date of these share purchase warrants to 5 June 2010 subsequent to 28 February 2009 (Note 15).

Warrants

The following share purchase warrants were outstanding at 28 February 2009:

	Exercise price US\$	Number of warrants	Remaining contractual life (years)
Warrants expiring 27 March 2010	0.25	500,000	1.07
Warrants expiring 1 June 2010	0.30	1,412,500	1.25
Warrants expiring 5 June 2010	0.20	4,055,000	1.27
Warrants expiring 8 May 2011	0.20	9,275,000	2.19
Warrants expiring 28 June 2011	0.20	<u>3,125,000</u>	2.33
		<u>18,367,500</u>	

The Company extended the expiry dates of certain of these share purchase warrants to dates ranging from 27 March 2010 to 5 June 2010 subsequent to 28 February 2009 (Note 15).

The following is a summary of the Company's warrant activities during the year ended 28 February 2009:

	Number of warrants	Weighted average exercise price US\$
Outstanding and exercisable at 1 March 2008	13,812,500	0.21
Granted	4,555,000	0.21
Exercised	-	-
Expired	-	-
Cancelled	<u>-</u>	<u>-</u>
Outstanding and exercisable at 28 February 2009	<u>18,367,500</u>	<u>0.21</u>
Weighted average fair value of warrants granted during the year		<u>0.04</u>

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The weighted average grant date fair value of warrants issued during the year ended 28 February 2009 is \$0.04 per warrant. The fair value of each warrant granted was determined using the Black-Scholes warrant pricing model and the following weighted average assumptions: risk free interest rate of 2.12%, expected life of 1 year, annualized volatility of 98.15% and expected dividends of 0%.

Warrant pricing models require the input of highly subjective assumptions including the estimate of the share 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 value of the Company's warrants.

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 30 October 2008, a total of 25,000 stock options exercisable at a price of US\$0.34 per common share were cancelled.

During the years ended 28 February 2009 and 29 February 2008, the Company recorded stock-based compensation of \$Nil and \$75,042, respectively.

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The following stock options were outstanding and exercisable at 28 February 2009 (Note 15):

	Exercise price US\$	Number of options outstanding	Number of options exercisable	Remaining contractual life (years)
Options expiring 22 April 2009	0.30	75,000	75,000	0.15
Options expiring 9 November 2009	0.20	12,500	12,500	0.70
Options expiring 9 August 2011	0.35	1,500,000	375,000	2.44
Options expiring 2 November 2011	0.25	25,000	6,250	2.68
Options expiring 8 December 2011	0.25	50,000	12,500	2.78
Options expiring 7 November 2012	0.31	50,000	12,500	3.69
Options expiring 21 February 2013	0.10	<u>1,525,000</u>	<u>381,250</u>	3.98
		<u>3,237,500</u>	<u>875,000</u>	

The following is a summary of the Company's stock option activities during the years ended 29 February 2008 and 28 February 2009:

	Number of options	Weighted average exercise price US\$
Outstanding at 1 March 2007	3,720,000	0.22
Granted	300,000	0.22
Exercised	(212,500)	0.10
Expired	-	-
Cancelled	<u>(545,000)</u>	<u>0.15</u>
Outstanding at 29 February 2008	<u>3,262,500</u>	<u>0.23</u>
Exercisable at 29 February 2008	<u>815,625</u>	<u>0.23</u>
Weighted average fair value of stock options granted during the year		<u>0.36</u>

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	Number of options	Weighted average exercise price US\$
Outstanding at 1 March 2008	3,262,500	0.23
Granted	-	-
Exercised	-	-
Expired	-	-
Cancelled	(25,000)	0.34
Outstanding at 28 February 2009	<u>3,237,500</u>	<u>0.23</u>
Exercisable at 28 February 2009	<u>875,000</u>	<u>0.23</u>
Weighted average fair value of stock options granted during the year		<u>-</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 weighted average assumptions:

	For the year ended 28 February 2009	For the year ended 29 February 2008
Risk free interest rate	-	2.71% to 4.17%
Expected life	-	5 years
Annualized volatility	-	122% to 128%
Expected dividends	-	0%

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.

11. Commitments

The Company has the following commitments during the year ended 28 February 2009:

- 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 year ended 28 February 2009, consulting fees of \$6,076 (29 February 2008 - \$6,403, 28 February 2007 - \$89,278) were incurred.

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- 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 year ended 28 February 2009, consulting fees of \$Nil (29 February 2008 - \$Nil, 28 February 2007 - \$40,618) were incurred.
- c) 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		27,280

12. Supplemental Disclosures With Respect to Cash Flows

Cumulative from inception of exploration stage on 1 March 2003 to 28 February 2009 (unaudited) \$	For the year ended 28 February 2009 \$	For the year ended 29 February 2008 \$	For the year ended 28 February 2007 \$
Cash paid during the year for interest	-	-	-
Cash paid during the year for income taxes	-	-	-

During the year ended 28 February 2009, imputed interest at 15% per annum totalling \$26,143 (29 February 2008 - \$8,966, 28 February 2007 - \$53,657) on amounts due to related parties was charged to operations and treated as donated capital (Note 7).

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13. 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:

	2009	2008
	\$	\$
Loss before income taxes	(536,201)	(2,260,291)
Canadian federal and provincial income tax rates	<u>30.75%</u>	<u>31.00%</u>
Income tax recovery based on the above rates	(164,882)	(700,690)
Increase due to:		
Non-deductible items and other	8,534	315,587
Losses and temporary differences for which no future income benefit has been recognized	127,112	45,087
Reduction in long-term Canadian income tax rates	<u>29,236</u>	<u>340,016</u>
Income tax recovery	<u>-</u>	<u>-</u>

The components of future income taxes are as follows:

	2009	2008
	\$	\$
<i>Future income tax assets</i>		
Non-capital losses	782,945	946,526
Mineral property costs	661,108	741,190
Capital assets	3,010	6,801
Marketable securities and other	<u>64,306</u>	<u>17,220</u>
Total future income tax assets	1,511,369	1,711,737
Valuation allowance	<u>(1,511,369)</u>	<u>(1,680,315)</u>
Net future income tax assets	<u>-</u>	<u>31,422</u>
<i>Future income tax liabilities</i>		
Debt issue costs	<u>-</u>	<u>31,422</u>
Future income tax liabilities	<u>-</u>	<u>31,422</u>
Net future income tax liabilities	<u>-</u>	<u>-</u>

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The Company has non-capital loss carry-forwards of approximately \$3,131,780 that may be available for tax purposes. The loss carry-forwards are all in respect of Canadian operations and expire as follows:

	\$
2010	28,197
2011	347,428
2015	398,612
2026	402,360
2027	1,036,715
2028	417,682
2029	500,786
	<u>3,131,780</u>

Additionally, the Company has approximately \$2,644,431 of development expenses and exploration expenditures as at 28 February 2009 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.

14. 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 \$13,894 (29 February 2008 - \$8,236). The aggregate carrying value and fair value of all held-to-maturity assets is \$7,938 (29 February 2008 - \$4,291).

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 \$78,000 (29 February 2008 - \$286,000) and losses included in accumulated other comprehensive loss is \$268,000 (29 February 2008 - \$60,000).

b) 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.

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.

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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 28 February 2009 US\$	As at 29 February 2008 US\$
Cash and cash equivalents	4,296	5,213
Accounts payable and accrued liabilities	85,446	233,434

As at 28 February 2009, with other variables unchanged, an approximately 10% change in exchange rates would increase/decrease pre-tax loss by \$11,307.

15. Subsequent Events

The following events occurred subsequent to 28 February 2009:

- a) On 5 March 2009, the Company and Teryl entered into an agreement to extend the expenditure date on the Fish Creek, Alaska mineral claims to 5 March 2010 (Note 5).
- b) On 27 March 2009, the Company extended the expiry date of 500,000 share purchase warrants exercisable at a price of US\$0.25 per common share from 27 March 2009 to 27 March 2010 (Note 10).
- c) On 22 April 2009, a total of 75,000 stock options exercisable at a price of US\$0.30 per common share expired (Note 10).
- d) On 1 June 2009, the Company extended the expiry date of 1,412,500 share purchase warrants exercisable at a price of US\$0.30 per common share from 1 June 2009 to 1 June 2010 (Note 10).
- e) On 5 June 2009, the Company extended the expiry date of 4,055,000 share purchase warrants exercisable at a price of US\$0.20 per common share from 5 June 2009 to 5 June 2010 (Note 10).