

# **Linux Gold Corp.**

## **(An Exploration Stage Company)**

Interim Consolidated Financial Statements  
(Expressed in Canadian Dollars)  
(Unaudited)  
**May 31, 2010**

### **Reader's Note:**

These unaudited interim consolidated financial statements of Linux Gold Corp. ("the Company") for the three months ended May 31, 2010 have been prepared by management and have not been reviewed by the Company's auditors.

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

	As at 31 May 2010 \$ (Unaudited)	As at 28 February 2010 \$
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	9,574	182
Goods and services tax receivable	5,322	3,922
Marketable securities (Note 3)	155,050	191,330
Prepaid expenses and deposits	3,753	3,863
	<u>173,699</u>	<u>199,297</u>
<b>Property and equipment</b> (Note 4)	<u>6,542</u>	<u>6,947</u>
	<u>180,241</u>	<u>206,244</u>
<b>Liabilities</b>		
<b>Current</b>		
Bank indebtedness	14,631	-
Accounts payable and accrued liabilities (Note 6)	151,771	150,628
Due to related parties (Note 7)	341,006	313,490
	<u>507,408</u>	<u>464,118</u>
<b>Stockholders' deficit Capital stock</b> (Note 9)		
Authorized		
200,000,000 common shares without par value		
Issued and outstanding		
31 May 2010 – 92,650,825 common shares		
28 February 2010 – 92,650,825 common shares	15,259,893	15,259,388
<b>Share subscriptions received</b>	25,900	-
<b>Donated capital</b>	435,651	423,030
<b>Accumulated other comprehensive loss</b>	(80,762)	(76,687)
<b>Deficit, accumulated from prior operations</b>	(7,524,145)	(7,524,145)
<b>Deficit, accumulated during the exploration stage</b>	(8,443,704)	(8,339,460)
	<u>(327,167)</u>	<u>(257,874)</u>
	<u>180,241</u>	<u>206,244</u>

**Nature and Continuance of Operations** (Note 1), **Commitments** (Note 10) and **Subsequent Events** (Note 12)

**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)

(Unaudited)

	<b>Cumulative from inception of exploration stage on 1 March 2003 to 31 May 2010 \$</b>	<b>For the three months ended 31 May 2010 \$</b>	<b>For the three months ended 31 May 2009 \$</b>
<b>General and administrative expenses</b>			
Amortization of debt issue costs	205,242	-	-
Amortization of property and equipment	29,452	405	716
Bad debt expense	84,952	-	-
Consulting and subcontracts	1,587,709	34,327	37,522
Filing and regulatory fees	163,117	4,303	521
Foreign exchange loss (gain)	(36,136)	(604)	(15,058)
Imputed interest (Note 7)	230,151	12,621	6,613
Interest expense	2,302,583	-	608
Management fees (Note 8)	222,250	7,500	7,500
Mineral property exploration and development costs (Note 5)	1,883,988	17,926	1,085
Office, rent and telephone	705,463	8,621	10,490
Professional fees	422,299	7,812	5,450
Travel and promotion	963,873	4,647	3,258
<b>Net loss before other items</b>	<b>(8,764,943)</b>	<b>(97,558)</b>	<b>(58,705)</b>
<b>Other items</b>			
Loss on sale of marketable security	(9,637)	(6,686)	-
Mineral property acquisition costs written off	(126,417)	-	-
Accounts payable written off	46,281	-	-
Income from discontinued operations	369,213	-	-
Interest income	41,799	-	-
<b>Net loss for the period</b>	<b>(8,443,704)</b>	<b>(104,244)</b>	<b>(58,705)</b>
<b>Basic and diluted net loss per share</b>		<b>(0.00)</b>	<b>(0.00)</b>
<b>Weighted average number of common shares used in per share calculations</b>		<b>92,650,825</b>	<b>87,650,825</b>
<b>Comprehensive loss</b>			
Net loss for the period	(8,443,704)	(104,244)	(58,705)
Unrealized holding gain (loss) on available-for-sale investments	(80,762)	(4,075)	26,000
<b>Comprehensive loss</b>	<b>(8,524,466)</b>	<b>(108,319)</b>	<b>(32,705)</b>
<b>Comprehensive loss per share</b>		<b>(0.00)</b>	<b>(0.00)</b>

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)  
(Unaudited)

	Cumulative from inception of exploration stage on 1 March 2003 to 31 May 2010 \$	For the three months ended 31 May 2010 \$	For the three months ended 31 May 2009 \$
<b>Cash flows used in operating activities</b>			
Net loss for the period	(8,443,704)	(104,244)	(58,705)
Adjustments to reconcile loss to net cash used by operating activities			
Amortization of debt issue costs	205,242	-	-
Amortization of property and equipment	29,452	405	716
Receipt of marketable securities for property	(16,000)	-	-
Accretion of discount on convertible debt	2,291,794	-	-
Bad debt expense	84,952	-	-
Imputed interest	230,151	12,621	6,613
Accounts payable written off	(46,281)	-	-
Mineral property acquisition costs written off	126,417	-	-
Stock-based compensation	269,845	505	408
Shares issued for services	120,000	-	-
Shares issued for settlement of rent obligation	19,200	-	-
Net loss on sale of marketable securities	9,637	6,686	-
Income from discontinued operations	(369,213)	-	-
Changes in operating assets and liabilities			
Bank indebtedness	14,631	14,631	-
Goods and Services Tax receivable	39,583	(1,400)	(1,944)
Prepaid expenses and deposits	(3,262)	110	-
Accounts payable and accrued liabilities	(127,108)	1,143	(1,318)
Due to related parties	276,358	20,448	41,197
	<u>(5,288,306)</u>	<u>(49,095)</u>	<u>(13,033)</u>
<b>Cash flows used in investing activities</b>			
Mineral interest acquisition costs	(66,417)	-	-
Disposal (purchase) of marketable securities	(149,449)	25,519	-
Purchase of property and equipment	(35,994)	-	-
	<u>(251,860)</u>	<u>25,519</u>	<u>-</u>
<b>Cash flows from financing activities</b>			
Advances from related parties	23,306	7,068	-
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	-	-
Share subscriptions received	78,177	25,900	-
Share issue costs	(84,647)	-	-
	<u>5,538,606</u>	<u>32,968</u>	<u>-</u>
<b>Increase (decrease) in cash and cash equivalents</b>	(1,560)	9,392	(13,033)
<b>Cash and cash equivalents, beginning of period</b>	<u>11,134</u>	<u>182</u>	<u>13,894</u>
<b>Cash and cash equivalents, end of period</b>	<u>9,574</u>	<u>9,574</u>	<u>861</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)  
(Unaudited)

	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 (deficit) \$
<b>Balance from prior operations at 1 March 2003</b>	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)
<b>Balance at 29 February 2004</b>	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)
<b>Balance at 29 February 2005</b>	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)
<b>Balance at 28 February 2006</b>	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)
<b>Balance at 28 February 2007</b>	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)
<b>Balance at 29 February 2008</b>	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)

(Unaudited)

	Shares of common stock issued	Common stock and paid-in capital \$	Subscriptions received, net \$	Donated capital \$	Deficit accumulate d from prior operations \$	Deficit accumulate d during the exploration stage \$	Accumulated other comprehensive income (loss) \$	Total stockholders' equity (deficit) \$
<b>Balance at 29 February 2008</b>	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)
<b>Balance at 28 February 2009</b>	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)
<b>Balance at 28 February 2010</b>	92,650,825	15,259,388	-	423,030	(7,524,145)	(8,339,460)	(76,687)	(257,874)
Subscription received	-	-	25,900	-	-	-	-	25,900
Imputed interest	-	-	-	12,621	-	-	-	12,621
Unrealized holding loss on investment	-	-	-	-	-	-	(4,075)	(4,075)
Stock-based compensation	-	505	-	-	-	(505)	-	-
Net loss for the period	-	-	-	-	-	(103,739)	-	(103,739)
<b>Balance at 31 May 2010</b>	92,650,825	15,259,893	25,900	435,651	(7,524,145)	(8,443,704)	(80,762)	(327,167)

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 Three Months Ended May 31, 2010**  
**(Unaudited)**

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**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 31 May 2010 and for the three months 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 \$104,244 for the three months ended 31 May 2010 (2010 – \$58,705) and has a working capital deficit of \$333,709 at 31 May 2010 (28 February 2010 – \$264,821).

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

At 31 May 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. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the Securities and Exchange Commission, and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended 28 February, 2010 filed on SEDAR and Form 20F with the SEC. In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position and the results of operations for the interim period presented herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year or for any future period. Notes to the financial statements which would substantially duplicate the disclosure contained in the audited financial statements for fiscal 2010 have been omitted.

**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**

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**2. Marketable Securities**

	<b>31 May 2010</b>		<b>28 February 2010</b>	
	<b>Cost</b>	<b>Fair value</b>	<b>Cost</b>	<b>Fair value</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
886,000 (31 May 2010 – 1,007,000) common shares of Teryl Resources Corp.	235,812	155,050	268,017	191,330

During the three months ended 31 May, 2010 a total of 121,000 (2010 – nil) shares of Teryl Resources Corp. were sold at prices ranging from \$0.215 to \$0.235 for total proceeds of \$25,518 (2010 - \$nil) with average cost of \$32,205 and average carrying value of \$22,990.

**3. Property and Equipment**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net book value</b>	
			<b>31 May 2010</b>	<b>28 February 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Office furniture	11,194	6,798	4,396	4,627
Vehicle	15,531	13,385	2,146	2,320
	26,725	20,183	6,542	6,947

During the three months ended 31 May, 2010, total additions to property, plant and equipment were \$nil (2010 - \$nil).

**4. 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.

**5. Mineral Properties**

## **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**

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### **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:

## **5. Mineral Properties (continued)**

**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**

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**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 the three months ended 31 May, 2010 and 2009:

	<b>For the Three Months Ended 31 May, 2010</b>	<b>For the Three Months Ended 31 May, 2009</b>
	\$	\$
<b>Exploration and development costs</b>		
Assaying	483	-
Field supplies and other	-	-
Geological consulting	4,522	1,085
Staking and recording fees	12,921	-
Transportation	-	-
	<u>17,926</u>	<u>1,085</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 three months ended 31 May, 2010, imputed interest at 15%, totalling \$12,621 (2010 - \$6,613) was charged to operations and treated as donated capital (Note 11). As at 31 May, 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.

**7. Due to Related Parties (continued)**

**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**

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	<b>28 February, 2010</b>	<b>Advances (repayments)</b>	<b>31 May, 2010</b>
	\$	\$	\$
Access Information	1,106	-	1,106
Imaging Technologies	1,018	-	1,018
Information Highway.com	2,500	1,500	4,000
IAS Energy, Inc.	1,700	-	1,700
JGR Petroleum, Inc.	102,760	4,068	106,828
KLR Petroleum Ltd.	32,868	12,573	45,441
Rainbow Networks	4,369	-	4,369
Reg Technologies Inc.	1,210	-	1,210
REGI U.S., Inc.	1,176	-	1,176
SMR Investments Ltd.	49,450	7,875	57,325
Teryl Resources Corp.	115,333	1,500	116,833
	<u>313,490</u>	<u>27,516</u>	<u>341,006</u>

**8. Related Party Transactions**

Pursuant to a management services agreement, during the three months ended 31 May, 2010 the Company paid or accrued management fees of \$7,500 (2010 - \$7,500) to a company of which the President of the Company is a director. At 31 May, 2010, the Company had an outstanding balance of \$57,325 (2010 - \$49,450) owed to this related party.

During the three months ended 31 May, 2010 the Company paid or accrued investor relations fees of \$1,500 (2010 - \$3,000) to a company related to the Company by way of a common director.

During the three months ended 31 May, 2010, the Company paid consulting fees of \$4,219 (2010 - \$2,835) 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.

**9. Capital Stock**

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**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.

**9. Capital Stock (continued)**

**Issued and outstanding (continued)**

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During the three months ended 31 May, 2010, two investors 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. As at 31 May, 2010 and the issuance date of these consolidated financial statements, the common shares were not issued.

**Warrants**

The following share purchase warrants were outstanding at 31 May, 2010:

Expiry date	Exercise price US\$	Number of warrants	Remaining contractual life (years)
June 1, 2010	0.30	1,412,500	0.00
June 5, 2010	0.20	4,055,000	0.01
May 8, 2011	0.20	9,275,000	0.94
June 28, 2011	0.20	3,125,000	1.08
October 19, 2011	0.075/0.10	5,000,000	1.38
		22,867,500	0.83

The following is a summary of the Company's warrant activities during the three months ended 31 May, 2010:

	Number of warrants	Weighted average exercise price US\$
Outstanding and exercisable at 28 February, 2010	23,367,500	0.18
Expired	(500,000)	0.07
Outstanding and exercisable at 31 May, 2010	22,867,500	0.18

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%.

**9. Capital Stock (continued)**

**Stock Options**

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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 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.

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.

**9. Capital Stock (continued)**

**Stock Options**

The following stock options were outstanding and exercisable at 31 May, 2010:

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<b>Expiry date</b>	<b>Exercise price US\$</b>	<b>Number of options outstanding</b>	<b>Number of options exercisable</b>	<b>Remaining contractual life (years)</b>
August 9, 2011	0.35	1,500,000	375,000	1.19
November 2, 2011	0.25	25,000	6,250	1.42
December 8, 2011	0.25	50,000	12,500	1.52
November 7, 2012	0.31	50,000	12,500	2.44
February 21, 2013	0.10	1,525,000	381,250	2.73
April 22, 2014	0.10	75,000	18,750	3.89
December 18, 2014	0.10	25,000	6,250	4.56
April 19, 2015	0.10	50,000	12,500	4.89
		<b>3,300,000</b>	<b>825,000</b>	<b>2.07</b>

The following is a summary of the Company's stock option activities during the three months ended 31 May, 2010:

	<b>Number of options</b>	<b>Weighted average exercise price US\$</b>
Outstanding at February 28, 2010	3,250,000	0.22
Granted	50,000	0.10
Outstanding at May 31, 2010	3,300,000	0.22
Exercisable at May 31, 2010	825,000	0.22
Weighted average fair value of stock options granted during the period		0.01

**9. Capital Stock (continued)**

**Stock Options (continued)**

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:

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	<b>For the Three months ended 31 May, 2010</b>	<b>For the Three months ended 31 May, 2009</b>
Risk free interest rate	2.22%	1.64%
Expected life	5 years	4 years
Annualized volatility	98.81%	78.17%
Expected dividends	-	-

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

**10. Commitments**

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 31 May, 2010 the Company is committed to five months' rent charge of \$17,552 of which \$11,183 will be reimbursed by the two related parties.

**11. Supplemental Disclosures With Respect to Cash Flows**

	<b>Cumulative from inception of exploration stage on 1 March 2003 to 31 May, 2010 \$</b>	<b>For the Three months ended 31 May, 2010 \$</b>	<b>For the Three months ended 31 May, 2009 \$</b>
Cash paid for interest	-	-	-
Cash paid for income taxes	-	-	-

During the three months ended 31 May, 2010, imputed interest at 15% per annum totalling \$12,621 (2009 - \$6,613) on amounts due to related parties was charged to operations and treated as donated capital (Note 7).

**12. Subsequent Events**

*Private Placement*

As of the issuance date of these consolidated financial statements, three investors have subscribed 505,000 units pursuant to a private placement of the Company, consisting of up to 3,000,000 units for

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gross proceeds of up to US\$150,000, at a price of US\$0.05 per unit for gross proceeds of US\$25,250. 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. As at the issuance date of these consolidated financial statements the common shares were not issued.

*Warrants Expired*

As of the issuance date of these consolidated financial statements, 5,467,500 warrants with exercise prices between \$0.20 and \$0.30 expired, unexercised.

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.