

## **LINUX GOLD CORP.**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

Linux Gold Corp.  
(An Exploration Stage Company)

Interim Consolidated Financial Statements  
(Expressed in Canadian dollars)  
(Unaudited)

August 31, 2005

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**NOTICE TO READER**

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We have compiled the interim consolidated balance sheets of Linux Gold Corp. as at August 31, 2005 and the interim consolidated statements of loss and deficit and cash flows for the three month and six month period ended August 31, 2005 from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

**/s/ Lancaster & David**

CHARTERED ACCOUNTANTS

Vancouver, BC  
October 18, 2005

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

	August 31, 2005	February 28, 2005 (audited)
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 60,632	\$ 398,433
Amounts receivable	48,502	49,550
Marketable securities	48,000	70,000
Prepaid expenses and deposits	15,470	6,200
Total Current Assets	172,604	524,183
Property and Equipment (Note 3)	14,682	20,525
<b>Total Assets</b>	<b>\$ 187,286</b>	<b>\$ 544,708</b>
<b>LIABILITIES</b>		
Current		
Accounts payable	\$ 114,245	\$ 100,868
Accrued liabilities	12,566	32,395
Accrued liabilities to related parties (Note 6(a))	122,927	104,560
Due to related parties (Note 6(b))	209,714	188,156
Total Liabilities	459,452	425,979
Commitments (Note 10)		
<b>STOCKHOLDERS' (DEFICIT) EQUITY</b>		
Common Stock (Note 7)		
Authorized:		
200,000,000 common shares without par value		
Issued:		
64,951,523 common shares	8,044,675	8,044,675
Additional Paid-in Capital (Note 7(i))	228,734	213,659
Donated Capital (Note 6(b))	283,366	263,473
Accumulated Other Comprehensive Income (Loss)	(32,000)	(10,000)
Deficit Accumulated During the Exploration Stage	(8,796,941)	(8,393,078)
Total Stockholders' (Deficit) Equity	(272,166)	118,729
<b>Total Liabilities and Stockholders' (Deficit) Equity</b>	<b>\$ 187,286</b>	<b>\$ 544,708</b>

Approved by the Directors:

*"John Robertson"*

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J. Robertson - Director

*"Jennifer Lorette"*

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J. Lorette - Director

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

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

	For The Three Months Ended August 31, 2005	For The Three Months Ended August 31, 2004	For The Six Months Ended August 31, 2005	For The Six Months Ended August 31, 2004
Revenue	\$ -	\$ -	\$ -	\$ -
General and Administrative Expenses				
Amortization of property and equipment	3,058	4,245	6,179	5,066
Amortization of discount on convertible debentures	10,125	7,538	15,075	15,076
Consulting and subcontract	26,938	79,035	68,769	97,974
Filing and regulatory fees	7,911	9,157	9,420	12,573
Foreign exchange	949	(788)	1,827	(428)
Imputed interest (Note 6(b))	10,486	9,217	19,894	18,092
Management and directors fees (Note 6(a))	10,500	10,750	21,000	21,250
Office, rent and telephone (Note 6(a))	25,017	29,129	51,798	105,791
Professional fees	17,966	12,896	27,585	23,313
Travel	2,145	6,839	4,968	22,555
Less: Interest income	(686)	(56)	(2,332)	(287)
	<u>114,409</u>	<u>167,962</u>	<u>224,183</u>	<u>320,975</u>
Natural Resources				
Exploration costs	89,418	36,458	179,680	102,818
Mineral acquisition costs	-	-	-	19,500
	<u>89,418</u>	<u>36,458</u>	<u>179,680</u>	<u>122,318</u>
Net Loss for the Period	(203,827)	(204,420)	(403,863)	(443,293)
Deficit, Beginning of Period	<u>(8,593,114)</u>	<u>(7,789,859)</u>	<u>(8,393,078)</u>	<u>(7,550,986)</u>
Deficit, End of Period	<u>\$ (8,796,941)</u>	<u>\$ (7,994,279)</u>	<u>\$ (8,796,941)</u>	<u>\$ (7,994,279)</u>
Basic and Diluted Loss Per Share	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted Average Number Of Shares Outstanding	<u>64,952,000</u>	<u>58,588,304</u>	<u>64,952,000</u>	<u>60,374,446</u>

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

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

	For The Three Months Ended August 31, 2005	For The Three Months Ended August 31, 2004	For The Six Months Ended August 31, 2005	For The Six Months Ended August 31, 2004
<b>Cash Flows Used In Operating Activities</b>				
Net loss for the period	\$ (203,827)	\$ (204,420)	\$ (403,863)	\$ (443,293)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>				
Amortization of property and equipment	3,059	4,245	6,180	5,066
Amortization of discount on convertible debentures	10,125	7,538	15,075	15,076
Imputed interest	10,485	9,217	19,893	18,092
Shares issued for mineral properties	-	2,500	-	22,000
Stock based compensation	-	46,500	-	46,500
	<u>(180,158)</u>	<u>(134,420)</u>	<u>(362,715)</u>	<u>(336,559)</u>
<b>Changes in operating assets and liabilities</b>				
Accounts receivable	3,684	9,308	1,048	4,202
Prepaid expenses	(2,935)	-	(9,270)	-
Accounts payable and accrued liabilities	1,610	(18,702)	(6,452)	(10,826)
Accrued liabilities to related parties	8,581	12,000	18,367	24,000
	<u>10,940</u>	<u>2,606</u>	<u>3,693</u>	<u>17,376</u>
	<u>(169,218)</u>	<u>(131,814)</u>	<u>(359,022)</u>	<u>(319,183)</u>
<b>Cash Flows Used In Investing Activities</b>				
Purchase of property and equipment	-	(15,531)	(337)	(19,870)
	<u>-</u>	<u>(15,531)</u>	<u>(337)</u>	<u>(19,870)</u>
<b>Cash Flows Provided By Financing Activities</b>				
Advances from related parties	21,558	6,167	21,558	18,235
Stock subscriptions received	-	134,757	-	165,331
	<u>21,558</u>	<u>140,924</u>	<u>21,558</u>	<u>183,566</u>
(Decrease) in Cash and Cash Equivalents	(147,660)	(6,421)	(337,801)	(155,487)
Cash and Cash Equivalents, Beginning of Period	208,292	2,766	398,433	151,832
Cash and Cash Equivalents, End of Period	\$ 60,632	\$ (3,655)	\$ 60,632	\$ (3,655)
<b>SUPPLEMENTAL DISCLOSURES</b>				
Interest paid	\$ -	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -	\$ -

**NON-CASH FINANCING AND INVESTING ACTIVITIES**

During the six months ended August 31, 2004:

- i. 50,000 common shares were issued with a fair market value of \$19,500 as part consideration under the mineral property option agreement described in Note 4(c).
- ii. 50,000 common shares were issued for finder's fees under the mineral property option agreement described in Note 4(c).

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

LINUX GOLD CORP.  
(An Exploration Stage Company)

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005  
(Stated in Canadian Dollars)  
(Unaudited - See Notice To Reader)

**1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS**

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

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

On February 20, 2003, the shareholders approved a change of name to Linux Gold Corp. and increased the authorized share capital to 200,000,000 common shares without par value. The Company's principal business is the acquisition and exploration of various mineral properties located in Canada, United States and China.

The Company is currently in the exploration stage and equity financing is required to provide working capital and to meet exploration commitments. As a result of the uncertainty that is typical in an exploration stage company, mounting losses, and the severe working capital deficiency, there is substantial doubt about the company's ability to continue as going concern. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations and to determine the existence, discovery and successful exploitation of economically recoverable reserves in its resource properties, confirmation of the Company's interest in the underlying properties, and the attainment of profitable operations. These consolidated financial statements have been prepared on a going concern basis.

**2. INTERIM FINANCIAL STATEMENTS**

The unaudited interim consolidated financial statements have been prepared in accordance accounting principles generally accepted in the United States for interim financial information, and are presented in Canadian dollars. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The unaudited interim consolidated financial statements have been prepared in accordance with the accounting principles and policies described in the Company's annual financial statements for the year ended February 28, 2005, and should be read in conjunction with those statements. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the six-month period ended August 31, 2005 are not necessarily indicative of the results that may be expected for the year ended February 28, 2006.

**3. COMPREHENSIVE INCOME (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 August 31, 2005 the Company's only component of comprehensive loss was unrealized holding gains and losses on available for sale securities.

	Three Months Ended August 31, 2005	Three Months Ended August 31, 2004	Six Months Ended August 31, 2005	Six Months Ended August 31, 2004
Net loss for the period	\$ (203,827)	\$ (204,420)	\$ (403,863)	\$ (443,293)
Other comprehensive income (loss)				
Unrealized holding (loss) gain on investments	(6,000)	4,000	(22,000)	(46,000)
Comprehensive loss for the year	\$ (209,827)	\$ (200,420)	\$ (425,863)	\$ (489,293)

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005  
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**4. RECENT ACCOUNTING PRONOUNCEMENTS**

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

**5. PROPERTY AND EQUIPMENT**

	Cost \$	Accumulated Amortization \$	August 31, 2005 Net Carrying Value \$	February 28, 2005 Net Carrying Value \$
Computer hardware	25,358	22,536	2,822	6,698
Office furniture	1,408	843	565	626
Vehicle	15,531	4,236	11,295	13,201
	<u>42,297</u>	<u>27,615</u>	<u>14,682</u>	<u>20,525</u>

**6. MINERAL PROPERTIES**

a) Alaska Mineral Properties

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

b) British Columbia Mineral Properties

- i. TY Property: The Company acquired the TY Area, TY Grid 2 and 3 (21 units) mineral claims located in the Lillooet Mining Division in British Columbia under the following terms and conditions:
  - a. The Company must pay \$30,000 as follows: \$5,000 upon execution of the Purchase Agreement (paid), \$5,000 on or before June 1, 2003 (paid); \$10,000 upon completion of Phase 1, no later than December 1, 2003 (paid); and \$10,000 upon completion of Phase II, no later than December 1, 2004 (paid).
  - b. The Company must issue 150,000 shares as follows: 100,000 upon signing the agreement and receiving regulatory approval (issued), and 50,000 shares upon completion of Phase III, no later than December 1, 2005.
  - c. The vendor will retain a 2% net smelter return interest ("NSR"). The Company may purchase the NSR for \$1,000,000 for each 1% prior to commercial production, in shares or in cash.

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

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005  
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**6. MINERAL PROPERTIES (continued)**

- ii. ORO Property: The Company acquired the ORO (20 units) claim in the Lillooet Mining Division in British Columbia under the following terms and conditions:
  - a. The Company paid \$10,000 and issued 100,000 common shares.
  - b. The vendor will retain a 2% net smelter return interest ("NSR"). The Company may purchase the NSR for \$1,000,000 for each 1% prior to commercial production, in shares or in cash.

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

c) China Mineral Property

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

To complete the option agreement, the Company must:

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

	Alaska Mineral Properties	British Columbia Mineral Properties	China Mineral Property	Six Months Ended August 31, 2005
<i>Exploration and development costs:</i>				
Staking and recording fees	\$ 27,800	\$ -	\$ -	27,800
Geological consulting	106,169	3,875	-	110,044
Transportation	41,836	-	-	41,836
<i>Incurred during the period</i>	<u>\$ 175,805</u>	<u>\$ 3,875</u>	<u>\$ -</u>	<u>\$ 179,680</u>

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005  
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**7. RELATED PARTY TRANSACTIONS**

- a) All related party transactions have been measured at their exchange amounts and were considered to be fair market value transactions. The Company incurred the following transactions during the six month period:
- i. Pursuant to a management services agreement, the Company paid management fees of \$15,000 (August 31, 2004 - \$15,000), and rent of \$3,000 (August 31, 2004 - \$3,000) to a company controlled by the President of the Company. These amounts have been included in accrued liabilities at August 31, 2005.
  - ii. The Company paid a director's fee of \$6,000 (August 31, 2004 - \$6,000) to the President of the Company. This amount is included in accrued liabilities at August 31, 2005.
  - iii. Refer to Note 4(a)(i) for a joint venture agreement with a related company.
  - iv. Refer to Note 4(b) for ownership of mineral claims.
  - v. At August 31, 2005, the Company is indebted to the President of the Company in the amount of \$122,927 representing unpaid management fees, director's fees, rent and expenses incurred on behalf of the Company. These amounts are non-interest bearing, unsecured and have no specific terms of repayment.
- b) Amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment. Imputed interest, at 15%, totalling \$19,894 (August 31, 2004 - \$18,092) was charged to operations and treated as donated capital. Unless otherwise indicated, the following table represents companies controlled by the President and CEO of the Company or companies where he is the President and CEO.

	February 28 2005	Advances/ (Repayments)	August 31 2005
Access Information Services, Inc.	\$ 48,287	\$ -	\$ 48,287
IAS Communications Inc.	(3,151)	-	(3,151)
JGR Petroleum, Inc.	64,599	-	64,599
Rainbow Network	59,801	-	59,801
REGI U.S., Inc.	(38)	-	(38)
SMR Investments Ltd.	18,658	(18,658)	-
	<u>\$ 188,156</u>	<u>\$ (18,658)</u>	<u>\$ 169,498</u>

**8. COMMON STOCK**

Authorized:

200,000,000 common shares without par value.

Issued:

	NUMBER OF SHARES	AMOUNT
Balance, February 28, 2004	57,458,413	\$ 6,653,662
Issued during the period:		
Pursuant to mineral property option agreements (Note 3(c))	100,000	39,000
Balance, August 31, 2004	<u>57,558,413</u>	<u>\$ 6,692,662</u>
Balance, February 28, 2005 and August 31, 2005	<u>64,951,523</u>	<u>\$ 8,044,675</u>

LINUX GOLD CORP.  
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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005  
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**8. COMMON STOCK (continued)**

- a) During the six month period ended August 31, 2004, the Company issued 50,000 common shares at a value of \$0.39 per share and issued 50,000 common shares as a finder's fee pursuant to the mineral property option agreement referred to in Note 4(c).
- b) Additional paid-in capital represents the fair market value of 176,000 warrants issued with the convertible debentures less a discount on the convertible debentures, and the fair value of stock options granted to consultants.

	February 28, 2005	February 29, 2004
Market value of warrants	\$ 150,750	\$ 150,750
Discount on convertible debentures accreted to operations over the life of the warrants being five years to October 18, 2005	(14,141)	(19,091)
Net carrying value	136,609	131,659
Stock-based compensation	82,000	82,000
	\$ 218,609	\$ 101,507

**9. WARRANTS**

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

	August 31, 2005		February 28, 2005	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of period	3,563,527	US\$ 0.21	863,500	US\$ 0.33
Granted	-	-	3,387,527	US\$ 0.18
Exercised	-	-	(250,000)	CDN\$ (0.15)
Forfeited / Expired	-	-	(437,500)	US\$ (0.20)
Balance, end of period	3,563,527	US\$ 0.21	3,563,527	US\$ 0.21

**10. STOCK OPTIONS**

The Company accounts for stock-based compensation in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." This statement requires that stock awards granted subsequently to January 1, 1995, be recognized as compensation expense based on fair market value at the date of grant. Alternatively, a company may account for granted stock awards to employees under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and disclose pro forma income amounts, which would have resulted from recognizing such awards at the fair market value. The company has elected to account for stock-based compensation for employees under APB No. 25 and make the required pro forma disclosures for compensation expense in accordance with SFAS No. 123. The Company accounts for stock issued for services to non-employees in accordance with SFAS No. 123. Compensation expense is based on the fair market value for stock award or fair market value of the goods and services received, whichever is more reliably measurable.

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005  
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**10. STOCK OPTIONS (continued)**

The options are granted for services provided to the Company. The fair value of the employee's purchase rights under SFAS 123 was estimated using the Black-Scholes model with the following assumptions:

	Six months ended	
	August 31, 2005	August 31, 2004
Risk-free interest rate	-	3.50%
Expected volatility	-	12.2%
Expected dividends	-	-
Expected option life	-	3 years

If compensation expense had been determined pursuant to SFAS 123, the Company's net loss and net loss per share for the six months ended August 31, 2005 and 2004 would have been as follows:

	Six months ended	
	August 31, 2005 \$	August 31, 2004 \$
Net loss – as reported	(403,863)	(443,293)
Add: Stock-based compensation expense included in net loss – as reported	-	-
Deduct: Stock-based compensation expense determined under fair value method	-	(123)
<b>Net loss – pro forma</b>	<b>(403,863)</b>	<b>(443,416)</b>
Net loss per share (basic and diluted) – as reported	(0.01)	(0.01)
Net loss per share (basic and diluted) – pro forma	(0.01)	(0.01)

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

	August 31, 2005	
	Number	Weighted Average Exercise Price
Balance, beginning of period	3,587,500	US\$ 0.11
Granted	-	-
Exercised	-	-
Forfeited / Expired	(1,025,000)	US\$ (0.20)
<b>Balance, end of period</b>	<b>2,562,500</b>	<b>US\$ 0.11</b>

Additional information regarding options outstanding as at August 31, 2005 is as follows:

Exercise prices	Outstanding			Exercisable	
	Number of shares	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares	Weighted average exercise price
US\$ 0.00 - \$ 0.10	1,987,500	2.32	US\$ 0.08	1,987,500	US\$ 0.08
US\$ 0.11 - \$ 0.20	350,000	2.63	US\$ 0.18	350,000	US\$ 0.18
US\$ 0.21 - \$ 0.30	225,000	2.03	US\$ 0.30	225,000	US\$ 0.30
	<b>2,562,500</b>	<b>2.33</b>	<b>US\$ 0.11</b>	<b>2,562,500</b>	<b>US\$ 0.11</b>

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NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

August 31, 2005  
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**11. COMMITMENTS**

- (a) The Company entered into a consulting agreement dated October 20, 2005 for a term of three months to pay consulting fees of US\$1,500 per month.
- (b) The Company entered into a two year lease agreement to rent 1,018 square feet of office space commencing April 1, 2004. Basic annual rent is \$15,270 with three months free basic rent in each of the two years over the term of the lease. The future commitment is as follows:

	<u>2006</u>		<u>2007</u>
Basic rent	\$ 11,452	\$	1,272
Property taxes and operating expenses	14,466		1,205
	<u>\$ 25,918</u>	<u>\$</u>	<u>2,477</u>

**12. RECONCILIATION OF UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP" and "Canadian GAAP")**

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("*US GAAP*"), which differ in certain respects from those principles and practices that the Company would have followed had its consolidated financial statements been prepared in accordance with generally accepted accounting principles in Canada ("*Canadian GAAP*"). The following summarizes the significant differences between US GAAP and Canadian GAAP:

*Stock based compensation*

As described in Note 9, the Company has granted stock options to certain directors and employees. These options are granted for services provided to the Company. For US GAAP purposes, SFAS No. 123 ("*SFAS 123*") requires that an enterprise recognize, or at its option, disclose the impact of the fair value of stock options and other forms of stock-based compensation in the determination of income. The Company has elected under SFAS 123 to continue to measure compensation cost on the intrinsic value basis set out in APB Opinion No. 25. As stock options are granted at exercise prices based on the market price of the Company's shares at the date of grant, no compensation cost is recognized. However, under SFAS 123, the impact on net income and income per share of the fair value must be measured and disclosed on a fair value based method on a pro forma basis. For Canadian GAAP purposes, the Company is required to recognize the fair value of all stock options and all other forms of stock-based compensation in the determination of income.

*Comprehensive Income (Loss)*

US GAAP requires disclosure of comprehensive income, which comprises income and other components of comprehensive income. Other comprehensive income includes items that cause changes in shareholders' equity but are not related to share capital or net earnings which, for the Company, comprises currency translation adjustments. Under Canadian GAAP, there is no requirement to report comprehensive income.

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(Stated in Canadian Dollars)  
(Unaudited - See Notice To Reader)

**12. RECONCILIATION OF UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("US GAAP" and "Canadian GAAP") (continued)**

If compensation expense had been determined in accordance with Canadian GAAP, the Company's net loss and net loss per share for fiscal 2005 and 2004, would have been as follows:

	Six months ended	
	August 31, 2005 \$	August 31, 2004 \$
Net loss – as reported under US GAAP	(403,863)	(443,293)
Add: Stock-based compensation expense included in net loss – as reported	-	-
Deduct: Stock-based compensation expense determined under fair value method	-	(123)
<b>Net loss – as reported under Canadian GAAP</b>	<b>(403,863)</b>	<b>(443,416)</b>
Net loss per share (basic and diluted) – as reported under US GAAP	(0.01)	(0.01)
Net loss per share (basic and diluted) – as reported under Canadian GAAP	(0.01)	(0.01)
	August 31, 2005 \$	February 28, 2005 \$
Marketable securities:		
- As reported under US GAAP	48,000	70,000
- Add: unrealized holding losses	32,000	10,000
<b>- As reported under Canadian GAAP</b>	<b>80,000</b>	<b>80,000</b>
Total Assets - as reported under US GAAP	187,286	544,708
- Add: unrealized holding losses	32,000	10,000
<b>Total Assets - as reported under Canadian GAAP</b>	<b>219,286</b>	<b>554,708</b>
Accumulated Other Comprehensive Income (Loss):		
- As reported under US GAAP	(32,000)	(10,000)
- Add: unrealized holding losses	32,000	10,000
<b>- As reported under Canadian GAAP</b>	<b>-</b>	<b>-</b>
Total Liabilities and Stockholders' Deficit - as reported under US GAAP	187,286	544,708
- Add: Accumulated Other Comprehensive Loss	32,000	10,000
<b>- As reported under Canadian GAAP</b>	<b>219,286</b>	<b>554,708</b>