

LINUX GOLD CORP.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2005
(Stated in Canadian Dollars)



MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of
Linux Gold Corp.

We have audited the accompanying consolidated balance sheets of Linux Gold Corp. as at February 28, 2005 and February 29, 2004 and the consolidated statements of operations and deficit, and cash flows for the years ended February 28, 2005, February 29, 2004 and February 28, 2003. 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as at February 28, 2005 and February 29, 2004 and the results of its operations and its cash flows for the years ended February 28, 2005, February 29, 2004 and February 28, 2003 in accordance with generally accepted accounting principles used in the United States.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has not generated profitable operations since inception. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also discussed in Note 1. These consolidated financial statements do not include any adjustments, which might result from the outcome of these uncertainties.

/s/ "Manning Elliott"

CHARTERED ACCOUNTANTS

Vancouver, Canada

July 15, 2005

LINUX GOLD CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(Stated in Canadian Dollars)

	Years Ended		
	February 28, 2005	February 29, 2004	February 28, 2003
Revenue	\$ -	\$ -	\$ -
General and Administrative Expenses			
Amortization of property and equipment	5,346	-	7,449
Amortization of discount on convertible debentures	30,152	30,150	30,150
Consulting and subcontract ⁽¹⁾	233,789	173,555	17,392
Filing and regulatory fees	26,103	26,113	11,998
Foreign exchange	6,877	(38,254)	(33,854)
Imputed interest (Note 6(b))	35,013	22,960	90,500
Investor relations	-	-	5,895
Management and directors' fees (Note 6(a))	42,250	43,500	42,000
Office, rent and telephone (Note 6(a))	199,522	64,839	13,448
Professional fees	42,235	27,662	15,967
Travel	39,750	3,902	100
Less: Interest income	(1,858)	(624)	(45)
	<u>659,179</u>	<u>353,803</u>	<u>201,000</u>
Natural Resources			
Exploration costs	137,342	61,298	4,020
Mineral claims acquisition costs	45,571	60,346	60,346
Less: Option payments	-	-	(80,000)
	<u>182,913</u>	<u>121,644</u>	<u>(75,980)</u>
Loss from Continuing Operations	(842,092)	(475,447)	(125,020)
Income (Loss) from Discontinued Operations	-	369,213	(25,000)
Net Loss for the Year	(842,092)	(106,234)	(150,020)
Deficit, Beginning of Year	(7,550,986)	(7,444,752)	(7,080,932)
Deemed Dividend (Note 6(a) (iv))	-	-	(213,800)
Deficit, End of Year	<u>\$ (8,393,078)</u>	<u>\$ (7,550,986)</u>	<u>\$ (7,444,752)</u>
Basic and Diluted Loss Per Share			
- From continuing operations	\$ (0.01)	\$ (0.01)	\$ -
- From discontinued operations	-	0.01	-
	<u>\$ (0.01)</u>	<u>\$ -</u>	<u>\$ -</u>
Weighted Average Number Of Shares Outstanding	<u>61,345,000</u>	<u>58,664,000</u>	<u>40,968,000</u>

(1) Stock-based compensation is included in the following:

Consulting and subcontract	\$ 82,000	\$ 100,000	\$ -
Office, rent and telephone	-	19,200	-
Mineral claims acquisition costs	22,000	17,500	-

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

LINUX GOLD CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in Canadian Dollars)

	Years Ended		
	February 28, 2005	February 29, 2004	February 28, 2003
Cash Flows To Operating Activities			
Net loss for the year	\$ (842,092)	\$ (106,234)	\$ (150,020)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of property and equipment	5,346	-	7,449
Amortization of discount on convertible debentures	30,152	30,150	30,150
Imputed interest	35,013	22,960	90,500
Stock-based compensation	82,000	-	-
Shares received for option payment	-	-	(80,000)
Shares issued for services	-	100,000	-
Shares issued for mineral properties	22,000	17,500	-
Shares issued for settlement of rent obligation	-	19,200	-
License written off	-	-	25,000
Write-off of subsidiary's accounts payable	-	(369,213)	-
Changes in operating assets and liabilities			
Accounts receivable	(41,981)	(5,986)	(774)
Prepaid expenses	27,009	(33,209)	-
Accounts payable and accrued liabilities	3,359	(55,777)	(66,096)
Accrued liabilities to related parties	56,560	48,000	-
Advances from (repayments to) related parties	(42,474)	178,574	84,445
Net Cash Used In Operating Activities	(665,108)	(154,035)	(59,346)
Cash Flows To Investing Activities			
Purchase of property and equipment	(19,871)	(6,000)	-
Net Cash Used In Investing Activities	(19,871)	(6,000)	-
Cash Flows From Financing Activities			
Common stock issued	931,580	300,733	67,500
Net Cash Provided by Financing Activities	931,580	300,733	67,500
Increase in Cash and Cash Equivalents	246,601	140,698	8,154
Cash and Cash Equivalents, Beginning of Year	151,832	11,134	2,980
Cash and Cash Equivalents, End of Year	\$ 398,433	\$ 151,832	\$ 11,134

SUPPLEMENTAL DISCLOSURES

Interest paid	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -

NON-CASH FINANCING AND INVESTING ACTIVITIES (Note 10)

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

LINUX GOLD CORP.
(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2005
(Stated in Canadian Dollars)

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 "LNXGF".

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 now plans to conduct mineral exploration in Northern British Columbia and Alaska.

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. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States and are presented in Canadian dollars. There are no consolidated financial statements prepared using Canadian generally accepted accounting principles. See Note 14 for a reconciliation of U.S. and Canadian generally accepted accounting principles. The Company is an Exploration Stage Company, as defined by Statement of Financial Accounting Standard ("SFAS") No.7 "*Accounting and Reporting by Development Stage Enterprises*". These financial statements include the accounts of the Company and its inactive wholly-owned U.S. subsidiary, LinuxWizardry, Inc.

b) Foreign Currency Translation

The company's functional and reporting currency is the Canadian dollar. The financial statements of the Company are translated to Canadian dollars in accordance with Statement of Financial Accounting Standards ("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 financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2005
(Stated in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Basic and Diluted Net Income (Loss) Per Share

The Company computes net income (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 income (loss) available to common shareholders (numerator) by the weighted average number of shares outstanding (denominator) during the period. Diluted EPS gives effect to all dilutive potential 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 dilutive potential shares if their effect is anti dilutive.

e) Stock based Compensation

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.

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 weighted average assumptions:

	Year ended		
	February 28, 2005	February 29, 2004	February 28, 2003
	\$	\$	\$
Risk-free interest rate	3.38%	5.80%	5.80%
Expected volatility	154%	50%	50%
Expected dividends	—	—	—
Expected option life (in years)	3	0.50	0.50

If compensation expense had been determined pursuant to SFAS 123, the Company's net loss and net loss per share for the years ended February 28, 2005, 2004 and 2003 would have been as follows:

	Year ended		
	February 28, 2005	February 29, 2004	February 28, 2003
	\$	\$	\$
Net loss — as reported	(842,092)	(106,234)	(150,020)
Add: Stock-based compensation expense included in net loss — as reported	82,000	—	—
Deduct: Stock-based compensation expense determined under fair value method	(96,000)	(9,186)	(125)
Net loss — pro forma	(856,092)	(115,420)	(150,145)
Net loss per share (basic and diluted) — as reported	(0.01)	—	—
Net loss per share (basic and diluted) — pro forma	(0.01)	—	—

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2005
(Stated in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Mineral Property Costs

The Company has been in the exploration stage since February 20, 2003 and has not yet realized any revenues from its planned operations. It is primarily engaged in the acquisition and exploration of mining properties. Mineral property acquisition and exploration costs are charged to operation as incurred. When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, the costs incurred to develop such property, are capitalized. Such costs will be amortized using the units-of production method over the estimated life of the probable reserve. If mineral properties are subsequently abandoned or impaired, any capitalized costs will be charged to operations.

g) Cash and Cash Equivalents

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

h) Discount on Convertible Debentures

The discount on convertible debentures issued in prior fiscal years is being amortized on a straight-line basis over five years, which is the life of the detachable warrants issued with the convertible debentures.

i) 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.

j) 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. Substantially all investment securities are designated as available for sale with unrealized gains and losses included in stockholders' equity, net of applicable taxes and other adjustments. The Company regularly reviews investment securities for impairment based on criteria that include the extent to which the investment's carrying value exceeds its related market value, the duration of the market decline, the Company's ability to hold to recovery and the financial strength and specific prospects of the issuer of the security. Unrealized losses that are other than temporary are recognized in earnings. Realized gains and losses are accounted for on the specific identification method.

k) 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 benefit of net operating losses have not been recognized in these 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2005
(Stated in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) 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 February 28, 2005 and February 29, 2004, the Company's only component of comprehensive loss was unrealized holding gains and losses on available for sale securities.

	February 28, 2005	February 29, 2004	February 28, 2003
Net loss for the year	\$ (842,092)	\$ (106,234)	\$ (150,020)
Other comprehensive income (loss)	\$ -	\$ -	\$ -
Unrealized holding gain (loss) on investments	(54,000)	34,000	10,000
Comprehensive loss for the year	<u>\$ (896,092)</u>	<u>\$ (72,234)</u>	<u>\$ (140,020)</u>

n) Property and Equipment

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

o) Financial Instruments

Financial instruments, which include cash, amounts receivable, marketable securities, accounts payable, accrued liabilities, and due to related parties, were estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The Company's operations in Canada and China and virtually all of its assets and liabilities are giving rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arise from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk.

p) Concentration of Risk

The Company maintains its cash account in primarily one commercial bank in Vancouver, British Columbia, Canada. The Company's cash accounts are mainly two uninsured business checking accounts maintained in U.S. and Canadian dollars, which totaled \$398,433 on February 28, 2005. At February 28, 2005 the Company has not engaged in any transactions that would be considered derivative instruments on hedging activities.

q) Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 153, "*Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29*". The guidance in APB Opinion No. 29, "*Accounting for Nonmonetary Transactions*", is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. SFAS No. 153 amends Opinion No. 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2005
(Stated in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

q) Recent Accounting Pronouncements (continued)

In December 2004, FASB issued SFAS No. 123R, "*Share Based Payment*" which is a revision of SFAS No. 123 "*Accounting for Stock-Based Compensation*", and supersedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*". SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award – the requisite service period (usually the vesting period). SFAS 123R requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The Company will be required to apply SFAS 123R in the first interim or annual reporting period that begins after December 15, 2005. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

FASB has also issued SFAS No. 151 and No. 152 but they will not have any relationship to the operations of the Company therefore a description and its impact for each on the Company's operations and financial position have not been disclosed.

In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 ("SAB 107") to give guidance on the implementation of SFAS 123R. The Company will consider SAB 107 during implementation of SFAS 123R.

3. PROPERTY AND EQUIPMENT

	Cost \$	Accumulated Amortization \$	February 28, 2005 Net Carrying Value \$	February 29, 2004 Net Carrying Value \$
Computer hardware	25,021	18,323	6,698	6,000
Office furniture	1,408	782	626	–
Vehicle	15,531	2,330	13,201	–
	41,960	21,436	20,525	6,000

4. MINERAL PROPERTIES

a) Alaska Mineral 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. Refer to Note 15(a). The Company has completed an amended agreement with Teryl to extend the option period for an additional 2 years in consideration for 100,000 treasury shares of Teryl.

LINUX GOLD CORP.
(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 2005
(Stated in Canadian Dollars)

4. MINERAL PROPERTIES (Continued)

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 subsequently to year end).
 - 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.

- 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 has entered into a trust agreement with the President 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 (paid); \$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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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4. MINERAL PROPERTIES (Continued)

	Alaska Mineral Property	British Columbia Mineral Properties	China Mineral Property	Total February 28, 2005
<i>Exploration and development costs:</i>				
Field supplies and other	\$ 99	\$ –	\$ 5,901	\$ 6,000
Assaying	–	1,059	7,603	8,662
Staking and recording fees	2,264	4,066	26,602	32,932
Geological consulting	–	4,560	46,555	51,115
Travel	–	–	27,796	27,796
	2,363	9,685	114,457	126,505
<i>Acquisition costs</i>	1,023	16,385	39,000	56,408
<i>Incurred during the year</i>	\$ 3,386	\$ 26,070	\$ 153,457	\$ 182,913

5. PETROLEUM PROPERTIES

The Company owns a 1.277% net working interest in one well in Fayette County, Texas, which has been capped and is no longer in production. The Company wrote off its carrying costs in fiscal 2004.

6. 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 year:
- i. Pursuant to a management services agreement, the Company paid management fees of \$30,000 (2004 - \$30,000), and rent of \$6,000 (2004 - \$6,000) to a company controlled by the President of the Company. These amounts have been included in accrued liabilities at February 28, 2005.
 - ii. The Company paid a director's fee of \$12,000 (2004 - \$12,000) to the President of the Company. This amount is included in accrued liabilities at February 28, 2005.
 - iii. Refer to Note 4(a) for a joint venture agreement with a related company.
 - iv. On November 28, 2002, the Company issued 3,000,000 common shares in exchange for a license for a secure email solution from Mailprotek.com (a related company). The market value of the shares was \$238,800 but the asset was recorded at the transferor's cost of \$25,000. The difference was recorded as a deemed dividend.
 - v. Refer to Note 4(c) for ownership of mineral claims.
 - vi. At February 28, 2005, the Company is indebted to the President of the Company in the amount of \$104,560 (2004 - \$48,000), 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 \$35,013 (2004 - \$22,960) 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.

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(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. RELATED PARTY TRANSACTIONS (continued)

	February 29 2004	Advances/ (Repayments)	February 28 2005
394754 B.C. Ltd.	\$ (1,580)	\$ 1,580	\$ –
Access Information Services, Inc.	45,787	2,500	48,287
IAS Communications Inc.	(3,151)	–	(3,151)
Imaging Technologies Inc.	(4,587)	4,587	–
Information Highway.com, Inc.	900	(900)	–
JGR Petroleum, Inc.	64,599	–	64,599
John Robertson, President and CEO	31,906	(31,906)	–
Rainbow Network	53,662	6,139	59,801
Rand Energy	16,783	(16,783)	–
Reg Technologies Inc.	(13,498)	13,498	–
REGI U.S., Inc.	(38)	–	(38)
SMR Investments Ltd.	21,951	(3,293)	18,658
Pavlik Travel Services Ltd.	1,762	(1,762)	–
Teryl Resources Corp.	9,726	(9,726)	–
Robertson Family Trust	6,408	(6,408)	–
	<u>\$ 230,630</u>	<u>\$ (42,474)</u>	<u>\$ 188,156</u>

7. COMMON STOCK

Authorized:

200,000,000 common shares without par value.

Issued:

	NUMBER OF SHARES	AMOUNT
Balance, February 28, 2003	57,458,413	\$ 6,653,662
Issued during the year:		
Pursuant to mineral property option agreements (Note 4(b))	175,000	17,500
For services rendered	1,000,000	100,000
For settlement of rent obligation	200,000	19,200
For cash by exercise of options	150,000	19,812
For cash by exercise of warrants	1,300,000	280,922
Balance, February 29, 2004	60,283,413	7,091,096
Issued during the year:		
Pursuant to mineral property option agreements (Note 4(b) and (c))	125,000	45,384
For cash by private placements, net of issue costs	4,205,610	860,089
For cash by exercise of options	87,500	10,606
For cash by exercise of warrants	250,000	37,500
Balance, February 28, 2005	<u>64,951,523</u>	<u>\$ 8,044,675</u>

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7. COMMON STOCK (continued)

- a) During the year ended February 28, 2005, the Company issued 25,000 common shares at a value of \$0.19 per share pursuant to the mineral property option agreement referred to in Note 4(b).
- b) During the year ended February 28, 2005, the Company issued 50,000 common shares at a value of \$0.39 per share and issued 50,000 common shares at a value of \$0.39 as a finder's fee pursuant to the mineral property option agreement referred to in Note 4(c).
- c) During the year ended February 28, 2005, the Company completed a private placement and issued 2,777,777 units at a price of US\$0.18 per unit for proceeds of \$620,850 (US\$500,000) before issue costs of \$2,185. Each unit consisted of one common share and one warrant. One whole warrant entitles the holder to purchase one share at a price of US\$0.18 per share for a two year period. The Company issued 208,333 shares as a finder's fee in connection with this private placement offering.
- d) During the year ended February 28, 2005, the Company completed a private placement and issued 1,219,500 units at a price of US\$0.15 per unit for proceeds of \$241,424 (US\$182,925). Each unit consisted of one common share and one-half warrant. One whole warrant entitles the holder to purchase one share at a price of US\$0.20 per share in the first year and US\$0.25 per share in the second year.
- e) During the year ended February 29, 2004, the Company completed a private placement and issued 875,000 units at a price of US\$0.20 per unit for proceeds of US\$175,000. Each unit consisted of one common share and one-half warrant. One whole warrant entitles the holder to purchase one additional common share at a price of US\$0.20 per share for a one year period.
- f) During the year ended February 29, 2004, the Company issued 175,000 common shares at a value of \$0.10 pursuant to the mineral property option agreements referred to in Note 4(c).
- g) During the year ended February 29, 2004, the Company issued 1,000,000 shares pursuant to a consulting agreement for services beginning April 2, 2003 for a period of six months. The Company was also obligated to issue 100,000 shares per month starting May 2, 2003. On July 11, 2003, the Company terminated this agreement due to non-performance and has demanded return of the 1,000,000 shares previously issued.
- h) The Company issued 200,000 shares to settle a prior year's rental agreement.
- i) 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	(19,091)	(49,243)
Net carrying value	131,659	101,507
Stock-based compensation	82,000	—
	<u>\$ 213,659</u>	<u>\$ 101,507</u>

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8. WARRANTS

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

	February 28, 2005		February 29, 2004	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	863,500	US\$ 0.33	851,000	US\$ 0.23
Granted	3,387,527	US\$ 0.18	437,500	US\$ 0.20
Exercised	(250,000)	CDN\$ (0.15)	(425,000)	CDN\$ (0.12)
Forfeited / Expired	(437,500)	US\$ (0.20)	-	-
Balance, end of year	3,563,527	US\$ 0.21	863,500	US\$ 0.33

9. STOCK OPTIONS

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:

	February 28, 2005		February 29, 2004	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of year	3,575,000	US\$ 0.09	3,375,000	US\$ 0.09
Granted	900,000	US\$ 0.22	350,000	US\$ 0.10
Exercised	(87,500)	US\$ (0.10)	(150,000)	US\$ (0.10)
Forfeited / Expired	(800,000)	US\$ (0.14)	-	-
Balance, end of year	3,587,500	US\$ 0.11	3,575,000	US\$ 0.09

Additional information regarding options outstanding as at February 28, 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	2,987,500	2.57	US\$ 0.08	2,987,500	US\$ 0.08
US\$ 0.11 – \$ 0.20	375,000	3.00	US\$ 0.18	375,000	US\$ 0.18
US\$ 0.21 – \$ 0.30	225,000	2.28	US\$ 0.30	225,000	US\$ 0.30
	3,587,500	2.60	US\$ 0.11	3,587,500	US\$ 0.11

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10. NON-CASH FINANCING AND INVESTING ACTIVITIES

During the year ended February 28, 2005:

- i. 25,000 common shares were issued with a fair value of \$4,750 as part consideration under the mineral property option agreements described in Note 4(b).
- ii. 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).
- iii. 50,000 common shares were issued with a fair market value of \$19,500 for finder's fees under the mineral property option agreement described in Note 4(c).
- iv. 208,333 common shares were issued for finder's fees for a private placement offering (Note 7 (c)).

During the year ended February 29, 2004:

- i. 175,000 common shares were issued with a fair value of \$17,500 as part consideration under the mineral property option agreements described in Note 4(b).
- ii. 1,000,000 common shares were issued with a fair value of \$100,000 pursuant to a consulting agreement (Note 7(g)).
- iii. 200,000 common shares were issued with a fair value of \$19,200 in settlement of a previous rental agreement (Note 7(h)).

During the year ended February 28, 2003:

- i. 19,295,567 common shares were issued with a fair value of \$964,778 to settle debt.
- ii. 3,000,000 common shares were issued with a fair value of \$238,800 to purchase a license described in Note 6(a) (iv).

11. COMMITMENTS

- (a) The Company entered into a consulting agreement dated January 1, 2005 for a term of one year to pay consulting fees of US\$5,000 per month for the first two months, and US\$2,500 per month for the remainder of the term.
- (b) The Company entered into a two year lease agreement to rent 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>\$ 2,477</u>

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12. RESTATEMENT

The consolidated balance sheet as at February 29, 2004 has been restated to reflect the correction in accounting for the unrealized holding gains and losses in marketable securities, which is recognized in other comprehensive income. Accordingly, the carrying value of marketable securities as at February 29, 2004 increased by \$44,000, with a corresponding increase in accumulated other comprehensive income of \$44,000.

	February 29, 2004 (As Reported) \$	Adjustments \$	February 29, 2004 (As Restated) \$
Balance Sheet			
Marketable securities	80,000	44,000	124,000
Comprehensive Income			
Unrealized holding (loss) gain on investments	—	44,000	44,000

There was no change to the net loss or basic and diluted loss per share.

13. 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. The Company has incurred Canadian non-capital losses as scheduled below:

Year of Loss	Amount	Year of Expiration
1999	\$ 114,000	2006
2000	164,000	2007
2001	1,223,000	2008
2002	239,000	2009
2003	28,000	2010
2004	347,000	2011
2005	589,000	2015
	<u>\$ 2,704,000</u>	

Pursuant to SFAS 109, the Company is required to compute tax asset benefits for non-capital losses carried forward. Potential benefit of non-capital losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the losses carried forward in future years.

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13. INCOME TAXES (continued)

The components of the net deferred tax asset at the end of February 28, 2005 and 2004, and the statutory tax rate, the effective tax rate and the elected amount of the valuation allowance are scheduled below:

	February 28, 2005	February 29, 2004
Non-capital losses accumulated	\$ 2,704,000	\$ 2,214,000
Statutory tax rate	36%	36%
Effective tax rate	\$ -	\$ -
Deferred tax asset	973,000	797,000
Valuation allowance	(973,000)	(797,000)
Net deferred tax asset	\$ -	\$ -

The Company also has a Canadian net capital loss of \$2,773,000 which is a result of writing off its investment in its U.S. subsidiary. This loss can be used to offset future year's taxable gains and has no expiry. The Company has U.S. net operating losses of approximately US\$1,320,000. These losses expire between 2015 and 2017 and can only be used against taxable U.S. income.

14. 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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14. RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“Canadian GAAP” and “US 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, 2004 and 2003 would have been as follows:

	Year ended		
	February 28, 2005 \$	February 29, 2004 \$	February 28, 2003 \$
Net loss — as reported under US GAAP	(842,092)	(106,234)	(150,020)
Add: Stock-based compensation expense included in net loss — as reported	82,000	—	—
Deduct: Stock-based compensation expense determined under fair value method	(96,000)	(9,186)	(125)
Net loss — as reported under Canadian GAAP	(856,092)	(115,420)	(150,145)
Net loss per share (basic and diluted) — as reported under US GAAP	(0.01)	—	—
Net loss per share (basic and diluted) — as reported under Canadian GAAP	(0.01)	—	—
	February 28, 2005 \$	February 28, 2004 \$	
Marketable securities:			
- As reported under US GAAP	70,000	124,000	
- Less: unrealized holding gains and losses	10,000	(44,000)	
- As reported under Canadian GAAP	80,000	80,000	
Total Assets – as reported under US GAAP	539,922	322,610	
- Less: unrealized holding gains and losses	10,000	(44,000)	
Total Assets – as reported under Canadian GAAP	549,922	278,610	
Accumulated Other Comprehensive Income (Loss):			
- As reported under US GAAP	(10,000)	44,000	
- Less: Foreign currency translation	10,000	(44,000)	
- As reported under Canadian GAAP	—	—	
Total Liabilities and Stockholders’ Deficit – as reported under US GAAP	539,922	322,610	
- Less: Accumulated Other Comprehensive Income (Loss)	10,000	(44,000)	
- As reported under Canadian GAAP	549,922	278,610	

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15. SUBSEQUENT EVENTS

- (a) 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.
- (b) The Company staked three claim blocks consisting of a total of 148 mining claims located in the State of Alaska.