

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 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)

May 31, 2005

NOTICE TO READER

We have compiled the interim balance sheets of Linux Gold Corp. as at May 31, 2005 and the interim statements of loss and deficit and cash flows for the three month period ended May 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
July 29, 2005

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

	For The Three Months Ended May 31, 2005	For The Three Months Ended May 31, 2004
Revenue	\$ —	\$ —
General and Administrative Expenses		
Amortization of property and equipment	3,121	821
Amortization of discount on convertible debentures	4,950	7,538
Consulting and subcontract	41,831	18,939
Filing and regulatory fees	1,509	3,416
Foreign exchange	878	360
Imputed interest (Note 6(b))	9,408	8,875
Management and directors fees (Note 6(a))	10,500	10,500
Office, rent and telephone (Note 6(a))	26,781	76,662
Professional fees	9,619	10,417
Travel	2,823	15,716
Less: Interest income	(1,646)	(231)
	<u>109,774</u>	<u>153,013</u>
Natural Resources		
Exploration costs	90,262	66,360
Mineral acquisition costs	—	19,500
	<u>90,262</u>	<u>85,860</u>
Net Loss for the Period	(200,036)	(238,873)
Deficit, Beginning of Period	<u>(8,393,078)</u>	<u>(7,550,986)</u>
Deficit, End of Period	\$ (8,593,113)	\$ (7,789,859)
Basic and Diluted Loss Per Share	\$ (0.01)	\$ (0.01)
Weighted Average Number Of Shares Outstanding	<u>64,952,000</u>	<u>60,357,000</u>

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

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

	For The Three Months Ended May 31, 2005	For The Three Months Ended May 31, 2004
Cash Flows Used In Operating Activities		
Net loss for the period	\$ (200,036)	\$ (238,873)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of property and equipment	3,121	821
Amortization of discount on convertible debentures	4,950	7,538
Imputed interest	9,408	8,875
Shares issued for mineral properties	-	19,500
	<u>(182,557)</u>	<u>(202,139)</u>
Changes in operating assets and liabilities		
Accounts receivable	(2,636)	(5,106)
Prepaid expenses	(6,335)	-
Accounts payable and accrued liabilities	(8,062)	7,877
Accrued liabilities to related parties	9,786	12,000
	<u>(7,247)</u>	<u>14,771</u>
	<u>(189,804)</u>	<u>(187,368)</u>
Cash Flows Used In Investing Activities		
Purchase of property and equipment	(337)	(4,339)
	<u>(337)</u>	<u>(4,339)</u>
Cash Flows Provided By Financing Activities		
Advances from related parties		12,067
Stock subscriptions received	-	30,574
	<u>-</u>	<u>42,641</u>
(Decrease) in Cash and Cash Equivalents	(190,141)	(149,066)
Cash and Cash Equivalents, Beginning of Period	398,433	151,832
Cash and Cash Equivalents, End of Period	<u>\$ 208,292</u>	<u>\$ 2,766</u>

SUPPLEMENTAL DISCLOSURES

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

NON-CASH FINANCING AND INVESTING ACTIVITIES

During the three months ended May 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 CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2005
(Stated in Canadian Dollars)
(Unaudited)

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'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. 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; however, there would be no material reconciling items other than presentation items. 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 US 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*". Monetary assets and liabilities denominated in are translated using the exchange rate prevailing at the balance sheet date. Gains and losses arising on translation or settlement of foreign currency denominated transactions or balances are included in the determination of income. Foreign currency transactions are primarily undertaken in United States dollars. 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 US 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2005
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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 assumptions:

	Three months ended	
	May 31, 2005	May 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 three months ended May 31, 2005 and 2004 would have been as follows:

	Three months ended	
	May 31, 2005 \$	May 31, 2004 \$
Net loss — as reported	(200,036)	(238,873)
Add: Stock-based compensation expense included in net loss — as reported	—	—
Deduct: Stock-based compensation expense determined under fair value method	—	(123)
Net loss — pro forma	(200,036)	(238,996)
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)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2005
(Stated in Canadian Dollars)
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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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 May 31, 2005 the Company's only component of comprehensive loss was unrealized holding gains and losses on available for sale securities.

	Three Months Ended May 31, 2005	Three Months Ended May 31, 2004
Net loss for the period	\$ (200,036)	\$ (238,873)
Other comprehensive income (loss)		
Unrealized holding (loss) gain on investments	(16,000)	(50,000)
Comprehensive loss for the year	<u>\$ (216,036)</u>	<u>\$ (288,873)</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 \$208,292 on May 31, 2005. At May 31, 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.

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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.

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.

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.

3. PROPERTY AND EQUIPMENT

	Cost	Accumulated Amortization	May 31, 2005 Net Carrying Value	February 28, 2005 Net Carrying Value
	\$	\$	\$	\$
Computer hardware	25,358	20,422	4,936	6,698
Office furniture	1,408	814	594	626
Vehicle	15,531	3,320	12,211	13,201
	42,297	24,556	17,741	20,525

4. 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

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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:
- 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).
 - 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.
 - 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:
- The Company paid \$10,000 and issued 100,000 common shares.
 - 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:

- 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.
- 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.
- 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.

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4. MINERAL PROPERTIES (Continued)

	Alaska Mineral Properties	British Columbia Mineral Properties	China Mineral Property	Three Months Ended May 31, 2005
<i>Exploration and development costs:</i>				
Staking and recording fees	\$ 27,800	\$ –	\$ –	27,800
Geological consulting	16,751	3,875	–	20,626
Transportation	41,836	–	–	41,836
<i>Incurred during the period</i>	<u>\$ 86,387</u>	<u>\$ 3,875</u>	<u>\$ –</u>	<u>\$ 90,262</u>

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 period:
- i. Pursuant to a management services agreement, the Company paid management fees of \$7,500 (May 31, 2004 - \$7,500), and rent of \$1,500 (May 31, 2004 - \$1,500) to a company controlled by the President of the Company. These amounts have been included in accrued liabilities at May 31, 2005.
 - ii. The Company paid a director's fee of \$3,000 (May 31, 2004 - \$3,000) to the President of the Company. This amount is included in accrued liabilities at May 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 May 31, 2005, the Company is indebted to the President of the Company in the amount of \$114,346 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 \$9,408 (May 31, 2004 - \$8,875) 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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6. RELATED PARTY TRANSACTIONS (continued)

	February 28 2005	Advances/ (Repayments)	May 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>\$ -</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, 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, May 31, 2004	<u>57,558,413</u>	<u>\$ 6,692,662</u>
Balance, February 28, 2005 and May 31, 2005	<u>64,951,523</u>	<u>\$ 8,044,675</u>

- a) During the three month period ended May 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
	<u>\$ 218,609</u>	<u>\$ 101,507</u>

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(Stated in Canadian Dollars)
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8. WARRANTS

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

	May 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

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:

	May 31, 2005		May 31, 2004	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Balance, beginning of period	3,587,500	US\$ 0.11	3,375,000	US\$ 0.09
Granted	–	–	375,000	US\$ 0.23
Exercised	–	–	–	–
Forfeited / Expired	(25,000)	US\$ (0.20)	(500,000)	US\$ (0.10)
Balance, end of period	3,562,500	US\$ 0.11	3,450,000	US\$ 0.10

Additional information regarding options outstanding as at May 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	2,987,500	2.32	US\$ 0.08	2,987,500	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
	3,562,500	2.33	US\$ 0.11	3,562,500	US\$ 0.11

LINUX GOLD CORP.
(An Exploration Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2005
(Stated in Canadian Dollars)
(Unaudited)

10. 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 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>2,477</u>

11. 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.

LINUX GOLD CORP.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2005
(Stated in Canadian Dollars)
(Unaudited)

11. RECONCILIATION OF UNITED STATES AND CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (“US GAAP” and “Canadian GAAP”)

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:

	Three months ended	
	May 31, 2005	May 31, 2004
	\$	\$
Net loss — as reported under US GAAP	(200,036)	(238,873)
Add: Stock-based compensation expense included in net loss — as reported	—	—
Deduct: Stock-based compensation expense determined under fair value method	—	(123)
Net loss — as reported under Canadian GAAP	(200,036)	(238,996)
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)
	May 31, 2005	February 28, 2005
	\$	\$
Marketable securities:		
- As reported under US GAAP	54,000	70,000
- Less: unrealized holding gains and losses	26,000	10,000
- As reported under Canadian GAAP	80,000	80,000
Total Assets – as reported under US GAAP	344,754	544,708
- Less: unrealized holding gains and losses	26,000	10,000
Total Assets – as reported under Canadian GAAP	370,754	554,708
Accumulated Other Comprehensive Income (Loss):		
- As reported under US GAAP	(26,000)	(10,000)
- Less: Foreign currency translation	26,000	10,000
- As reported under Canadian GAAP	—	—
Total Liabilities and Stockholders’ Deficit – as reported under US GAAP	344,754	544,708
- Less: Accumulated Other Comprehensive Income (Loss)	26,000	10,000
- As reported under Canadian GAAP	370,754	554,708