

## Linux Gold Corp. (OTC BB: LNXGF)

### North America: Canada A Junior Mineral Resource Exploration Company

Linux Gold Corporation (OTC BB: LNXGF) is a Canadian based junior mining company, listed in the United States that is engaged in mineral exploration and development. Within three years, Linux has built an impressive portfolio of properties spread across Alaska, Canada and China. Two of the company's properties in Alaska – Granite Mountain and Fish Creek – are most promising as they are surrounded by lucrative mineral deposits and have the potential to become large producing mines. Historical geological studies on Granite Mountain strongly indicate the presence of gold, silver, uranium and base metal mineralization such as copper, zinc and lead. Linux has been conducting geological tests to estimate the mineralization of its claims. The company recently commenced an aggressive US\$1.4 million exploration program at its Granite Mountain project, which is believed to have several near surface poly-metallic deposits. We expect an upward revaluation of Linux's stock price as the company is making advancements on all its projects and intends to turn its claims into large producing mines.

- Linux's Granite Mountain property (100% ownership) holds the most promise, providing immediate upside potential. The property is surrounded by significant precious and base metal mineralization held by reputable, world class mining companies. On one hand, is NovaGold Resources (AMEX: NG), which holds properties on both sides of Granite Mountain and elsewhere in Alaska; with a resource of approximately 23 million ounces of gold. Northern Dynasty (AMEX: NAK), on the other hand, owns the rights to explore the world-class Pebble copper-gold-molybdenum porphyry deposit to the south of Linux's property. Furthermore, approximately 180 miles to the north of Granite Mountain lies the world's largest zinc deposit owned by Teck Cominco (Toronto: TEK-A). The ore values of these companies are in the 10's of billions.
- Backed by the recently completed financing of US\$2.0 million, Linux plans to undertake Phase II of the mineral exploration program at its Granite Mountain property in 2006. The US\$1.4 million program will consist of an airborne geophysical survey, additional geological mapping and geochemical sampling, and drilling of two 1,000 ft. and four 500 ft. (total 4,000 ft.) diamond drill holes. Positive results of the previously conducted X-ray diffraction on the soil and rock samples from Granite Mountain property suggest the occurrences of gold-silver mineralization. The 2006 exploration program is expected to further boost the company's mineralization claims going forward.
- Linux's Fish Creek property (earn up to 50%) is located in the vicinity of the well-known Fort Knox mill that produces 400,000 ounces of gold a year. The Fort Knox mine, mill and mineral claims cover approximately 20,463 hectares and its production rate varies between 94,000 and 130,000 tons per day of total material. The Fish Creek prospect also lies adjacent to the Gil prospect, an 80:20 JV between Kinross Gold (NYSE: KGC) and Teryl (TSX-V: TRC) that contains a drill indicated/inferred gold deposit of 10 million tons (grade 0.04 gold/ton). It is believed that the Fish Creek claim hosts an extension of the gold mineralization discovered on the Gil property. The potential for a discovery is, therefore, quite good.
- Rising gold prices (currently around \$580/oz compared to the lows of \$253/oz in 1999) have made the mining and production of gold a very lucrative business. The outlook for gold prices remains robust as production continues to fall short of demand due to relatively small expansion in mining capacities. Additionally, the ongoing weakness in the US dollar (there is a negative correlation between the US currency and spot prices of gold) is also pushing gold prices higher. Rising prices of the yellow metal are likely to enable exploration and development companies such as Linux to obtain technical and financial support to develop their mineralization claims into producing mines.



<http://www.linuxgoldcorp.com>

### June 27, 2006 Initiation of Coverage

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Price (\$)	
06/26/2006	\$0.35
<b>Price Target *</b>	<b>\$3.39</b>
52 week high	\$0.58
52 week low	\$0.11

Shares Outstanding (millions)	
Basic Shares	64.95
Options & Warrants	12.15
Fully Diluted	77.10

Capitalization (\$ millions)	
Current Market Cap	22.73
<b>Target Market Cap *</b>	<b>220.18</b>

Revenue (\$ millions)	
2003A	-
2004A	-
2005A	-
2006E	-
2007E	-

\* Our target price and target market cap are aiming at a 12-18 months investment period. For details, please see financial forecasts and analysis.

## Investment Summary

We are initiating coverage on Linux Gold Corp. (OTC BB: LNXGF) and expect the company's market cap to reach US\$220.18 with a corresponding target stock price of US\$3.39 over a 12-18 month horizon. After underperforming for years, gold appears to be regaining strength and Linux seems to be on target to take advantage of this trend. Although the price of this precious yellow metal hit a 25-year high of US\$725.75/ounce recently, it is yet to cross the mark it touched in the 1980s (US\$865/ounce). Strong physical demand, particularly from India and the Middle East, coupled with increasing investment demand due to higher inflation and weakening of the US dollar indicates that gold prices are likely to rise further in the coming years. The ongoing momentum in gold prices has given a fresh lease of life to gold mining and exploration. In fact, it is the junior mining and exploration companies that have become more attractive. Linux, an exploration company, read the trend and started cherry picking mining properties at various locations. The company treaded the safe path of staking claims in properties either with a history of high mineral resource deposits or located in close proximity to mines with large deposits of gold and other base metals.

Linux is emerging as an exploration company engaged in developing precious metal and base mineral properties capable of becoming large producing mines. The company started staking claims in mines in 2003 and currently holds interests in five major properties in Alaska, Canada and China. Linux's current portfolio includes four mining properties in Alaska and British Columbia. However, Linux is yet to exercise its option to purchase 100% shares of Ginyen Recovery, Inc., a private company that can earn an 85% interest by exercising its option to explore, lease and develop all minerals in the 161 square kilometers Bo Luo Nuo district of China. Although the management is currently focusing on Granite Mountain and Fish Creek properties at Alaska due to their immediate upside potential, the company's other properties also appear fairly attractive. Linux's TY and ORO gold properties in Lillooet Mining Division, British Columbia, are close to the Bralorne Gold Mine, once the richest gold mine in Canada.

Granite Mountain and Fish Creek prospects at Alaska are surrounded by lucrative gold and base metals producing properties and have the potential of becoming large producing mines in the medium-to-long term. The 37 square mile Granite Mountain property is within the neighborhood of mines belonging to NovaGold, Teck Cominco and Northern Dynasty. This property of Linux is believed to hold large deposits of not just gold but also other metals such as silver, copper, lead and uranium. Linux has initiated an aggressive US\$1.4 million exploration program at its Granite Mountain project, which on completion will be a major milestone in the company's mining history in our view. The assay results of geologic mapping and geochemical sampling at the three blocks in Granite Mountain indicate that Linux could soon emerge as a producer of copper, zinc, uranium and other minerals apart from gold and silver. We look forward to the targeted initiation of Phase II of the mineral exploration program this year.

The Fish Creek prospect in Fairbanks Mining Division is located near the Fort Knox mine (belonging to Kinross Gold) and Gil prospect. While Fort Knox produces 400,000 ounces of gold a year, the adjoining Gil prospect has an indicated/inferred gold grade deposit of 0.04 gold per ton. Factors such as potential prospects surrounded by large gold and base metal producing mines, a strong management team, rapid strides made by the company's exploration program across all projects and its plans to turn claims into large producing mines are expected to significantly lift Linux's stock price in the near-to-mid term.

## Company Background & Business Strategy

Linux Gold was incorporated in February 27, 1979, under the name Flame Petro-Minerals Corp to conduct oil and gas exploration and production. However, in 2000, when the company shifted its focus to Linux-based router business, its name was changed to LinuxWizardry Systems, Inc. Foreseeing poor future growth in the low-cost router business, the company turned to developing mineral prospects re-naming itself Linux Gold Corp. The management team of Linux excels in the negotiation and closure of capital financing and property acquisitions. In fact, the President of Linux Gold, Mr. John Robertson, comes with years of experience in a variety of industries such as mining, oil and gas, and technology.

The management's move to shift focus from the technology business to acquiring properties believed to hold significant mineral reserve potential of precious as well as non-precious metals is commendable. The management, identifying the expected bull-run in gold prices before others, started to stake claims in various properties in 2003. The recent results of geological tests conducted by Linux on its properties are quite encouraging. Some of the striking features of Linux's strategy are as follows.

- Staking claims for properties that have either produced minerals worth billions of dollars in the past or hold reserves worth billions of dollars currently.
- Most of the company's properties are located near large mines that are already in production.
- Expanding its operations beyond North America to other parts of the world. The company's expansion into China –

one of the largest gold consuming nations – is worth noting.

- In line with other junior mining companies, Linux has resorted to private placements and issuing of stock options in order to finance its exploration initiatives. Considering the high gold prices, it may not be difficult for the company to raise funds in the future to develop their properties.

## Corporation Events and Actions

- June 2006 - Linux subscribes for 1,000,000 units of Teryl Resources Corp.
- June 2006 - Linux announces that the analysis of rock and soil samples on the Granite Mountain property in Alaska confirms gold and silver mineralized drill targets.
- May 2006 - Linux completes the financing of secured convertible discount notes worth US\$2,000,000.
- February 2006 - The Company announces completion of the NI 43-101 report on the Granite Mountain property for a US\$1.5 million budget.
- December 2005 - The Granville Market Letter ([www.granvilleletter.com](http://www.granvilleletter.com)) adds Linux to their portfolio.
- August 2005 - Extensive auger drilling program commences on the Fish Creek property, Fairbanks, Alaska.

## Management

### **John G Robertson, President, Chief Executive Officer, Chairman of the Board and Director**

Mr. Robertson has been the President, CEO and Chairman of the Board and Director of the company since 1979; has served as President of Teryl Resources Corp. since 1982. Mr. Robertson is the President and Director of Reg Technologies, Inc., a public company engaged in developing rotary engines and other devices utilizing Rand Cam™ technology. Since 1979, Mr. Robertson has also served as a Director and President of IAS Communications, Inc., a public company that is developing antenna technology, as well as the President and a Director of Information Highway.com, Inc.

### **Jennifer Lorette, Vice President, Director**

Ms. Lorette has been serving as a Director and Vice President of Teryl since 1997. She is also a Director and Vice President of REGI U.S., a Director of Reg Technologies, Inc., Vice President and Secretary of IAS Communications, Inc.

### **Susanne Robertson, Director**

Ms. Robertson has been the Director of the company since August 2001, Business woman and a Director of Teryl since September 1990. She is also the owner of SMR Investments, Ltd., a private company incorporated in 1979 that has assisted in consulting and raising funds for several public companies. She has also held various positions in the Royal Bank of Canada.

### **Monique van Oord, Chief Financial Officer, Director**

Ms. van Oord was elected a director of the company in August 2004. She is the company's Chief Financial Officer and Secretary. She is also a director of Teryl Resources Corp.

### **James Vandeberg, Legal Consultant**

Mr. Vandeberg has served as a Legal Counsel for Linux since 1996. His practice focuses on the corporate finance area, with an emphasis on securities and acquisitions. Mr. Vandeberg was previously General Counsel and Secretary of two NYSE companies and is a Director of several other OTC Bulletin Board companies. Mr. Vandeberg is also a Director of Cyber Merchants Exchange, Inc. since May 2001. He is a member and former Director of the American Society of Corporate Secretaries.

### **Robert B Murray, Registered Professional Geologist**

A registered geologist for over 18 years, Mr. Murray completed his Masters of Science, Geology from University of Oregon. His vast experience of geologic mapping has been in places like Southern California, Oregon and Alaska. Mr. Murray has worked as a contract geologist, a teaching assistant and has contributed to various publications. He is the geologist for the Granite Mountain Project of Linux.

### **Jeff Keener, Geological Consultant**

Mr. Keener is a Bachelor of Science, Geology from University of Alaska. He is a geologist with Earth Movers of Fairbanks, Inc. and Goldstream Exploration, LLC. Jeff is trained in geological field and lab methods and has performed professional economic valuations of over twenty five mineral deposits.

### **Diane L. Minehane, Geological Consultant**

Ms. Minehane is a geologist with over 16 years of experience in the minerals industry. Before joining Linux in August 2005, she worked as a core logging geologist for Kinross-Fairbanks Gold Mining Inc. and with various other mining companies. Her key strengths include tremendous knowledge of Alaskan geology, ability to manage geochemical databases and use of geo-statistical analyses for greater understanding of ore deposits. Ms. Minehane is also a consultant with Doyon Limited.

## Industry Overview

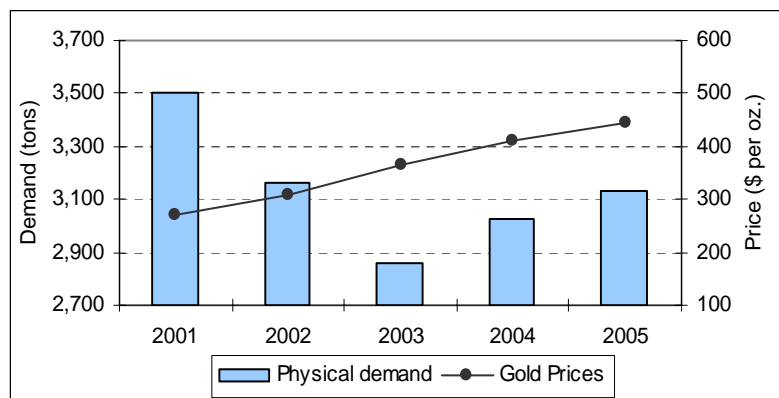
The senile metals and mining industry has been posting strong numbers for the past 3–4 years. After bottoming out in 1999 at around US\$255/ounce, gold prices gained momentum in 2001 and hit a 25-year high of US\$725.75/ounce on May 12, 2006. Although the global meltdown in the prices of most metals in May 2006 did cause a mild correction in gold prices, most believe that high gold prices are here to stay. Strong physical demand, particularly from India and the Middle East, coupled with increasing investment demand due to higher inflation and weakening of the US dollar indicates that gold prices are likely to rise further in the coming years. On the other hand, reduced exploration spending in the late 1990s, declining reserve grades, and rising operating and finding and development (F&D) costs led to global mine supply constraints that are expected to continue for at least another couple of years and, thereby provide support to the high gold prices.

Although low profitability in the past led to a slowdown in gold production, the scenario may change in the near future. A sharp rise in gold prices has enabled companies operating in the industry to knock-off huge debt burdens, enhance profitability and plan their capital expenditures. Additionally, higher gold prices have generated a lot of interest in the exploration for gold in mines that were believed to carry low-grade ore. In spite of low-grade ore mining adding to their cash costs, gold mining companies are expected to continue with the exploration if gold prices allow them to make reasonable profits.

### Robust Physical Demand

The underlying physical demand for gold has remained robust in the past couple of years despite the substantial increase in bullion prices. Jewelry fabrication accounts for almost two-thirds of the total annual global demand for gold. According to the World Gold Council (WGC), global jewelry consumption increased by 3.8% to 2,711.8 tons in 2005 from 2,618.1 tons in 2004. In value terms, jewelry consumption, over the same period rose 12.7% to US\$38.7 billion from US\$34.4 billion in 2004. While India, the largest gold consuming nation, bought 721.6 tons of gold in 2005, the Middle East and the US consumed 387.3 tons and 378.9 tons, respectively. The metal also finds applications in the dentistry, electronics, and aerospace industries that together account for most of the industrial demand. In value terms, the demand for gold in industrial fabrication increased by 11.4% y-o-y to US\$6.0 billion in 2005 largely due to strong Japanese demand for gold in bonding wire.

**Chart 1: Physical Demand vs. Gold Prices**



Source: World Gold Council

The surprisingly robust demand for gold from the physical sector is definitely a strong positive for the market as it comes at a time when gold prices are rising. On a regional basis, the demand for gold jewelry has been the strongest in the Indian sub-continent mainly driven by GDP growth, growing levels of consumer disposable income, easier borrowing options, rise in the number of retail jewelry outlets and an increasing acceptance of prevailing prices. Traditionally, the natives of the Indian sub-continent have been using gold jewelry to store family wealth, with heavy buying taking place during marriages. Turkey, Saudi Arabia and China also contributed to the increased jewelry fabrication demand.

Besides robust fabrication demand for gold, de-hedging activities by gold producers also lifted the demand for the yellow metal. Hedging by gold producers is generally classified as a source of supply. However, off late, producers have been purchasing gold from the market to square-off their future positions. The recent increase in de-hedging can be attributed to the continuous rise in gold futures rendering earlier hedging contracts ineffective. According to the Gold Field Mineral Services (GFMS), at 160 tons, de-hedging by gold producers was significantly higher in 2005. According to the latest quarterly Global Hedge Book Analysis report by GFMS, following a year of refrained activity, de-hedging surged in the first quarter of 2006. With provisional 142 tons removed from the outstanding contracts, the global hedge book at the end of March 2006 stood at 1,563

tons. The report suggests that de-hedging in 2006 is expected to recover from the near-record low last year and reach 295–373 tons.

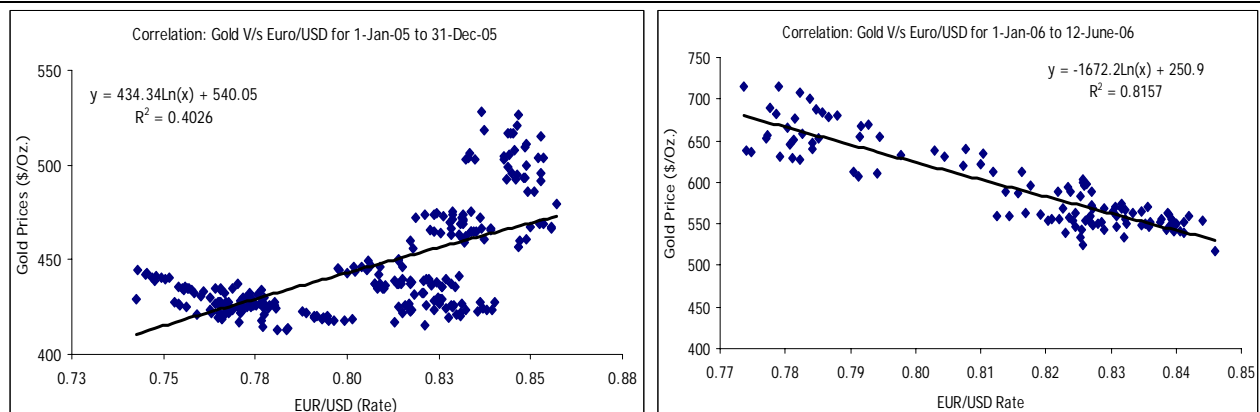
### Rising Investment Demand

The use of gold as an important investment tool is breaking new grounds. During 2005, the investment demand for gold grew a whopping 36.6% to US\$8.5 billion from US\$6.2 billion in 2004. The central banks of most countries maintain gold reserves for the purpose of economic security. As per the World Gold Council (WGC), the official gold holdings of all the central banks across the world stood at an astounding 30,836.8 tons in March 2006 (valued at about US\$600 billion at current market prices). We expect bullion to remain in favor due to the prevailing economic and political uncertainties. Expected weakness in global currencies, particularly the US dollar, and inflationary concerns stemming from the recent spurt in oil and natural gas prices are likely to continue to support gold prices. Furthermore, the growing inclination of institutional investors toward investing in commodities coupled with rising popularity of gold exchange traded funds (ETFs) is also contributing to the investment demand.

### Weakening US Dollar Stimulating Investment Demand

The historically close inverse relationship between gold prices and the US dollar is one of the main drivers stimulating the investment demand for gold. As the US dollar continues to weaken against major currencies over concerns related to burgeoning deficits and relatively low real interest rates, the precious metal is expected to register healthy demand. Negating the historical trend, gold prices moved in line with the greenback during 2005 and continued to rise during the period the US dollar gained strength vis-à-vis the Euro. However, year-to-date, gold prices and the US dollar have had a very strong negative correlation of 0.90, indicating that investors are using gold to hedge against any decline in the US dollar.

**Chart 2: Correlation between Gold Prices & the US€/\$ rate (1/1/05-31/12/05) and (1/1/06-6/12/06)**



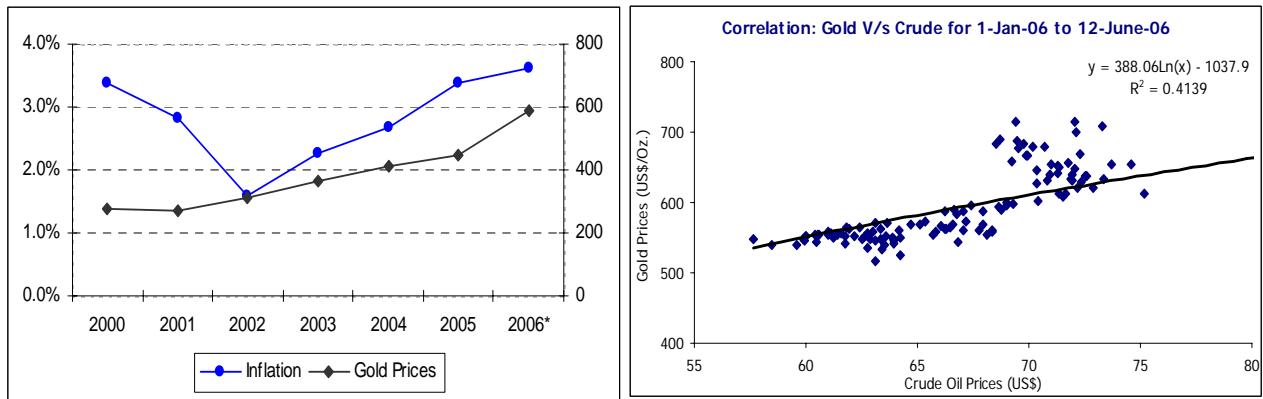
Source: Bloomberg, Khandaker Research

With the dollar expected to remain weak largely due to the rising current account deficit in the US and an uncertain political environment, gold prices are likely to rise further and benefit the industry. At US\$804.9 billion or 6.4% of the GDP, the US current account deficit is largely responsible for the decline in the value of the US dollar against other major currencies and, thereby boosting the investment demand for gold. Additionally, a volatile Middle East and Iran's nuclear standoff are expected to further lift the investment demand with investors seeking alternative safe investment vehicles to hedge against the political risks associated with investment in the US dollar. As the dollar is getting weaker in foreign exchange markets, its buying power vis-à-vis other currency is declining. Weakness in the US dollar is leading to erosion in the value of the dollar holdings of countries that hold the currency for international transactions. Therefore, most of the central banks are restricting the gold as when the dollar declines in value gold appreciates.

### Good Hedge against Inflation

Historically, gold has proved to be a good hedge against inflation as well. Owing to high energy (crude oil and natural gas) prices, inflation rate in the US continues to rise (3.55% in April 2006). Several rate hikes implemented by the US Federal Reserve have failed to counter the inflation so far. In fact, the FED rate stands at 5.0% currently from just 1.0% in June 2004. As a result of continued inflationary pressure, real interest rates remained below 2%, indicating an upward trend in gold prices. The strong positive correlation between the prices of gold and oil suggests that growing concerns over higher energy prices are likely to support to the price of gold.

**Chart 3: US Inflation vs. Gold Prices (\$/oz.) and Gold vs. Crude Oil (\$/bbl.)**



Source: Bloomberg, Khandaker Research, \*Gold prices average till May2006, Inflation till April 2006

**Gold ETFs – Another Investment Avenue**

Another positive for gold is the rising popularity of gold ETFs among institutional investors who are recognizing the benefits of portfolio diversification by investing in commodities. Gold ETF typically is an Exchange Traded mutual fund unit that is traded on a stock exchange like any other stock. Gold is the underlying asset for the units of that fund. Every gold ETF unit represents a definite quantum of gold and its traded price moves in tandem with that of actual gold price. Some of the major gold ETF's are sreetTRACKS, iShares COMEX and NewGold. A recent report by the WGC states that ETF's reported the largest quarterly increase of 109 tons in investment (208 tons for the full year 2005). At the end of March 2006, combined ETF holdings amounted to 496 tons of gold.

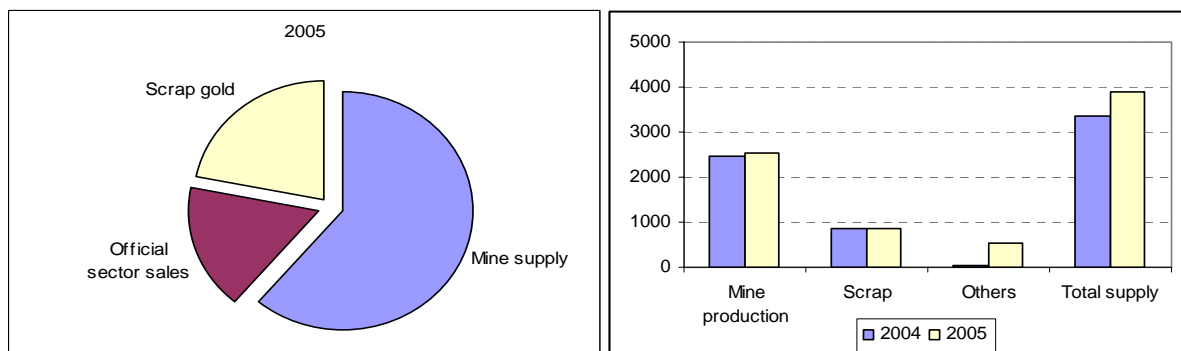
**Central Bank Gold Purchases/Sales – Driving Prices**

Many believe that the Washington Agreement, under which several European Central Banks agreed to limit their gold sales in 1999, was a key turning point for the gold market. Although gold reserves (as a proportion of total reserves) of the largest central banks declined from 33% in 1999 to 12% by 2004-end, rising gold prices leave no incentive for the central banks to further reduce their holdings. In fact, a few central banks such as those of China, Argentina and Venezuela are even turning into buyers of gold. Recent grapevine suggests that central banks in Russia, China and some Middle Eastern countries are increasingly diversifying their holdings into gold.

**Supply Constraints Expected to keep Prices Up**

Weak gold prices during the 1980s and 1990s led to a slowdown in exploration by the gold producers who usually cut fresh investments on discovery and exploration during such testing times. In this period, several mines were closed down due to abysmally low margins rendering the projects uneconomical. Eventually, in 2004, worldwide gold production declined 5% to 2,464 tons, the lowest in eight years. Following this and various other factors, the demand for the precious metal rose higher than its supply. Currently, gold production at mines remains a bit stagnant, while demand continues to escalate. The total demand for gold in 2005 was 3,726 tons compared to 3,495 tons in 2004 and 3,189 tons in 2003; total gold production from the mines stood at 2,520 tons in 2005 compared to 2,464 tons in 2004 and 2,593 in 2003. We must note that it is difficult for gold producers to substantially increase production (see diagram below), since raising the supply of gold is a costly and lengthy process unlike that of other commodities.

**Chart 4: Supply Break-up; Mine Production (in million tons)**

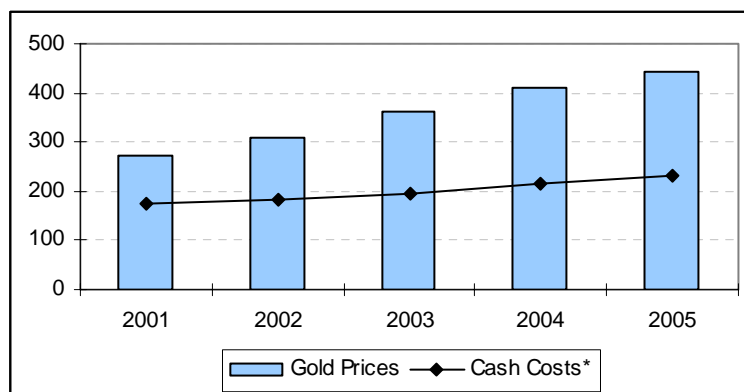


Source: World Gold Council

### Rising Cash Costs

The rising costs of mining also cause concern to the gold mining companies. Factors with a strong bearing on production costs are the nature of the mine (i.e., open pit or underground), depth, metallurgy and associated processing techniques. WGC has estimated the average quoted cash costs for 2005 to be US\$269/ounce with total cash costs (including depreciation, amortization, reclamation and mine closure expenses) standing at US\$339/ounce. Cash costs of Newmont and Barrick Gold, the top two gold producers of the world, were US\$236/ounce and US\$227/ounce, respectively, in 2005. Considering the recent hike in oil and gas prices, shortage of labor and equipment and other key inputs in mining operations, cash costs are likely to rise, going forward. Given the high prices of gold, some of the bullion producers are mining the low-grade ore they once wrote off, which is adding to the cash costs.

**Chart 5: Cash Costs vs. Gold Prices (in \$ per ounce)**



Source: Annual Reports, Khandaker Research, \* average of top two gold producing companies

### Exploration Spending on Rise

According to the Metals Economics Group, non-ferrous exploration spending worldwide steadily increased through the early 1990s to 1997, before falling to a 12-year low of US\$1.9 billion in 2002. However, since then, it has rebounded and 2005 ended with exploration budgets of US\$5.1 billion. The rise in global exploration can be attributed to increased spending by both, the major as well as junior mining companies. The exploration budgets of the junior companies rose by almost 57% y-o-y to US\$2.33 billion. High product prices are driving the mining companies to undertake projects that were earlier considered unviable due to the poor grade of ore. However, the continuation of the current junior-led recovery in exploration relies entirely on their ability to raise capital. Going forward, we expect that the continued increase in exploration spending coupled with favorable legislations by some of the countries to boost exploration expenditures is likely to do a lot of good to this industry.

## Linux's Properties

Linux is positioning itself as an exploration company by developing mineral prospects with potential to turn into large producing mines. The company currently has interests in five major properties in Alaska, Canada and China. Two of its properties – Granite Mountain and Fish Creek – located in Alaska are the most promising ones as they are surrounded by lucrative gold producing properties. Historical geological studies on these properties strongly indicate the presence of gold, silver, uranium and base metal mineralization. Linux has commenced an aggressive US\$1.4 million exploration program at its Granite Mountain project, which is believed to have several near surface poly-metallic deposits. Additionally, the recent discovery of an intrusive target over one kilo meter in length and 200–300 meters wide has further improved the prospects of the company's Fish Creek property. Linux's two other properties are located in Lillooet Mining Division (British Columbia), Canada. Exploratory drilling at the company's TY and ORO Bralorne-type properties in British Columbia has yielded high gold and silver values. As far as the China property is concerned, Linux is yet to exercise its option to purchase 100% shares of Ginyen Recovery, Inc., a private company that can earn an 85% interest by exercising its option to explore, lease and develop all minerals in the 161 square kilometers of the Bo Luo Nuo district of China.

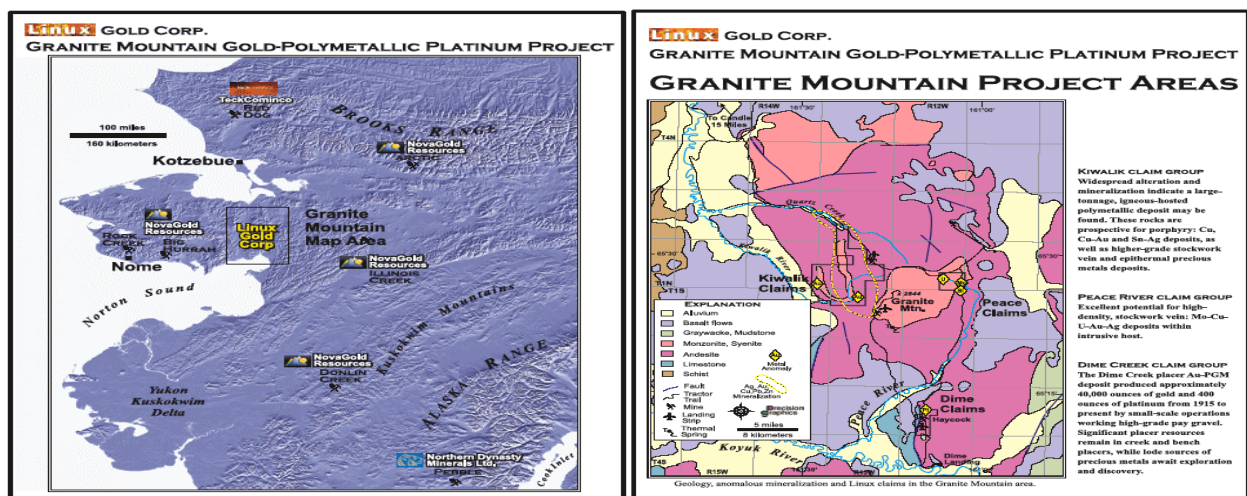
### ALASKA

The US\$1.5 billion Alaska mining industry has emerged as one of the most attractive gold exploration venues in the world. This polymetallic and precious metals rich state in the US is a prime destination for a range of Canadian exploration companies. Alaska is also home to the world's largest zinc mine – Red Dog. Recent exploration successes by various other companies complement the attractiveness of the state. As mentioned earlier, Linux has two properties in Alaska – Granite Mountain (100% owned) and Fish Creek (earn 50%).

### Granite Mountain Project

Granite Mountain is a 37 square mile area on Alaska's Seward Peninsula where companies such as NovaGold, Teck Cominco and Northern Dynasty have been successful in locating significant reserves of gold, copper and zinc. Linux won the mining and exploration rights of Granite Mountain in April 2005. The company's Granite Mountain property is surrounded by NovaGold's properties from both the sides that host more than 23 million ounces of gold and significant reserves of both silver and copper. To the south of Linux's property, Northern Dynasty owns the rights to explore the world-class Pebble copper-gold-molybdenum porphyry deposits with an inferred mineral resource of approximately 28 million ounces of gold and 16.5 billion pounds of copper. The world's largest zinc deposit owned by Teck Cominco also lies approximately 180 miles to the north of Granite Mountain with over US\$20 billion worth of zinc reserves—Teck Cominco produces 500,000 tons of ore annually. We are encouraged by the positive results of X-ray diffraction carried out on the soil and rock samples from Linux's property indicating the occurrence of lode gold-silver mineralization.

**Picture 1: Granite Mountain Project**



Source: Company

The Granite Mountain project, Linux's flagship property, has broadened the company's operations to include the exploration of a polymetallic mix of uranium and base metals apart from gold. The company's property consists of three claim blocks. The Kiwalik claim block, which is approximately 30 sq mile on the Quartz Creek, contains igneous-hosted Lead – Zinc – Silver – Copper – Gold deposits. While the second block (4 sq mile) on the Peace River (Peace River claim block) is intrusive-hosted

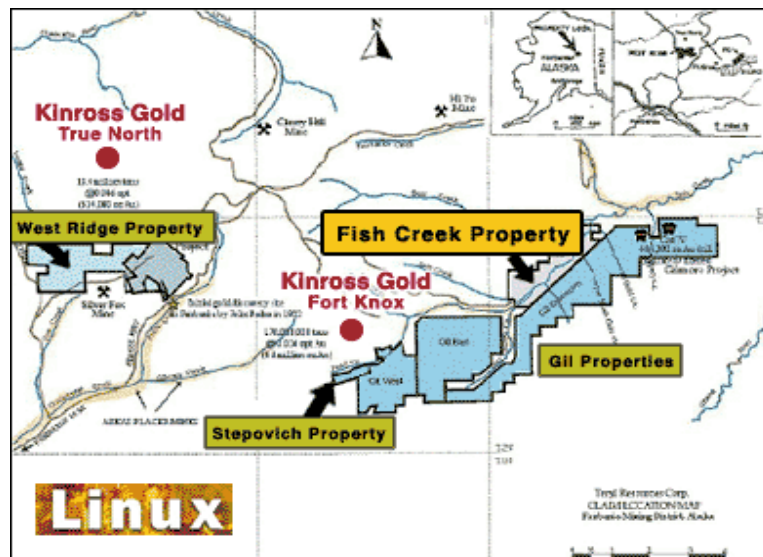
Uranium – Molybdenum vein deposits, the third block or Dime Creek claim block (3 sq mile in area) contains placer Gold – PGM alluvial deposits. Assay results of the geologic mapping and geochemical sampling conducted by Linux in 2005 indicated a mineralized trend on the Kiwalik claims strikes north for over 11 km, and a similar mineralization trend on the Peace claim extending over a 1.7 km strike length. In addition, the company has just come out with the analysis of the property's soil and rock samples. Soil lithology chip and rock samples sent for X-ray diffraction returned encouraging results for lode gold-silver mineralization on the Gossan-Weather Ridge trend. Preliminary findings confirm gold and silver mineralization coincident with moderate-to-strong argillic alteration characterized by the presence of alunite, andalusite and tourmaline. These findings are quite similar to those from properties such as Galore Creek owned by NovaGold that host multiple Copper-Gold-Silver deposits. Galore Creek is one of the largest and highest grades underdeveloped porphyry related copper deposits in North America.

Having conducted geological mapping and geochemical sampling on mineral properties near Granite Mountain, Linux has planned to undertake Phase II of the mineral exploration program in 2006. The US\$1.4 million program will consist of an airborne geophysical survey, additional geological mapping and geochemical sampling, and drilling of two 1,000 ft. and four 500 ft. (total 4,000 ft.) diamond drill holes. The four diamond-core drill holes would be located on the Gossan Ridge gold-silver-copper prospect, the Saddle lead-zinc-silver prospect, the Quartz Creek gold-copper-bismuth prospect and the Peace River molybdenum-copper-gold-uranium prospect.

### Fish Creek Prospect

Located in Alaska's Fairbanks Mining Division, the Fish Creek property of Linux is in the vicinity of the well known, Fort Knox Mill that produces 400,000 ounces of gold per year. The Fort Knox open pit mine, mill and mineral claims cover approximately 20,463 hectares (1168 mining claims) with production rate varying between 94,000 and 130,000 tons per day of total material. In 2002, 32.7 million tons of ore mined resulted in 410,519 ounces of gold production. Reserves at Fort Knox and area deposits increased approximately 10% to 2,945,000 ounces (at a gold price of US\$325 per ounce) by 2003-end. Linux's Fish Creek prospect is also adjacent to the Gil Joint Venture (a JV between Kinross Gold and Teryl) and contains a drill indicated/inferred gold deposit of 10 million tons (grade 0.04 gold/ton). It is believed that the Fish Creek claim may host an extension of the gold mineralization discovered on the Gil property.

**Picture 2: Fish Creek Prospect**



Source: Company

The company's Fish Creek prospect (a 50:50 JV with Teryl Resources Corp.) consists of 30 mineral claims located in Fairbanks Mining Division, Alaska. Each of the 30 mineral claims in Fish Creek measures 1,320' x 1,320'/40 acres. Five of the claims are one-half the size of a standard claim, while the remainders are full-sized. In 2003, the company conducted some drilling programs and a ground magnetic survey at the property. The targets selected tested positive for both lode and placer gold mineralization. In 2004, the company conducted a 22 hole (1,506 feet) reverse circulation drilling program wherein twenty holes were drilled to test the placer gold potential, while two deeper holes were drilled to test an intrusive-related lode gold target. Six of the twenty placer holes returned intervals with gold values in excess of 0.01 ounces of gold per cubic yard. Values ranged from 0.0108 to 0.0629 ounces per cubic yard over widths of 5 to 8 feet. These values suggest potential for the occurrence of commercially viable alluvial gold resources on the Fish Creek project. Samples collected from the two lode gold exploration holes (totaling 405 feet of drilling) returned best values for gold of 0.038 ppm (parts per million) and 0.040 ppm at

195 feet and 200 feet, respectively.

Linux now plans to undertake 'Infill Reverse Circulation Drilling' to better define the placer gold mineralization outlined in 2004 and calculate industry compliant mineral resources. If results are positive, step-out drilling using large diameter reverse circulation methods is warranted to expand the placer gold mineralization. To facilitate this, Linux is constructing an all-weather creek crossing for off-road vehicles near the mouth of Odden Creek.

Another positive development has been the completion of the option agreement between Teryl and Linux Gold. Teryl completed an option agreement with Linux for a 50% interest in the Fish Creek claim after spending US\$500,000 on the property and issuing 200,000 shares of Teryl. Linux has the right to back in for a 25% working interest or retain a 5% net royalty interest. As per the amended agreement with Teryl, Linux has extended the option period for another two years (until March 2007) in consideration for 100,000 treasury shares of Teryl.

## BRITISH COLUMBIA

Mining is a US\$6.3 billion industry in British Columbia. About 65% of Canada's exchange-listed mining companies are based in British Columbia. Due to high prices and tax incentives, exploration and development spending in British Columbia totaled US\$148 million in 2005, up US\$75 million from the US\$73 million reported in 2004. With provincial and federal tax incentives the state's mining industry is definitely poised for significant growth. Linux, based in British Columbia, owns a 100% interest in the TY and ORO gold properties in the region's Lillooet Mining Division. The company acquired these properties in the second quarter of 2003. The TY and ORO properties are located within 6 miles of the Bralorne Gold Mine, which is one of the richest gold mines in Western Canada. This mine has an annual plant capacity of 37,000 tons, with proven and probable ore reserves of 476,835 tons (gold grade 0.31 oz. / ton). Since its discovery in 1897, the Bralorne mine has produced ore worth US\$2.5 billion at today's prices.

**Picture 3: British Columbia**



Source: Company Presentation

## TY Gold Property

Linux owns a 100% stake in 21 units (in Lillooet Mining Division) known as the TY gold property. The TY property is located just 12 miles from the Bralorne Gold Mine, which, since its discovery, has produced 4.1 million ounces of gold. On May 2, 2003, the TY property was acquired for CAD30,000 and 150,000 shares of Linux. The property is subject to a 2% net smelter interest (NSR). Linux has an option to purchase each 1% NSR for \$1,000,000 prior to production.

The completion of Phase I drilling on the Beta zone of this property yielded significant gold and silver values. The best results were from hole 87-8, which intersected 15 feet of 0.93 ounces of gold per ton and 3.5 ounces of silver per ton between 65-80 feet from the surface including a five foot intersection of 1.70 oz/ton gold and 5.86 oz/ton silver. Hole 87-9 hit ten feet of 0.69 ounces per ton gold including a five-foot intersection of 1.13 ounces of gold per ton from 165 feet to 175 feet. The Beta zone is flanked by two other known gold zones. According to a 1987 report by Sampson Engineering, the Beta zone may host a hanging wall and footwall vein, typical of gold systems in the Bralorne district and many other vein-type gold camps such as the Motherlode system of California. Additional drilling has been recommended by Sampson Engineering Inc. to further explore the Beta zone.

### ORO Gold Property

Linux has a 100% interest in 20 mineral claim units known as the ORO property in Lillooet Mining Division. In fact, the ORO property lies adjacent to the company's TY property and is located 12 miles from the Bralorne Gold Mine. Several EM-VLF conductive zones have been located on this property. According to the geophysical report of Columbia Airborne Geophysical Services, the magnetic survey shows the entire property is underlain with sediments and volcanics, which are important geologic structures for the placement of gold bearing quartz veins. Linux acquired this property for CAD10,000 and 100,000 shares of the company and is subject to a 2% net smelter return. The company has the option to purchase back each 1% NSR return for \$1,000,000 prior to production.

### CHINA

In the early part of 2004, Linux ventured into China by acquiring an option to purchase a 100% interest in a private company, Ginyen Recovery, Inc., which holds a Certificate of Approval to do business in the Peoples Republic of China. Ginyen holds an 85% interest in a co-operative joint venture with Bo Luo Nuo Wang Yuan Gold Mine (BLN Gold) company of Hebei Province. Ginyen can earn an 85% interest in an option to explore, lease and develop all minerals in the 100 square mile or 161 square kilometers Bo Luo Nuo district of China. Linux can earn a 100% interest in Ginyen, subject to a 5% net profits interest, by issuing 200,000 of its shares in four stages and paying CAD50,000 cash, and spending a total of CAD500,000 in a three-phase work program. The Bo Luo Nuo property hosts 10 gold zones (3 main mines), an operating mill and a vast array of tunnels with a proven history of mining and producing gold by bucket and hand for many years. The property is also believed to host silver, platinum and palladium deposits.

#### Picture 4: China Property



Source: Company

Assay results indicated high grade gold and silver in the Tuo Dao Gou gold zone of the company's Bo Luo Nuo property. According to the analysis done by Acme Analytical Laboratories on April 1, 2004, the Tuo Dao Gou gold zone has 5.5 oz/ton of gold with 9 oz/ton of silver. The company's President, John Robertson, compares its China venture to Southwestern Resources' Boka Gold Project in the Yunnan province in southern China. Southwestern is conducting a major exploration program in a high-grade gold mineralization area where artisanal miners constructed more than 200 tunnels in the mountainside since gold was discovered in the region five years earlier. Southwestern owns 120 square miles of land and 10 known gold zones and after exploration drilling, it identified an immense bulk tonnage open pit deposit.

## Valuation

### SUMMARY

We valued Linux Gold using two different methods – the Net Assets Value (NAV) approach and the Market Cap method. These yielded a target price in the range of US\$3.30-3.48. To arrive at the price target, we used the average of the values obtained from the two valuation methodologies. This returned a 12-18 month target price of US\$3.39, which is approximately ten times the stock's current market price of US\$0.35.

The valuation analysis for natural resource companies involves the estimation of recoverable reserves and assigning a net value to them. This method focuses on important variables such as price of the natural resource and the amount recoverable. However, Linux is an early stage exploration company that is still in the process of assigning value to its mineralization claims. As such, in order to estimate the recoverable reserves in Linux's key properties, we based our estimates on benchmarking certain analogous properties located in the vicinity of the company's properties.

### NAV Approach

Under this method, we analyzed the discounted cash flows on assets owned by Linux. Since the company does not have an exact measure of resources or reserves owned by it, we started by estimating the gold reserves at Linux's Granite Mountain and Fish Creek properties in Alaska.

We limited our estimation to these two properties as they hold immediate upside potential and helped us to keep our estimates at the lower end. We benchmarked Linux's Granite Mountain property with the Rock Creek property owned by NovaGold. The 22 sq miles Rock Creek property has indicated/inferred gold deposits of 1.12 million ounces or 0.051 million oz. /sq. mile. Considering this figure as the yardstick we estimated the gold deposits at Linux Gold's Granite Mountain property at 1,891,017 ounces. We have assumed that Linux will be able to match the gold mineralization claims of analogous properties. Similarly, we factored in the Gil prospect's gold reserve base while evaluating Linux's Fish Creek property and arrived at a mineralization of 71,942 ounces of gold. It must be emphasized that the company's Granite Mountain and Fish Creek properties are likely to hold large reserves of other base metals as well, which we have not taken into account while developing the estimates for Linux. The following table summarizes our estimation of Linux's gold resource base.

**Table 1: Gold Resource Estimation**

Resource Estimation		
	Granite Mountain Property	Fish Creek Property
Area Covered (sq. mile)	37	1.875
Resource/sq.mile	0.051	0.038
Measures/Indicated/Inferred Resources (million. oz.)	1.891	0.072
Result (in oz.)	1,891,017	71,942
Total (in oz.)		1,962,960

Source: Khandaker Research, Company Reports

After estimating the recoverable gold reserves for Linux's key properties, we assigned net values to them. In line with our conservative approach to the valuation, we modeled the resource realization period of 10 years for Linux, starting five years from now. We assumed that production would commence in 2011 with annual volume of 196,296 oz. The realized price for gold has been assumed at US\$600/oz., while the cash cost of US\$250/oz. for Linux has been assumed to be in line with that of NovaGold. Having estimated the net revenues for the life of the mine, we then discounted the same by 15%. Post this, in order to calculate the net asset value, we added back the working capital. The NAV approach yielded an asset value of US\$2.64 per share.

As junior gold companies on an average trade at a NAV premium multiple of about 1.25x–1.5x, the conservative estimate with a NAV multiple of 1.25x yielded a target value of US\$3.30 per share. Table 2 summarizes our calculation of NAV for Linux Gold's reserves.

**Table 2: Net Asset Value Calculation**

NAV Calculation	
Gold Price/oz (\$)	600
Cash cost per oz of Gold (\$)	250
Gold Produced (oz/year)*	196,296
Net Revenues (US\$/year)	68,703,585.61
Discount Rate	15%
Exchange Rate USD to CAD	1.12330
<b>Value Per Share</b>	
NPV (@15%) (\$)	171,430,217.41
NPV in CAD	192,567,563.22
(+) Working Capital	98,204.00
(=) Net Asset Value	192,665,767.22
Outstanding Shares	64,951,523
NAV Share (CAD)	2.97
NAV Share (US\$)	2.64
NAV Premium multiple	1.25
<b>Value Per Share (US\$)</b>	<b>3.30</b>

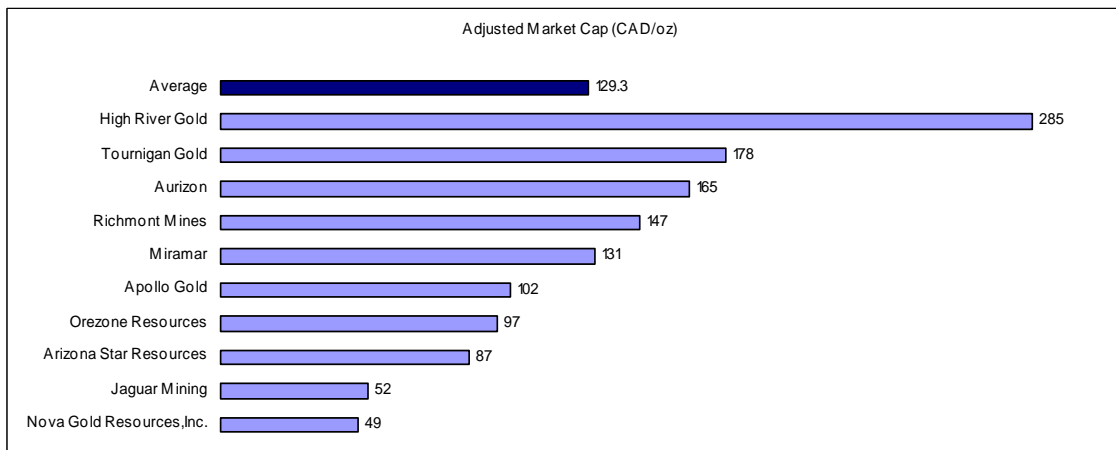
Source: Khandaker Research, Exchange rate as on 6/26/2006 (Oanda.com), \* assumed mine life is 10 years

**Market Capitalization Method**

We also valued Linux Gold based on the basis of adjusted market cap (AMC) per ounce method. For this, we first calculated the adjusted market cap per ounce of some of the gold exploration companies that have reported their inferred or indicated resources and are quite comparable to be the next level of operations for Linux. An analysis of companies at the advanced stage of exploration as well as firms that have just started production indicates that (on average) companies with gold producing assets have a market cap of CAD129.3 per ounce of proven and indicated resources. Converting this into US\$ (since Linux trades on the OTC exchange), our workings gave the average AMC per ounce of US\$115.1.

**Table 3: Comparative Valuation; Graphical View**

Company	Ticker	Exchange	Share Price (CAD)	M-Cap (CAD mn)	Reserve (ounce)	AMC (CAD/oz)
Nova Gold Resources, Inc.	NG	TSX	14.25	1,261.6	26,000,000	48.5
Jaguar Mining	JAG	TSE	4.35	121.8	2,344,400	52.0
Arizona Star Resources	AZS	CVE	12.00	544.2	6,250,000	87.1
Orezone Resources	OZN	TSE	1.52	201.9	2,075,000	97.3
Apollo Gold	APG	TSE	0.54	65.6	643,800	101.8
Miramar	MAE	TSE	4.49	841.7	6,409,000	131.3
Richmont Mines	RIC	TSE	4.00	96.4	653,900	147.4
Aurizon	ARZ	TSE	3.18	461.5	2,800,000	164.8
Tournigan Gold	TVC	CVE	1.58	121.4	683,558	177.6
High River Gold	HRG	TSE	2.15	500.1	1,754,000	285.1
<b>Average</b>						<b>129.3</b>
<i>Exchange Rate (1USD = 1.1233 CAD)</i>						
<b>Average (US\$)</b>						<b>115.1</b>



Source: Khandaker Research, Bloomberg, share price as on 6/26/2006

With an average market cap per ounce of US\$115.1 and Linux’s reserve estimates (arrived at based on analogous properties) of 1,962,960 ounces, the Company’s total market capitalization works out at US\$230.0 million. The market capitalization method yielded per share value of US\$3.48 for Linux Gold.

**Table 4: Value per Share (as per Market Cap Method)**

Valuing Linux Gold Corp by Market Cap Method	
Total (in oz.)	1,962,960
AMC per ounce (CAD)	129.3
Total Market cap (CAD)	253,792,517
Total Market cap (US\$)	230,038,719
Shares Outstanding	64,951,523
Value per share (CAD)	3.91
<i>Exchange Rate (1USD = 1.1233 CAD)</i>	
Value per share (US\$)	<b>3.48</b>

Source: Khandaker Research

## Conclusion

Linux Gold Corp. (LNXGF) is an attractive investment vehicle for investors keen on benefiting from the rising trend in gold and base minerals price. The stock has significant discovery leverage potential on Granite Mountain during this summers drill program. The first sign of major discovery can be an exciting time for an exploration company, as well as its stock. The company is well-suited for investors looking to participate in the near-to-mid term growth prospects of small cap gold companies. The encouraging results expected from the company’s planned exploration activities on the Granite Mountain (which covers an 18 mile long and 2.5 mile wide area of altered rock, discovered initially in 1969 by geologist’s representing the geological division for Alaska) and Fish Creek properties indicate that there is room for a significant upside. Therefore, we expect Linux’s stock price to reach a target of US\$3.39, at a corresponding market cap of \$220.2 million over 12 to 18 months.

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