SILVERSTONE RESOURCES CORP.
FORM 51-102F1 – MANAGEMENT DISCUSSION & ANALYSIS
AUGUST 31, 2007

1.1 Date of Report: December 3, 2007

The Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2007.

During the year the Company changed their reporting from Canadian dollars to U. S. dollars.

All dollar figures stated herein are expressed in U.S. dollars, unless otherwise noted.

This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Highlights

- Silver sales recorded during the year from the sale of 214,441 ounces of silver.
- Cash at August 31, 2007 of $27.1 million (August 31, 2006 - $0.5 million).
- On September 28, 2007, the Company completed the purchase of the life of mine payable silver production from Lundin Mining Corp.'s ("Lundin") Neves-Corvo and Aljustrel mines located in Portugal. Total upfront consideration paid is $42.5 million in cash and 19,656,250 common shares of the Company. In addition, the Company will make on-going per ounce payments at a price equal to the lesser of $3.90 and the then prevailing market price per ounce of silver (subject to an inflation adjustment after 3 years).
- On October 10, 2007 the Company provided a three year silver sales forecast:
    - 2007 - 700,000 oz's
    - 2008 - 2,064,000 oz's
    - 2009 - 2,928,000 oz's
- On November 27, 2007 the Company closed a CDN$50 million financing. Proceeds will be used to repay debt and for general corporate purposes including potential acquisitions of silver production.
- On December 3, 2007 the Company repaid the entire principal of $25 million plus interest outstanding on the debt from Scotia Capital Inc. related to the Lundin transaction.

1.2 Overall Performance

Silverstone Resources Corp. ("Silverstone" or the "Company") is a mining company delivering value through growth. The Company is achieving revenue from its silver production streams while continuing the exploration of its advanced portfolio of silver-gold projects in Mexico. The Company will have a production forecast for calendar 2008 of 2.1 million ounces of silver growing to 2.9 million ounces of silver in 2009 from the Cozamin mine located in Mexico and the Neves-Corvo and Aljustrel mines in Portugal.

Neves-Corvo and Aljustrel

Silverstone has completed its updated technical reports on Lundin Mining's Neves-Corvo and Aljustrel mines located in Portugal. The National Instrument 43-101 compliant technical reports were prepared by Wardell Armstrong International, for Silverstone titled Technical Report on the Neves-Corvo Mine, Southern Portugal dated October 2007, and Technical Report on the Aljustrel Mine, Southern Portugal dated October 2007.

Current Proven and Probable Reserves for the Neves-Corvo mine are tabulated below:

Proven and Probable Mineral Reserves (1)

Mine	Zone	Reserves Category	Tonnes (M)	Copper %	Zinc %	Silver g/t	Contained Ounces (M)
Neves-Corvo	Copper	Proven	6.23	5.17	1.15	36.3	7.3
		Probable	11.01	4.74	0.68	28.8	10.2
		Proven + Probable	17.24	4.89	0.85	31.5	**17.5**
Neves-Corvo	Zinc	Proven	0.14	0.29	6.36	35.8	0.2
		Probable	10.78	0.43	7.89	62.3	21.6
		Proven + Probable	10.92	0.43	7.87	62.0	**21.8**

(1) Reserves for the Neves-Corvo mine are estimated using cut off grades of 5.58% zinc and 1.91% copper. The reserves are calculated by the mine's geologists and audited by Wardell Armstrong International (WAI). The Qualified Person for the 2006 Reserve estimate is WAI personnel Mark L. Owen, Associate Director and Principal Geologist, assisted by David Chilcott, Associate to WAI, and Senior Mining Engineer. The reserves are based on an effective mining width of 5 meters. Cut off grade is established by calculating the net sales value per percent metal considering mining and geological factors, and actual operating costs (43 Euro/tonne), development costs and royalties. Reserves in the copper zone are based on the value of copper only, and reserves in the zinc zone are based on the value of zinc only. The reserves were estimated as of December 31st, 2006. There are no known environmental, permitting, title, marketing etc issues which are expected to materially impact the estimate of reserves.

Current Proven and Probable reserves for the Aljustrel mine are tabulated below:

Proven and Probable Mineral Reserves (2)

Mine	Zone	Reserves Category	Tonnes (M)	Copper %	Zinc %	Silver g/t	Contained Ounces (M)
Aljustrel	**Zinc**	**Proven**	**0**	**0**	**0**	**0**	**0**
		Probable	**14.4**	**0.27**	**5.49**	**62.6**	**29**
		Proven + Probable	**14.4**	**0.27**	**5.49**	**62.6**	29
Aljustrel	**Copper**	**Proven**	**0**	**0**	**0**	**0**	**0**
		Probable	**1.6**	**2.16**	**0.97**	**14.3**	**0.7**
		Proven + Probable	**1.6**	**2.16**	**0.97**	**14.3**	0.7

(2) The 2006 Aljustrel zinc Mineral Reserves are estimated using cut-off grades of 4.5% zinc and 4.0% zinc for the Feitais and Moinho deposits respectively. The copper mineral reserves are estimated using a 1.5% copper cut-off. Reserves are based on a calculated net sales value per tonne taking into account mining and geological factors including dilution and development, estimated operating costs of 25 Euros, and metallurgical recovery to derive a net sales value per percent. Reserves are calculated based on copper values only for copper ore and zinc values only for zinc ore. The reserves were calculated by SRK and audited by Wardell Armstrong International (WAI). The Qualified Person for the 2006 reserves and resources is Mark L. Owen, Associate Director and Principal Geologist, assisted by David Chilcott, Associate to WAI, and Senior Mining Engineer. The reserves are as of December 31st, 2006. There are no known environmental, permitting, title, marketing etc issues which are expected to materially impact the estimate of reserves.

Cozamin

Mineral resources:

Resource Category*	Tonnes (1% Cu Cut-off)	Cu (%)	Ag (g/t)	Zn (%)	Pb (%)	Au (g/t)	Million lbs** Cu	Million ozs** Ag
Measured	550,000	2.58	86.56	1.07	0.48	0.05	31.3	1.5
Indicated	2,210,000	2.48	85.13	1.14	0.47	0.05	120.9	6.1
Measured & Indicated	2,760,000	2.50	85.42	1.12	0.47	0.05	152.2	7.6
Inferred	3,090,000	2.22	79.07	1.29	0.27	0.06	151.3	7.9

*These resources are from the technical report dated October 31, 2006.
** 1 kilogram = 2.2 lbs; 31.103 grams = 1 oz. Troy.

An updated resource estimate has been completed for the Cozamin mine by Capstone, as of August 31, 2007. The new resource estimate increases both the tonnage and contained metal within all of the resource categories, while maintaining its high grade.

The Company has earned a 90% interest in 4 advanced projects, which are the Copala, Claudia, Promontorio and Montoros projects. The Company's shares trade on the TSX-Venture Exchange ("TSX-V") under the symbol SST.

The **Copala** silver-gold project is located 60km outside of Mazatlan, Sinaloa State, Mexico. The project area covers more than 6 significant vein systems that each has a strike length of more than 2 kms within the Silverstone claims. The first two phases of diamond core drilling were focussed on the Animas-Refugio vein system and the third phase of drilling is currently testing the La Colorada vein system.

The Phase I and Phase IA, drill programs were completed in 2005 with a total 4,741m in 34 drill holes. Results were reported in Capstone Mining Corp.'s news release on October 20, 2005 and January 18, 2006 and the Silverstone's news releases on June 21 and October 11, 2006. The Phase IIA drill program began in November 2006 and was completed in October 2007. Together, Phase II and Phase IIA drilling total 10,443m in 97 holes which brought the total for the Animas-Refugio drilling to 15,184m in 131 holes. Results from 51 of the 97 second phase holes were reported in news releases dated March 6 and June 19, 2007. Assays for the subsequent holes will be released by December 31, 2007. Results to date indicate that the Animas-Refugio vein system has significant potential for both underground and open pit mine development. A third party estimate of the resources on this vein system is planned for the first quarter of 2008.

In October 2007, a Phase III drill program was started on the La Colorada vein system. This program will be completed by December 31, 2007 and total about 4,200m in 41 holes.

The **Claudia** gold-silver project is located 135km NNW of Durango City, Durango State, Mexico. The Company completed a property wide program of mapping and sampling in 2004, 2005 and 2006 that identified four targets that warranted drill testing. In 2007, a first phase of drilling totalling 1945 m in 10 holes was completed. Assay results for these holes were anomalous. Additional surface exploration oriented towards defining new drill targets is planned for 2008.

The **Promontorio** silver-gold project is located 140km NNW of Durango City, Durango State, Mexico. A geological mapping and rock sampling program is planned for next year.

The **Montoros** gold-silver project is located 190km NW of Durango City, Durango State, Mexico. A geological mapping and rock sampling program is planned for next year.

1.3 Selected Annual Information

The following financial data is selected information for the Company for the most recently completed financial years:

	Aug. 31, 2007	Aug. 31, 2006	Aug. 31, 2005
Total revenues	**$ 2,637,625**	**$ -**	**$ -**
Earnings from operations	**836,251**	**-**	**-**
Loss before other items	**2,384,283**	**1,058,471**	**29,065**
Basic and diluted loss per common share before other items	**0.05**	**0.16**	**-**
Loss for the year	**2,111,442**	**1,060,102**	**29,065**
Basic and diluted loss per common share	**0.05**	**0.16**	**-**
Total assets	**77,666,389**	**3,864,169**	**12,649**

This financial information was prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

1.4 Results of Operations

The Company has three business segments, the silver produced by the Cozamin, Neves-corvo and Aljustrel mines, exploration of the four advanced silver-gold projects in Mexico and corporate operations.

Cozamin

On April 4, 2007, a 100% subsidiary of the Company, Silverstone Resources (Barbados) Corp. ("Silverstone Barbados"), entered into a contract to purchase all of the silver produced by Capstone Mining Corp.'s ("Capstone") Cozamin mine in Mexico for a period of 10 years. Total consideration included an upfront payment of US$20 million in cash and US$24 million in 19,155,310 special warrants, convertible into common shares at no additional cost. In addition, the Company will pay for each ounce of refined silver from the mine the lesser of US$4.00 per ounce and the prevailing market price (subject to an inflationary adjustment after three years). It is projected that Cozamin's annual silver production for calendar 2008 and 2009 will approximate 1.1 ounces of silver per year.

During the year ended August 31, 2007, Silverstone Barbados purchased 214,441 ounces of silver at a total cash cost of $4.00 per ounce, and sold it for an average price of $12.30 per ounce.

Neves-Corvo and Aljustrel

On September 28, 2007, the Company completed the purchase of the life of mine payable silver production from Lundin Mining Corp.'s ("Lundin") Neves-Corvo and Aljustrel mines located in Portugal. Total upfront consideration paid is $42.5 million in cash and 19,656,250 common shares of the Company. In addition, the Company will make on-going per ounce payments at a price equal to the lesser of $3.90 and the then prevailing market price per ounce of silver (subject to an inflation adjustment after three years). It is projected that Neves-Corvo's annual silver production for calendar 2008 and 2009 will approximate 576,000 ounces of silver per year. Aljustrel is expected to begin production in early 2008, it is projected that Aljustrel's annual silver production for calendar 2008 will be 375,000 ounces of silver growing to 1,060,000 ounces of silver in 2009.

Exploration Properties

At the **Copala** silver-gold project, expenditures for the year ended August 31, 2007 totalled $2,506,484 (2006 - $1,344,213), which includes $723,532 in field costs, $225,252 in assay costs and geochemical, $1,229,294 in drilling and $86,972 in site preparation.

At the **Claudia** gold-silver project, expenditures for the year ended August 31, 2007 totalled $629,998 (2006 - $229,807), which includes $240,126 in field costs, $52,793 in assay costs and geochemical, $222,304 in drilling and $52,135 in site preparation.

At the **Promontorio** silver-gold project and the **Montoros** gold-silver project, expenditures for the year ended August 31, 2007 totalled $34,209 (2006 - $123,922), which includes landholding costs, field costs and technical surveying and reporting in Mexico.

Non-GAAP Measures – Total Cash Costs per ounce of Silver Calculation

Silverstone has included, throughout this document, certain non-GAAP performance measures, including total cash costs of silver on a sales basis. These non-GAAP measures do not have any standardized meaning prescribed by GAAP, nor are they necessarily comparable with similar measures presented by other companies. Cash costs are presented as they represent an industry standard method of comparing certain costs on a per unit basis. The Company believes that certain investors use this information to evaluate the Company's performance. The data is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. During the year ended August 31, 2007, the Company's total cash costs, which were equivalent to the Company's cost of sales in accordance with GAAP, were $4.00 per ounce of silver.

1.5 Summary of Quarterly Results

The following financial data is selected information for the Company for the eight most recently completed financial quarters:

	Aug. 31, 2007 (US$)	May 31, 2007 (CDN$)	Feb. 28, 2007 (CDN$)	Nov. 30, 2006 (CDN$)
Silver sales	**$ 2,251,796**	**$ 428,078**	**$ -**	**$ -**
Loss before other items	**311,128**	**1,754,748**	**395,326**	**215,786**
Basic and diluted loss per common share before other items	**0.01**	**0.04**	**0.01**	**0.01**
Loss for the period	**78,131**	**1,680,935**	**394,146**	**212,998**
Basic and diluted loss per common share	**0.00**	**0.04**	**0.01**	**0.01**
Total assets	**77,666,389**	**67,382,314**	**5,103,836**	**4,363,675**
Total liabilities	**860,331**	**3,013,804**	**5,986,478**	**4,865,234**
Shareholders' equity (deficiency)	**76,806,058**	**64,368,510**	**(882,642)**	**(501,559)**

	Aug. 31, 2006 (CDN$)	Nine Months Ended May 31, 2006 (CDN$)	Six Months Ended Feb. 28, 2006 (CDN$)	Aug. 31, 2005 (CDN$)
Silver sales	**$ -**	**$ -**	**$ -**	**$ -**
Loss before other items	**943,590**	**258,627**	**79,709**	**35,614**
Basic and diluted loss per common share before other items	**0.14**	**-**	**-**	**-**
Loss for the period	**945,460**	**258,627**	**79,709**	**35,614**
Basic and diluted loss per common share	**0.14**	**-**	**-**	**-**
Total assets	**4,423,686**	**3,850,680**	**56,082**	**15,067**
Total liabilities	**4,712,247**	**4,144,920**	**171,404**	**50,680**
Shareholders' equity	**(288,561)**	**(294,240)**	**(115,322)**	**(35,613)**

This financial information was prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

1.6 Liquidity

As at August 31, 2007, the Company's cash increased by $26,598,079 to $27,123,543. The Company's working capital was $27,016,298 (August 31, 2006 – deficiency $3,604,075). The increase was primarily due to the private placement completed on April 4, 2007 for gross proceeds of CDN$32 million and the exercise of warrants during the year. These funds provide sufficient working capital for the Company to complete its 2008 exploration programs and carry out its day to day obligations. The Company has no long-term bank debt in either year.

The Company received $20.3 million in proceeds from the exercise of warrants for the year ended August 31, 2007.

1.7 Capital Resources

The capital resource of the Company is its mineral properties valued at $6,118,680.

1.8 Off-balance Sheet Arrangements

There are no off-balance sheet arrangements.

1.9 Transactions with Related Parties

During the year ended August 31, 2007, the Company paid $13,401 (2006 - $3,268) rent and $65,098 (2006 - $22,688) for administrative services to a public company with a director in common. At August 31, 2007 the amount payable to this company was $55,717 (August 31, 2006, receivable - $10,755). In addition the company purchased silver of $1,801,373 from this public company. At August 31, 2007, the amount payable related to these silver purchases was $87,990 (2006 - $Nil). The Company also accrued salaries, bonuses and fees of $188,886 (2006 - $3,047) payable to directors, officers and a company controlled by a director.

1.10 Fourth Quarter

During the fourth quarter, the Company focused its efforts on the Phase IIA drill program at Copala and compilation of data from the Phase IIA drill program. Assays for subsequent holes will be released by December 31, 2007.

The Company announced the purchase of all the silver production from the Neves-Corvo and Aljustrel mines in Portugal for life of mine in consideration for an upfront payment of $42.5 million in cash and 19,656,250 common shares of the Company.

1.11 Proposed Transactions

The Company has projected that about 60% of its 2008 budget will spent on the Copala project and the remainder on other projects. In addition the Company will be looking to acquire additional silver streams.

1.12 Critical Accounting Estimates

N/A

1.13 Changes in Accounting Policies

N/A

1.14 Financial Instruments and Other Instruments

Cash held in foreign currencies of the Canadian Dollar, and Mexican Peso is subject to currency risk. The Company does not believe it is subject to any significant credit risk although cash is held in excess of federally insured limits, with major Barbados, Canadian and Mexican banking institution.

Taxes receivable due from the Mexican government and other liabilities are denominated in Mexican pesos which are subject to a currency risk arising from the fluctuations in the Mexican Peso.

The Company's other financial instruments consist of receivables, due to related parties, accounts payable and accrued liabilities and convertible debentures. In management's opinion, the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying values.

1.15 Other MD&A Requirements

Disclosure of Outstanding Share Data:

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares, without par value			
Unlimited preferred shares, with a par value of $1			
Issued			
Balance, August 31, 2006	26,762,288	$ 784	$ 396,345
Issued for brokered private placement	16,090,000	20,848,135	-
Issued for fee on brokered private placement	748,354	969,657	-
Fee on brokered private placement	-	(969,657)	-
Financing fees paid	-	(349,129)	-
Issued for non-brokered private placement	6,030,000	7,813,192	-
Issued for fee on non-brokered private placement	360,000	466,459	-
Fee on non-brokered private placement	-	(466,459)	-
Issued for warrants exercised	12,629,391	21,092,774	-
Issued for convertible demand promissory notes	4,056,171	4,391,182	-
Equity portion of convertible debt	-	386,459	-
Issuance costs for agents' options	-	(558,643)	558,643
Issued for special warrants	8,407,882	10,534,372	-
Stock-based compensation	-	-	1,469,816
Balance, August 31, 2007	75,084,086	$ 64,159,126	$ 2,424,804

The following stock options were outstanding at August 31, 2007:

Number of Options	Exercise Price	Expiry Date
2,055,000	$ 1.00	June 28, 2011
2,115,000	2.05	April 23, 2012
4,170,000		

At August 31, 2007, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price	Expiry Date
11,494,177	$ 2.10	April 4, 2009

1.16 Internal Disclosure Controls and Procedures

We have evaluated the effectiveness of our disclosure controls and procedures and have concluded based on our evaluation that they are sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

Other information

Additional information relating to the Company, including the Company's AIF is on SEDAR at www.sedar.com.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2007

(Expressed in U.S. Dollars)

AUDITORS' REPORT

To the Shareholders of
Silverstone Resources Corp.

We have audited the consolidated balance sheets of Silverstone Resources Corp. as at August 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada | Chartered Accountants

November 27, 2007

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SILVERSTONE RESOURCES CORP.
CONSOLIDATED BALANCE SHEETS
AS AT AUGUST 31
(Expressed in U.S. dollars)

	2007	2006
ASSETS		
Current		
Cash and equivalents	$ 27,123,543	$ 525,464
Due from related party	-	10,755
Receivables	555,416	19,653
Prepaid expenses	49,971	13,299
	27,728,930	569,171
Property and equipment (Note 3)	239,913	112,017
Silver contract (Note 4)	43,056,390	-
Taxes receivable	522,476	264,915
Mineral properties (Note 5)	6,118,680	2,918,066
	$ 77,666,389	$ 3,864,169
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)		
Current		
Accounts payable and accrued liabilities	$ 568,925	$ 124,897
Due to related parties (Note 6)	143,707	169,366
Convertible debentures (Note 7)	-	3,878,983
	712,632	4,173,246
Other liabilities (Note 8)	147,699	79,523
	860,331	4,252,769
Shareholders' equity (deficiency)		
Capital stock (Note 9)	64,159,126	784
Contributed surplus (Note 9)	2,424,804	396,345
Special warrants (Note 10)	13,465,628	-
Equity portion of convertible debentures (Note 7)	-	447,119
Cumulative translation adjustment	(43,045)	(143,835)
Deficit	(3,200,455)	(1,089,013)
	76,806,058	(388,600)
	$ 77,666,389	$ 3,864,169

Subsequent events (Note 15)

On behalf of the Board:

"Darren M. Pylot" Director   "Tony Chan" Director

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

SILVERSTONE RESOURCES CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED AUGUST 31
(Expressed in U.S. dollars)

	2007	2006
Silver sales	$ 2,637,625	$ -
Cost of sales	857,764	-
Depreciation	943,610	-
	1,801,374	-
Earnings from operations	836,251	-
General and administrative expenses		
Amortization	29,225	18,022
Conferences	42,429	3,060
Interest	384,625	221,085
Investor relations	102,927	17,390
Foreign exchange loss (gain)	267,888	(7,001)
Management fees	81,956	-
Office	85,222	50,353
Professional fees	485,467	204,527
Stock-based compensation (Note 8)	1,469,816	396,345
Transfer and regulatory fees	159,977	77,907
Wages	111,002	76,783
	(3,220,534)	(1,058,471)
Other items		
Interest income	289,318	5,231
Write-off of mineral properties (Note 5)	(16,477)	(6,862)
	272,841	(1,631)
Loss for the year	(2,111,442)	(1,060,102)
Deficit, beginning of year	(1,089,013)	(28,911)
Deficit, end of year	$ (3,200,455)	$ (1,089,013)
Basic and diluted loss per common share	$ (0.05)	$ (0.16)
Weighted average number of common shares outstanding	43,497,392	6,598,845

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

SILVERSTONE RESOURCES CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED AUGUST 31
(Expressed in U.S. dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (2,111,442)	$ (1,060,102)
Items not affecting cash:		
Amortization	29,225	18,022
Depreciation	943,610	-
Interest	384,625	221,085
Stock-based compensation	1,469,816	396,345
Write-off of mineral properties	16,477	6,862
Operating expenses paid by convertible debentures	-	246,263
Changes in non-cash working capital items:		
Increase in receivables	(535,763)	(7,728)
Increase in taxes receivable	(257,561)	(107,063)
Increase in prepaids	(36,672)	(13,299)
Increase in accounts payable and accrued liabilities	311,198	17,711
Decrease in due to related parties	(14,912)	(38,823)
Increase in other liabilities	68,176	79,523
Cash flows provided by (used in) operating activities	266,777	(241,204)
CASH FLOWS FROM INVESTING ACTIVITIES		
Silver contract	(20,000,000)	-
Property and equipment	(181,293)	(121,773)
Mineral properties	(2,998,306)	(54,214)
Cash flows used in investing activities	(23,179,599)	(175,987)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	49,754,101	784
Convertible debentures	-	941,871
Capital stock issuance costs	(349,129)	-
Cash flows provided by financing activities	49,404,972	942,655
Effect of exchange rate changes on cash and equivalents	105,929	-
Change in cash and equivalents during the year	26,598,079	525,464
Cash and equivalents, beginning of year	525,464	-
Cash and equivalents, end of year	$ 27,123,543	$ 525,464

Supplemental disclosure with respect to cash flows (Note 13)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Silverstone Resources Corp. (the "Company" or "Silverstone") was incorporated under the laws of British Columbia and is a silver mining company with 100% of its revenue from silver production, and is in the process of exploring four silver-gold properties in Mexico.

Silverstone's sales are generated from its purchases of by-product streams from operating base metal mines. The Company has a ten-year silver purchase contract with the Capstone Mining Corp ("Capstone") to buy 100% of refined silver from the Cozamin mine in Mexico, as well as life-of-mine agreements with Lundin Mining Corp. ("Lundin") to buy 100% of refined silver from the Neves-Corvo and Aljustrel mines in Portugal.

At the date of these consolidated financial statements, the Company has not yet determined whether any of its exploration properties contain a known body of commercial grade mineral that are economically recoverable. The ability of the Company to realize the costs it has incurred to date on these properties is dependent upon the Company being able to identify a commercial mineral body, to finance its development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the property.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

	2007	2006
Working capital (deficiency)	$ 27,016,298	$ (3,604,075)
Deficit	(3,200,455)	(1,089,013)

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, after elimination of intercompany balances and transactions.

- Silverstone Resources, S. A. de C. V.
- Silverstone Resources (Barbados) Corp.
- Silverstone (Barbados) Corp.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from those reported.

Significant accounts that require estimates as the basis for determining the stated amounts include trade accounts receivables, silver contract, taxes receivable, mineral properties, severance obligations in Mexico, revenue recognition, stock based compensation, fair value of agent's options, and foreign currency translations.

Foreign currency translation

The Company considers the U.S. dollar ("US$"), the Mexican Peso ("MXN") and the Canadian dollar ("CDN$") to be its functional currencies for its foreign and local operations in: Barbados, Mexico and Canada respectively.

The accounts of the Company's integrated foreign subsidiary are translated into US$ dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Non-monetary assets and liabilities and revenues and expenses are translated at the rates prevailing on the respective transaction dates. Foreign exchange gains and losses are included in loss for the year.

The Company translates its operations using the current rate method, which assumes that its operations are self-sustaining. Under this method assets and liabilities are translated into US dollars at the rate of exchange in effect at the balance sheet date; revenues and expense items are translated at the average exchange rates for the year. Differences arising from these foreign currency translations are recorded in the shareholder's equity as a cumulative translation adjustment until they are realized by a reduction in the investment.

Change in Reporting Currency to the U.S. dollar

Effective August 31, 2007 the Company changed its reporting currency to the U.S. dollar. The change in the reporting currency is to better reflect the Company's business activities and to improve investor's ability to compare the Company's financial results with other publicly traded businesses in the industry. All of the Company's sales are in US$.

Prior to August 31, 2007 the Company reported its annual and quarterly consolidated financial statements in the CDN$. The related financial statements and corresponding notes prior to August 31, 2007 have been restated in US$ for comparison to the 2007 financial results.

Revenue recognition

Revenue from the sale of silver is recognized when title and risk is transferred to the buyer, collection is reasonably assured, and the price is reasonably determined. Revenue from the sale of silver may be subject to adjustment upon final settlement of shipment weights, assays and estimated metal prices. Adjustments to revenue for metal prices are recorded monthly and other adjustments are recorded on final settlement.

Cash and equivalents

Cash includes cash on hand and money market funds.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxes receivable

Taxes receivable are comprised of value added taxes in Mexico that the Company has paid. The Company has classified certain value added taxes in Mexico as non-current due to delays in review and assessment by the taxation authorities. The Company recognizes that all amounts due from the taxation authorities are collectible.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided annually over the estimated useful life using the following methods:

Office and other equipment	20% declining balance
Computer equipment	30% declining balance
Vehicles	30% straight-line

Silver contract

Contract for which settlement is called for in silver, the amount of which is based on production at the mine, is recorded at cost. The cost of the asset is separately allocated to reserves and resources. The value allocated to reserves is depreciated on a unit-of-sale basis over the estimated recoverable reserves at the mine. Evaluation of the carry value of the silver contract is undertaken annually to determine if estimated undiscounted future net cash flows are less than the carrying value. Estimated undiscounted future cash flows are calculated using estimated productions, sales prices and purchase costs. If it is determined that the undiscounted future net cash flows from an operation are less than the carrying value then a write-down to the future value is recorded with a charge to operations.

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permitting to complete the development of the properties, and future profitable production from the disposition of the metals produced from the properties.

Asset retirement obligation

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the related long-lived asset. The Company does not have any significant asset retirement obligations.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Stock-based compensation and warrants

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options. The fair value attributable to stock options that expire unexercised is credited to contributed surplus. The fair value attributable to unvested stock options that are forfeited is credited to earnings.

Warrants are recorded at the estimated fair value on the date of grant using the Black-Scholes option pricing model.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted-average number of common shares outstanding during the year.

Future income taxes

Future income taxes are calculated using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

(Expressed in U.S. dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Comparative figures

Comparative figures have been reclassified, where applicable, to conform to the current year's presentation.

3. PROPERTY AND EQUIPMENT

	August 31, 2007			August 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office and other equipment	$ 74,991	$ 3,304	$ 71,687	$ 21,415	$ -	$ 21,415
Computer equipment	86,398	51,876	34,522	45,549	18,665	26,884
Vehicles	150,586	16,882	133,704	63,718	-	63,718
	$ 311,975	$ 72,062	$ 239,913	$ 130,682	$ 18,665	$ 112,017

4. SILVER CONTRACT

	August 31, 2007			August 31, 2006		
	Cost	Accumulated Depreciation	Net	Cost	Accumulated Depreciation	Net
Cozamin	$ 44,000,000	$ 943,610	$ 43,056,390	$ -	$ -	$ -

On April 4, 2007 the Company agreed to buy all of the silver production from Capstone's Cozamin mine in Mexico over a 10 year period. Total consideration included an upfront payment of $20 million in cash and 19,155,310 special warrants, convertible into common shares at no additional cost. In addition to the upfront fee, the Company will pay for each ounce of refined silver from the mine at the lesser of $4.00 per ounce and the prevailing market price per ounce of silver. If at the end of ten years, Capstone has not delivered the agreed minimum 10,000,000 ounces of silver, then it has agreed to pay the Company $1.00 per ounce of silver not delivered.

5. MINERAL PROPERTIES

The Basis Projects, Mexico

On January 21, 2004, Capstone entered into an option agreement to purchase a 90% interest in any one or all of the mining concessions owned by Grupo Minero Basis, S.A. de C.V. ("Basis"). The mining concessions ("Projects") are Cozamin, Claudia, Copala, Promontorio, Montoros and Martha, which are all located in Mexico.

Capstone paid $250,000 as an option payment, issued 3,000,000 common shares with a value of CDN$2,750,000 and paid $1,775,000 of debt that existed on the Cozamin project.

Capstone completed the spin-out of its Silver exploration properties (which are the Copala, Claudia, Promontorio, Montoros and Martha projects). The Company and its subsidiary assumed all the rights and obligations relating to the option to purchase a 90% interest in the Silver exploration properties. The Company may exercise the option in respect of the Silver exploration properties by completing the following:

i) On or before June 7, 2007, the Company shall have expended at least that amount equal to $1,000,000 less all expenditures incurred to June 7, 2006, including any expenditures incurred by Capstone Canada in respect of the Silver exploration properties since January 26, 2004 under the Capstone Mexico agreement, it being understood that having expended such amount, the Company shall be credited with having spent $1,000,000 (incurred).

ii) Between June 7, 2007 and June 7, 2008, the Company shall have expended at least $1,000,000 (incurred).

iii) Between June 7, 2008 and January 23, 2009, the 5th anniversary of Regulatory Acceptance of the Capstone Canada Agreement, the Company shall have expended at least $3,000,000 for a cumulative total of $5,000,000 (incurred) in exploration and development expenditures.

The Company may, while carrying out the obligations to exercise the option in respect of all the Silver exploration properties, exercise the option in respect of an individual property by incurring expenditures equal to that amount calculated as $1,000,000 less all expenditures incurred to June 7, 2006 including any expenditures incurred by Capstone in respect of the Silver exploration properties since January 26, 2004.

Title to mineral properties

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has diligently investigated rights of ownership of all of the mineral concessions in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

(Expressed in U.S. dollars)

5. MINERAL PROPERTIES (cont'd…)

August 31, 2007	Balance, Beginning of Year	Additions	Written-off	Balance, End of Year
Basis Projects, Mexico				
Copala Project				
Interest in property	$ 255,996	$ -	$ -	$ 255,996
Field costs	620,439	723,532	-	1,343,971
Assay costs and geochemical	134,131	225,252	-	359,383
Drilling	582,953	1,229,294	-	1,812,247
Engineering and feasibility	6,699	15,299	-	21,998
Environmental costs	20,632	12,107	-	32,739
Land holding costs	108,972	93,629	-	202,601
Legal	4,964	-	-	4,964
Site preparation	78,181	86,972	-	165,153
Exploration costs	-	88,001	-	88,001
Technical surveying and reporting	122,566	32,398	-	154,964
	1,935,533	2,506,484	-	4,442,017
Claudia Project				
Interest in property	230,885	1,372	-	232,257
Field costs	145,647	240,126	-	385,773
Assay costs and geochemical	16,139	52,793	-	68,932
Drilling	-	222,304	-	222,304
Engineering and feasibility	3,720	-	-	3,720
Environmental costs	-	16,467	-	16,467
Land holding costs	115,584	19,369	-	134,953
Legal	324	-	-	324
Site preparation	1,263	52,135	-	53,398
Exploration costs	-	25,432	-	25,432
Technical surveying and reporting	68,461	-	-	68,461
	582,023	629,998	-	1,212,021
Promontorio Project				
Interest in property	96,898	-	-	96,898
Field costs	62,971	6,936	-	69,907
Assay costs and geochemical	4,036	-	-	4,036
Land holding costs	79,110	14,787	-	93,897
Legal	324	-	-	324
Technical surveying and reporting	16,378	1,203	-	17,581
	259,717	22,926	-	282,643
Montoros Project				
Interest in property	66,343	-	-	66,343
Field costs	6,775	-	-	6,775
Geochemical	41	-	-	41
Land holding costs	58,591	11,283	-	69,874
Legal	324	-	-	324
Technical surveying and reporting	3,166	-	-	3,166
	135,240	11,283	-	146,523

(Expressed in U.S. dollars)

5. MINERAL PROPERTIES (cont'd…)

August 31, 2007	Balance, Beginning of Year	Additions	Written-off	Balance, End of Year
Basis Projects, Mexico (cont'd…)				
Martha Project				
Field costs	5,010	19,285	-	24,295
Technical surveying and reporting	543	3,007	-	3,550
Environmental costs	-	1,976	-	1,976
	5,553	24,268	-	29,821
Other Projects				
Reconnaissance Projects	-	22,132	16,477	5,655
	$ 2,918,066	$ 3,217,091	$ 16,477	$ 6,118,680

August 31, 2006	Balance, Beginning of Year	Additions	Written-off	Balance, End of Year
Basis Projects, Mexico				
Copala Project				
Interest in property	$ 171,640	$ 84,356	$ -	$ 255,996
Field costs	213,575	406,864	-	620,439
Assay costs and geochemical	38,138	95,993	-	134,131
Drilling	15,690	567,263	-	582,953
Engineering and feasibility	-	6,699	-	6,699
Environmental costs	5,960	14,672	-	20,632
Land holding costs	64,785	44,187	-	108,972
Legal	4,884	80	-	4,964
Site preparation	-	78,181	-	78,181
Technical surveying and reporting	76,648	45,918	-	122,566
	591,320	1,344,213	-	1,935,533
Claudia Project				
Interest in property	150,185	80,700	-	230,885
Field costs	71,682	73,965	-	145,647
Assay costs and geochemical	16,139	-	-	16,139
Engineering and feasibility	-	3,720	-	3,720
Land holding costs	84,124	31,460	-	115,584
Legal	324	-	-	324
Site preparation	1,263	-	-	1,263
Technical surveying and reporting	28,499	39,962	-	68,461
	352,216	229,807	-	582,023

(Expressed in U.S. dollars)

5. MINERAL PROPERTIES (cont'd…)

August 31, 2006	Balance, Beginning of Year	Additions	Written-off	Balance, End of Year
Basis Projects, Mexico (cont'd…)				
Promontorio Project				
Interest in property	64,365	32,533	-	96,898
Field costs	56,079	6,892	-	62,971
Assay costs and geochemical	4,036	-	-	4,036
Land holding costs	44,430	34,680	-	79,110
Legal	324	-	-	324
Technical surveying and reporting	12,177	4,201	-	16,378
	181,411	78,306	-	259,717
Montoros Project				
Interest in property	42,910	23,433	-	66,343
Field costs	4,923	1,852	-	6,775
Geochemical	41	-	-	41
Land holding costs	38,260	20,331	-	58,591
Legal	324	-	-	324
Technical surveying and reporting	3,166	-	-	3,166
	89,624	45,616	-	135,240
Martha Project				
Field costs	5,010	-	-	5,010
Technical surveying and reporting	543	-	-	543
	5,553	-	-	5,553
Other Projects				
Reconnaissance Projects	6,862	-	6,862	-
	$ 1,226,986	$ 1,697,942	$ 6,862	$ 2,918,066

6. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued rent of $13,401 (2006 - $3,268) and administrative services of $65,098 (2006 - $22,688) to a public company with a director in common. At August 31, 2007 the amount payable to this company was $55,717 (August 31, 2006 – receivable $10,755). In addition the Company purchased silver of $1,801,373 from this public company. At August 31, 2007, the amount payable related to these silver purchases was $87,990 (2006 - $Nil).

b) Accrued $Nil (2006 - $169,366) payable to Capstone Gold S.A. de C.V. ("Capstone Mexico") for IVA on the transfer of silver exploration properties.

c) Accrued salaries, bonuses and fees of $188,886 (2006 - $3,047) payable to directors, officers, and a company controlled by a director, of which $81,956 was expensed as management fees, $13,102 was expensed as professional fees, $42,826 was expensed to wages, and $51,002 was capitalized in mineral properties as field costs.

(Expressed in U.S. dollars)

6. RELATED PARTY TRANSACTIONS (cont'd…)

d) As outlined in Note 7, Capstone exercised its option and converted the principal amount of $4,161,256 plus accrued interest of $229,926 into 4,056,171 common shares of the Company.

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties. The transactions with related parties other than the convertible debentures are non-interest bearing, with no fixed terms of repayment.

7. CONVERTIBLE DEBENTURES

During the year the Company settled three convertible demand promissory notes owing to Capstone totaling in principal $4,161,256. The convertible demand promissory notes incurred interest at the rate of 6.25% per annum and were due on written demand by Capstone at any time on or before July 2, 2007. On or before the demand date Capstone had the option to convert some or all of the debt owed to them into common shares of the Company at a rate of one common share for each CDN$1.20 of debt owed to Capstone. In April 2007, Capstone exercised its option and converted the principal amount of $4,161,256 plus accrued interest of $229,926 into 4,056,171 common shares of the Company.

8. OTHER LIABILITIES

Severance benefits and seniority premiums, to which employees in Mexico, are entitled upon termination of employment are recognized as expenses as these benefits and premiums accrue. Other compensation based on length of service to which employees may be entitled in the event of dismissal or death, in accordance with the Mexican labor law, is charged to income in the year in which it becomes payable.

	August 31, 2007	August 31, 2006
Balance, beginning of year	$ 79,523	$ -
Additions	68,176	79,523
Balance, end of year	$ 147,699	$ 79,523

(Expressed in U.S. dollars)

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares, without par value			
Unlimited preferred shares, with a par value of $1			
Issued			
Balance, August 31, 2005	100	$ 1	$ -
Shares cancelled	(100)	(1)	-
Issued in prospectus	26,761,788	-	-
Issued for warrants exercised	500	784	-
Stock based compensation	-	-	396,345
Balance, August 31, 2006	26,762,288	784	396,345
Issued for brokered private placement	16,090,000	20,848,135	-
Issued for fee on brokered private placement	748,354	969,657	-
Fee on brokered private placement	-	(969,657)	-
Financing fees paid	-	(349,129)	-
Issued for non-brokered private placement	6,030,000	7,813,192	-
Issued for fee on non-brokered private placement	360,000	466,459	-
Fee on non-brokered private placement	-	(466,459)	-
Issued for warrants exercised	12,629,391	21,092,774	-
Issued for convertible demand promissory notes	4,056,171	4,391,182	-
Equity portion of convertible debt	-	386,459	-
Issuance costs for agents' options	-	(558,643)	558,643
Issued for special warrants	8,407,882	10,534,372	-
Stock-based compensation	-	-	1,469,816
Balance, August 31, 2007	75,084,086	$ 64,159,126	$ 2,424,804

August 31, 2007

In April 2007, the Company completed a brokered private placement of 16,090,000 units at CDN$1.45 per unit for gross proceeds of $20,848,135. Each unit consists of one common share and one half of a share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at CDN$2.10 until April 4, 2009. The Company paid the Agents a commission comprised of $279,676 and issued 748,354 units with the same terms and conditions as the private placement. In addition the Company issued 964,200 agents' options which entitle the holder to purchase one common share at CDN$1.70 until April 4, 2009. The fair value of the agents' options of $406,769 was recorded as issuance costs for agents' options. The Company incurred other share issuance costs of $69,453.

Also in April 2007, the Company completed two non-brokered private placements of 6,030,000 units at CDN$1.45 per unit for gross proceeds of $7,813,192. Each unit consists of one common share and one half of a share purchase warrant, with each whole warrant entitling the holder to purchase one additional common share at CDN$2.10 until April 4, 2009. The Company paid commissions of 120,000 units with the same terms and conditions as the private placement and a finder's fee of 240,000 shares.

(Expressed in U.S. dollars)

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

In addition the Company issued 120,000 agents' options and 240,000 compensation options which entitle the holder to purchase one common share at CDN$1.70 until April 4, 2009. The fair value of the agents' options and compensation options of $151,874 was recorded as issuance costs for agents' options.

August 31, 2006

On June 7, 2006, the Company completed its initial public offering by way of a distribution by Capstone as a dividend-in-kind of units of the Company. The Company issued 26,761,788 units for no proceeds but to facilitate the acquisition of the Silver exploration properties from Capstone Canada. Each unit consisted of one common share of the Company and one half of one transferable share purchase warrant. Each whole warrant will entitle the holder to purchase one common share of the Company at an exercise price of CDN$1.80 until June 7, 2007.

Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants. The Company has implemented a rolling plan, whereby it has reserved 10% of the issued shares for issuance under the plan. Options granted under the plan have a term not to exceed 5 years and are subject to vesting provisions as determined by the board of directors. The Company adopted an amendment to the plan whereby options granted on or after October 12, 2006 will vest as follows: 25% on the date of grant and 25% every 3 months for a period of 9 months.

Stock options transactions and the number of stock options outstanding are summarized as follows:

	2007			2006		
	Number of Options		Weighted Average Exercise Price (CDN$)	Number of Options		Weighted Average Exercise Price (CDN$)
Outstanding, beginning of year	2,055,000	$	1.00	-	$	-
Granted	2,115,000		2.05	2,055,000		1.00
Outstanding, end of year	4,170,000	$	1.53	2,055,000	$	1.00
Options exercisable, end of year	3,031,250	$	1.34	2,055,000	$	1.00
Weighted average fair value of options granted during fiscal 2007 and 2006		$	1.00		$	0.23

(Expressed in U.S. dollars)

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

The following stock options were outstanding at August 31, 2007:

Number of Options	Exercise Price (CDN$)	Expiry Date
2,055,000	$ 1.00	June 28, 2011
2,115,000	2.05	April 23, 2012
4,170,000		

Stock-based compensation

The total stock-based compensation expense recognized during the year ended August 31, 2007 under the fair value method was $1,893,215 (2006 - $406,228). The Company expensed $1,469,816 (2006 - $396,345) leaving an unamortized balance of $433,282 (2006 - $9,883).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options and agent's options granted during 2007 and 2006:

	August 31, 2007	August 31, 2006
Risk-free interest rate	4.07%	4.45%
Expected life of options	2 years	2 years
Annualized volatility	62.58%	33.95%
Dividend rate	0.00%	0.00%

Warrants

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price (CDN$)
Balance, August 31, 2005	-	-
Warrants issued	13,380,894	$ 1.80
Warrants exercised	(500)	1.80
Balance, August 31, 2006	13,380,394	1.80
Warrants issued	11,494,177	2.10
Warrants exercised	(12,629,391)	1.80
Warrants cancelled	(751,003)	1.80
Balance, August 31, 2007	11,494,177	$ 2.10

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

At August 31, 2007, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price (CDN$)	Expiry Date
11,494,177	$ 2.10	April 4, 2009

Agent's and compensation options

At August 31, 2007, the following unexercised agent's and compensation options were outstanding:

Number of options	Exercise Price (CDN$)	Expiry Date
1,324,200	$ 1.70	April 4, 2009

10. SPECIAL WARRANTS

		August 31, 2007	August 31, 2006
	Shares	Amount	Amount
Issued	19,155,310	$ 24,000,000	$ -
Converted to common shares	(8,407,882)	(10,534,372)	-
Total special warrants outstanding at August 31, 2007	10,747,428	$ 13,465,628	$ -

The Company issued 19,155,310 special warrants to Capstone with a value of $24,000,000 as part of the upfront payment for the purchase of Cozamin's silver production. These special warrants are convertible into common shares of the Company at no additional cost. In April 2007, Capstone converted 8,407,882 special warrants with a value of $10,534,372 in exchange for 8,407,882 common shares of the Company.

11. FINANCIAL INSTRUMENTS

Cash held in foreign currencies of the Canadian Dollar, and Mexican Peso is subject to currency risk. The Company does not believe it is subject to any significant credit risk although cash is held in excess of federally insured limits, with major Barbados, Canadian and Mexican banking institution.

Taxes receivable due from the Mexican government and other liabilities are denominated in Mexican pesos which are subject to a currency risk arising from the fluctuations in the Mexican Peso.

(Expressed in U.S. dollars)

11. FINANCIAL INSTRUMENTS (cont'd…)

The Company's other financial instruments consist of receivables, due to related parties, accounts payable and accrued liabilities and convertible debentures. In management's opinion, the Company is not exposed to significant interest, currency or credit risks arising from the financial instruments. The fair value of these financial instruments approximates their carrying values.

12. SEGMENTED INFORMATION

The Company has three business segments, revenue from silver contracts, exploration of mineral properties located in Mexico and corporate operations.

	Silver contract	Exploration	Corporate	Total
August 31, 2007				
Silver sales	$ 2,637,625	$ -	$ -	$ 2,637,625
Cost of sales	(857,764)	-	-	(857,764)
Depreciation	(943,610)	-	-	(943,610)
Earnings from operations	836,251	-	-	836,251
Expenses and other income	(20,000)	(102,935)	(2,824,758)	(2,947,693)
Earnings (loss) for the year	816,251	(102,935)	(2,824,758)	(2,111,442)
Property and equipment	-	225,550	14,363	239,913
Mineral properties	-	6,118,680	-	6,118,680
Segment assets	62,634,425	7,070,401	7,961,563	77,666,389

	Silver contract	Exploration	Corporate	Total
August 31, 2006				
Earnings (loss) for the period	$ -	$ 6,406	$ (1,066,508)	$ (1,060,102)
Property and equipment	-	93,352	18,665	112,017
Mineral properties	-	2,918,066	-	2,918,066
Segment assets	-	3,340,446	523,723	3,864,169

(Expressed in U.S. dollars)

12. SEGMENTED INFORMATION (cont'd…)

Geographic information is as follows:

	Barbados	Mexico	Canada	Total
August 31, 2007				
Revenue	$ 2,637,625	$ -	$ -	$ 2,637,625
Amortization	-	-	29,225	29,225
Interest expense	-	-	384,625	384,625
Earnings (loss) for the year	816,251	(102,935)	(2,824,758)	(2,111,442)
Property and equipment	-	225,550	14,363	239,913
Mineral properties	-	4,790,625	1,328,055	6,118,680
Segment assets	62,634,425	5,742,346	9,289,618	77,666,389

	Barbados	Mexico	Canada	Total
August 31, 2006				
Amortization and accretion	$ -	$ -	$ 18,022	$ 18,022
Interest expense	-	-	221,085	221,085
Earnings (loss) for the year	-	6,406	(1,066,508)	(1,060,102)
Property and equipment	-	93,352	18,665	112,017
Mineral properties	-	1,952,945	965,121	2,918,066
Segment assets	-	2,375,325	1,488,844	3,864,169

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	August 31, 2007	August 31, 2006
Cash paid during the year for income taxes	$ -	$ -
Cash paid during the year for interest	$ -	$ -

Significant non-cash transactions during the year ended August 31, 2007 were as follows:

a) The Company recorded the fair value of $1,469,816 for stock options vested during the year in contributed surplus.

b) Included in mineral property costs are $233,461 which relates to accounts payable and accrued liabilities, and $21,724 which relates to amortization of property and equipment.

c) The Company issued 19,155,310 special warrants with a value of $24,000,000 relating to the purchase of the silver contract with Capstone Mining Corp.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

d) The Company issued 4,056,171 common shares to settle the convertible demand promissory notes of $4,161,256 plus accrued interest of $229,926 which was included in accounts payable and accrued liabilities. In addition, the Company recorded from the equity portion of the convertible debt the amount of $386,459 to capital stock. The remaining balance of $60,660 in equity portion of convertible debt was offset to the unamortized accreted amount at the time of settlement.

e) The Company issued 8,407,882 common shares with a value of $10,534,372 in relation to the conversion of 8,407,882 special warrants.

f) In connection with the private placement (Note 9), the Company recorded the fair value of $558,643 for agents' options and compensation options from capital stock to contributed surplus.

g) The Company issued 868,354 units with a value of $1,125,143 as a commission in connection with the private placement (Note 9).

h) The Company issued 240,000 common shares with a value of $310,973 as a finder fee in connection with the private placement (Note 9).

Significant non-cash transactions during the year ended August 31, 2006 were as follows:

a) The Company received $8,468 in property and equipment from Capstone Canada included in the convertible debentures.

b) Included in mineral property costs are the following: $25,389 which relates to accounts payable and accrued liabilities and $2,852,739 which relates to the spin-out of the Silver exploration properties included in the convertible debentures.

c) The Company cancelled capital stock of $1 which was due from the related party.

d) The Company recorded the fair value of $396,345 for stock options vested during the year in contributed surplus.

e) The Company incurred $66,845 of share issuance costs which was paid by Capstone Canada as part of the convertible debentures.

f) The Company recorded an equity component of $447,119 with respect to the convertible debentures which is included in shareholders' deficiency.

(Expressed in U.S. dollars)

14. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes (recovery) is as follows:

	2007	2006
Loss for the year	$ (2,111,442)	$ (1,060,102)
Expected income tax recovery at statutory rates	$ (720,425)	$ (333,605)
Difference in foreign tax rates	(272,205)	-
Non-deductible items	608,121	194,642
Deductible items	(647,563)	(4,883)
Unrecognized benefits of non-capital losses	1,032,072	143,846
	$ -	$ -

The tax effect of each type of temporary difference that gives rise to the Company's future income tax assets and liabilities have been determined and are set out in the table below:

	2007	2006
Future income tax assets		
Mineral properties	$ (1,341,000)	$ 2,300
Property and equipment	3,000	6,000
Share issuance costs	501,000	19,500
Non-capital losses available for future periods	1,802,000	156,700
Total future income tax assets	965,000	184,500
Less: valuation allowance	(965,000)	(184,500)
	$ -	$ -

The Company has non-capital losses for Canadian income tax purposes of approximately $2.1 million and for Mexican income tax purposes of approximately $3.9 million which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire through 2027. Future tax benefits or liabilities, which may arise as a result of these losses and resource expenditures, have not been recognized in these financial statements due to the uncertainty of their realization.

15. SUBSEQUENT EVENTS

a) On September 28, 2007, the Company purchased all the silver production from Lundin Mining's Neves-Corvo and Aljustrel mines in Portugal for life of mine. The Company purchased the silver for an upfront payment of $42.5 million in cash and issued 19,656,250 of its common shares. The common shares are subject to a 4 month hold period. In addition to the upfront fee, the Company will pay for each ounce of refined silver from the mines the lesser of $3.90 (subject to a 1% annual inflationary adjustment after three years and yearly thereafter), and the then prevailing market price per ounce of silver. The Company paid a finder's fee of CDN$675,000.

In order to fund the $42.5 million cash payment, in addition to $27 million cash on hand, the Company received $25 million of bank debt from Scotia Capital Inc. The Company issued 370,000 common shares for a value of CDN$895,400 as a financial services fee to Scotia Capital Inc.

The Company issued 8,000,000 common shares for a value of $10,023,330 to Capstone in exchange for 8,000,000 special warrants, held by Capstone.

b) On November 27, 2007, the Company completed a private placement of 17,250,000 common shares at CDN$2.90 per common share for gross proceeds of $50,025,000. Capstone purchased 3,577,670 common shares sold under the offering to maintain their 19.9% investment in the Company.

As consideration for acting as underwriters, the underwriters received cash commissions of CDN$2,378,985 and other share issuance costs of CDN$72,500. The Company intends to use part of the net proceeds to repay the bank debt to Scotia Capital Inc.