

SILVERSTONE RESOURCES CORP.

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)**

MAY 31, 2006

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended May 31, 2006.

SILVERSTONE RESOURCES CORP.
INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited – prepared by management)

	May 31, 2006	August 31, 2005 (Audited)
ASSETS		
Current		
Cash and equivalents	\$ 19,541	\$ -
Due from related party (Note 4)	744,907	1
Taxes receivable	73,330	476
Prepaid expenses	<u>43,752</u>	<u>-</u>
	881,530	477
Property and equipment (Note 5)	35,932	-
Mineral properties (Note 3)	<u>2,933,218</u>	<u>14,590</u>
	<u>\$ 3,850,680</u>	<u>\$ 15,067</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	\$ 80,166	\$ 19,580
Due to related party	<u>-</u>	<u>31,100</u>
	80,166	50,680
Due to Capstone Mining Corp. (Note 6)	<u>4,064,754</u>	<u>-</u>
	<u>4,144,920</u>	<u>50,680</u>
Shareholders' deficiency		
Capital stock (Note 7)	1	1
Deficit	<u>(294,241)</u>	<u>(35,614)</u>
	<u>(294,240)</u>	<u>(35,613)</u>
	<u>\$ 3,850,680</u>	<u>\$ 15,067</u>

Nature of operations (Note 2)

On behalf of the Board:

“Darren M. Pylot”

Director

“John M. Marr”

Director

SILVERSTONE RESOURCES CORP.
INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited – prepared by management)

	Nine Months Ended May 31, 2006	From the date of incorporation, April 26, 2005, to August 31, 2005 (Audited)
GENERAL AND ADMINISTRATIVE EXPENSES		
Directors fees	\$ 1,500	\$ -
Interest and bank charges	319	-
Investor relations	62,742	-
Office	18,545	-
Professional fees	118,386	33,614
Transfer and regulatory fees	55,000	2,000
Travel	<u>2,135</u>	<u>-</u>
Loss for the period	(258,627)	(35,614)
Deficit, beginning of period	<u>(35,614)</u>	<u>-</u>
Deficit, end of period	<u>\$ (294,241)</u>	<u>\$ (35,614)</u>

SILVERSTONE RESOURCES CORP.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – prepared by management)

	Nine Months Ended May 31, 2006	From the date of Incorporation, April 26, 2005, to August 31, 2005 (Audited)
CASH FLOWS FROM:		
OPERATING ACTIVITIES		
Loss for the period	\$ (258,627)	\$ (35,614)
Changes in non-cash working capital items:		
Increase in taxes receivable	(72,854)	(476)
Increase in prepaid expenses	(43,752)	-
Increase in accounts payable and accrued liabilities	45,984	19,580
Decrease in due to related party	<u>(16,510)</u>	<u>16,510</u>
Cash flows used in operating activities	<u>(345,759)</u>	<u>-</u>
INVESTING ACTIVITIES		
Due to Capstone Mining Corp.	519,919	-
Property and equipment	(35,932)	-
Mineral properties	<u>(118,687)</u>	<u>-</u>
Cash flows provided by investing activities	<u>365,300</u>	<u>-</u>
Change in cash during period	19,541	-
Cash, beginning of period	<u>-</u>	<u>-</u>
Cash, end of period	\$ 19,541	\$ -

Supplemental disclosure with respect to cash flows (Note 9)

SILVERSTONE RESOURCES CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006
(Unaudited – prepared by management)

1. BASIS OF PRESENTATION

Silverstone Resources Corp. (the “Company”) was incorporated on April 26, 2005 under the laws of British Columbia.

These unaudited interim consolidated financial statements include the accounts of Silverstone Resources Corp. (“the Company”) and Silverstone Resources, S.A. de C.V. (“the subsidiary”). All significant intercompany balances and transactions have been eliminated. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These unaudited interim consolidated statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. NATURE OF OPERATIONS

The Company is in the business of exploring and developing mineral properties.

3. MINERAL PROPERTIES

May 31, 2006	Balance, Beginning of Period	Additions	Spin-out from Capstone Mining Corp.	Balance, End of Period
Basis Projects, Mexico				
Copala Project				
Interest in property	\$ -	\$ -	\$ 306,371	\$ 306,371
Administration	43	11,399	490,465	501,907
Assay costs and geochemical	-	54,218	130,228	184,446
Drilling	-	-	548,129	548,129
Engineering	-	1,875	-	1,875
Environmental costs	-	-	15,282	15,282
Field supplies and camp costs	-	-	35,076	35,076
Land holding costs	-	-	110,484	110,484
Legal	-	-	5,989	5,989
Site preparation	-	-	72,070	72,070
Technical surveying and reporting	4,821	25,035	104,998	134,854
	4,864	92,527	1,819,092	1,916,483

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SILVERSTONE RESOURCES CORP.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

MAY 31, 2006

(Unaudited – prepared by management)

3. MINERAL PROPERTIES (cont'd...)

May 31, 2006	Balance, Beginning of Period	Additions	Spin-out from Capstone Mining Corp.	Balance, End of Period
Basis Projects, Mexico				
Claudia Project				
Interest in property	-	-	268,075	268,075
Administration	42	676	89,609	90,327
Assay costs and geochemical	-	-	21,649	21,649
Field supplies and camp costs	-	-	7,258	7,258
Land holding costs	-	-	117,254	117,254
Legal	-	-	454	454
Site preparation	-	-	1,632	1,632
Technical surveying and reporting	4,821	24,796	43,914	73,531
	<u>4,863</u>	<u>25,472</u>	<u>549,845</u>	<u>580,180</u>
Promontorio Project				
Interest in property	-	-	114,889	114,889
Administration	42	-	66,880	66,922
Assay costs and geochemical	-	-	5,321	5,321
Field supplies and camp costs	-	-	5,791	5,791
Land holding costs	-	-	66,248	66,248
Legal	-	-	567	567
Technical surveying and reporting	4,821	700	19,208	24,729
	<u>4,863</u>	<u>700</u>	<u>278,904</u>	<u>284,467</u>
Montoros Project				
Interest in property	-	-	76,593	76,593
Administration	-	-	5,797	5,797
Field supplies	-	-	246	246
Geochemical	-	-	51	51
Land holding costs	-	-	57,627	57,627
Legal	-	-	399	399
Technical surveying and reporting	-	-	3,899	3,899
	<u>-</u>	<u>-</u>	<u>144,612</u>	<u>144,612</u>
Martha Project				
Administration	-	-	6,262	6,262
Camp costs	-	-	386	386
Technical surveying and reporting	-	-	828	828
	<u>-</u>	<u>-</u>	<u>7,476</u>	<u>7,476</u>
	<u>\$ 14,590</u>	<u>\$ 118,699</u>	<u>\$ 2,799,929</u>	<u>\$ 2,933,218</u>

SILVERSTONE RESOURCES CORP.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

MAY 31, 2006

(Unaudited – prepared by management)

3. MINERAL PROPERTIES (cont'd...)**The Basis Projects Acquisition, Mexico**

On January 21, 2004, Capstone Canada 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 US\$250,000 as an option payment, issued 3,000,000 common shares for a value of \$2,950,000 incurred a total of \$21,888,631 in exploration costs on the mineral properties and paid US\$1,775,000 of debt that existed on the Cozamin project.

As outlined in note 6, Capstone Canada 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 (1st anniversary of the listing date), the Company shall have expended at least that amount equal to US\$1,000,000 less all expenditures incurred to June 7, 2006 (listing date), 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 US\$1,000,000.
- ii) Between June 7, 2007 and June 7, 2008, the Company shall have expended at least US\$1,000,000.
- 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 US\$3,000,000 for a cumulative total of US\$5,000,000 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 US\$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.

4. RELATED PARTY TRANSACTIONS

Due from related parties of \$744,906 consists of the amount due from Capstone Canada in relation to the spin-out of the Silver exploration properties outlined in note 6.

The Company also entered into the following transaction with Capstone Canada:

- a) Accrued \$1 (Aug. 31, 2005 - \$1) receivable from Capstone Canada.
- b) Paid or accrued directors fees of \$1,500 to directors of the Company.

SILVERSTONE RESOURCES CORP.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

MAY 31, 2006

(Unaudited – prepared by management)

5. PROPERTY AND EQUIPMENT

	May 31, 2006			August 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office, furniture and equipment	\$ 4,295	\$ -	\$ 4,295	\$ -	\$ -	\$ -
Computer equipment	29,768	-	29,768	-	-	-
Vehicles	<u>1,869</u>	<u>-</u>	<u>1,869</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 35,932</u>	<u>\$ -</u>	<u>\$ 35,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

6. DUE TO CAPSTONE MINING CORP.

The Company acquired its Silver exploration properties (which are the Copala, Claudia, Promontorio, Montoros and Martha projects) from its parent Capstone Mining Corp. (“Capstone Canada”) and Capstone Gold, S.A. de C.V. (“Capstone Mexico”). At the end of the transaction, the Company acquired Silverstone Mexico as its wholly owned subsidiary and both companies were transferred all the rights and obligations relating to the option to purchase a 90% interest in Capstone Canada’s Silver exploration properties. Subsequently, the Company became a publicly trading company on the TSX-Venture Exchange (“TSX-V”) after it issued to the shareholders of Capstone Canada units of the Company.

The Company agreed to issue three convertible demand promissory notes which will consist of the following:

- i) To reimburse Capstone Canada for the accumulated costs incurred by Capstone Canada on the Silver exploration properties which totals \$2,799,929 at May 31, 2006.
- ii) To reimburse Capstone Canada \$744,906 which it has received subsequent to May 31, 2006, as working capital to complete the work program on the Copala property and to meet minimum listing requirements on the TSX-V.
- iii) To reimburse Capstone Canada for expenses paid by Capstone Canada relating to the costs of the Company’s prospectus and certain mineral property costs incurred by Silverstone Mexico which totals \$519,919 at May 31, 2006.

The convertible demand promissory notes bear interest at 6.25% per annum and are due and payable on written demand by Capstone Canada at any time on or after July 2, 2007. On or before the demand date Capstone Canada has the option to convert some or all of debt owed to it into common shares of the Company at the rate of one common share for each \$1.20 of debt owned to Capstone Canada.

SILVERSTONE RESOURCES CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
MAY 31, 2006
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7. CAPITAL STOCK

	Number of Shares	Amount
Authorized		
Unlimited common shares, without par value		
Unlimited preferred shares, with a par value of \$1		
Issued		
Common shares	<u>100</u>	\$ <u>1</u>
Balance, August 31, 2005, May 31, 2006 (unaudited)	100	\$ 1

8. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration and development of mineral properties located in Mexico. Geographic information is as follows:

	Total Assets	Plant and Equipment	Mineral Properties	Other Assets
May 31, 2006				
Canada	\$ 768,315	\$ 20,120	\$ -	\$ 748,195
Mexico	<u>3,082,365</u>	<u>15,812</u>	<u>2,933,218</u>	<u>133,335</u>
	<u>\$ 3,850,680</u>	<u>\$ 35,932</u>	<u>\$ 2,933,218</u>	<u>\$ 881,530</u>
August 31, 2005				
Canada	\$ 477	\$ -	\$ -	\$ 477
Mexico	<u>14,590</u>	<u>-</u>	<u>14,590</u>	<u>-</u>
	<u>\$ 15,067</u>	<u>\$ -</u>	<u>\$ 14,590</u>	<u>\$ 477</u>

SILVERSTONE RESOURCES CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	May 31, 2006	Aug 31, 2005
Cash paid during the period for income taxes	\$ -	\$ -
Cash paid during the period for interest	\$ -	\$ -

Significant non-cash transactions during the nine month period ended May 31, 2006 were as follows:

- a) Included in due to Capstone Mining Corp. is \$2,799,929 of mineral property costs that relate to the spin-out of the Silver exploration properties and \$744,906 due from related party.
- b) Included in mineral property costs is \$14,602 which relates to accounts payable and accrued liabilities.