

CAPSTONE GOLD CORP.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

NOVEMBER 30, 2005

UNAUDITED INTERIM 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 consolidated financial statements for the period ended November 30, 2005.

CAPSTONE GOLD CORP.
INTERIM CONSOLIDATED BALANCE SHEETS
(Unaudited – prepared by management)

	November 30, 2005	August 31, 2005 (Audited)
ASSETS		
Current		
Cash and equivalents	\$ 672,240	\$ 935,370
Short-term investments (Note 3)	-	3,052,369
Due from related parties (Note 7)	-	708
Receivable	-	5,000
Taxes receivable (Note 4)	1,704,941	1,258,112
Prepaid expenses	<u>179,905</u>	<u>323,712</u>
	2,557,086	5,575,271
Property and equipment (Note 5)	1,609,469	1,072,681
Mineral properties (Note 6)	<u>16,219,972</u>	<u>12,387,396</u>
	<u>\$ 20,386,527</u>	<u>\$ 19,035,348</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 840,673	\$ 823,503
Due to related parties (Note 7)	<u>-</u>	<u>11,208</u>
	<u>840,673</u>	<u>834,711</u>
Shareholders' equity		
Capital stock (Note 8)	32,894,971	31,083,134
Contributed surplus (Note 8)	1,353,162	1,200,260
Deficit	<u>(14,702,279)</u>	<u>(14,082,757)</u>
	<u>19,545,854</u>	<u>18,200,637</u>
	<u>\$ 20,386,527</u>	<u>\$ 19,035,348</u>

Nature of operations (Note 2)

Subsequent events (Note 12)

On behalf of the Board:

“Darren Pylot”

Director

“Tony Chan”

Director

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

	Three Months Ended November 30, 2005	Three Months Ended November 30, 2004
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	\$ 6,703	\$ 7,872
Conferences	12,284	9,189
Consulting fees	2,451	19,000
Directors fees	-	1,500
Exchange loss	142,280	263,422
Insurance	13,914	12,843
Interest and bank charges	603	663
Investor relations	58,109	52,168
Management fees	45,000	35,100
Office and administration	20,357	18,541
Professional fees	46,995	17,290
Rent	16,496	16,109
Stock-based compensation (Note 8)	152,902	74,716
Telephone	12,839	7,219
Transfer and regulatory fees	11,497	5,937
Travel and accommodation	26,246	22,109
Wages	<u>79,098</u>	<u>73,538</u>
	<u>(647,774)</u>	<u>(637,216)</u>
OTHER ITEMS		
Loss on sale of securities	-	(2,483)
Gain on sale of property and equipment	5,562	-
Interest income	<u>22,690</u>	<u>14,765</u>
	<u>28,252</u>	<u>12,282</u>
Loss for the period	(619,522)	(624,934)
Deficit, beginning of period	<u>(14,082,757)</u>	<u>(11,795,552)</u>
Deficit, end of period	\$ (14,702,279)	\$ (12,420,486)
Basic and diluted loss per common share	\$ (0.01)	\$ (0.02)
Weighted average number of common shares outstanding	43,256,274	26,859,194

CAPSTONE GOLD CORP.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – prepared by management)

	Three Months Ended November 30, 2005	Three Months Ended November 30, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (619,522)	\$ (624,934)
Items not affecting cash:		
Amortization	6,703	7,872
Accrued interest income	-	7,246
Loss on sale of securities	-	2,483
Gain on sale of property and equipment	(5,562)	-
Stock-based compensation	152,902	74,716
Changes in non-cash working capital items:		
Decrease in receivable	5,000	-
Decrease (increase) in taxes receivable	(446,829)	250,065
Decrease (increase) in prepaid expenses	143,807	(114,301)
Increase (decrease) in accounts payable and accrued liabilities	17,170	(352,135)
Decrease (increase) in due from related parties	708	(67)
Decrease in due to related parties	<u>(11,208)</u>	<u>-</u>
Cash flows used in operating activities	<u>(756,831)</u>	<u>(749,055)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	861,837	388,980
Capital stock issuance costs	<u>-</u>	<u>-</u>
Cash flows provided by financing activities	<u>861,837</u>	<u>388,980</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(537,929)	(5,080)
Short-term investments	3,052,369	1,000,000
Mineral properties	<u>(2,882,576)</u>	<u>(692,459)</u>
Cash flows used in investing activities	<u>(368,136)</u>	<u>302,461</u>
Change in cash and equivalents during the period	(263,130)	(57,614)
Cash and equivalents, beginning of period	<u>935,370</u>	<u>516,040</u>
Cash and equivalents, end of period	<u>\$ 672,240</u>	<u>\$ 458,426</u>

Supplemental disclosure with respect to cash flows (Note 12)

CAPSTONE GOLD CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2005
(Unaudited – prepared by management)

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements include the accounts of Capstone Gold Corp. (“the Company”), Capstone Gold, S.A. de C.V. (“Capstone Mexico”), Silverstone Resources Corp. (“Silverstone Canada”) and Silverstone Resources, S.A. de C.V. (Silverstone Mexico”). All significant intercompany balances and transactions have been eliminated. These unaudited interim consolidated 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. SHORT-TERM INVESTMENTS

	November 30, 2005	August 31, 2005
Canadian Dollar Guaranteed Investment Certificate	\$ -	\$ 3,052,369

4. TAXES RECEIVABLE

Taxes receivable relates to Value Added Taxes of \$1,682,024 paid in Mexico that the Company is entitled to as well as GST in Canada of \$22,917.

CAPSTONE GOLD CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2005
(Unaudited – prepared by management)

5. PROPERTY AND EQUIPMENT

	November 30, 2005			August 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office furniture and equipment	\$ 49,790	\$ 8,340	\$ 41,450	\$ 45,669	\$ 7,339	\$ 38,330
Computer equipment	193,106	34,513	158,593	182,716	31,094	151,622
Communication equipment	113,470	1,046	112,424	113,053	926	112,127
Mine equipment	1,149,576	633	1,148,943	653,256	633	652,623
Vehicles	149,266	13,803	135,463	116,963	13,803	103,160
Leasehold improvements	<u>28,157</u>	<u>15,561</u>	<u>12,596</u>	<u>28,157</u>	<u>13,338</u>	<u>14,819</u>
	\$ 1,683,365	\$ 73,896	\$ 1,609,469	\$ 1,139,814	\$ 67,133	\$ 1,072,681

6. MINERAL PROPERTIES

November 30, 2005	Balance, Beginning of Period	Additions	Written-off	Balance, End of Period
Basis Projects, Mexico				
Cozamin Project				
Interest in property	\$ 2,893,290	\$ 720,462	-	\$ 3,613,752
Administration	1,401,401	474,548	-	1,875,949
Assay costs and geochemical	257,722	42,456	-	300,178
Drilling	2,432,977	678,499	-	3,111,476
Engineering and feasibility studies	314,076	111,411	-	425,487
Environmental costs	264,994	48,301	-	313,295
Lab, field supplies and camp costs	42,511	22,413	-	64,924
Land holding costs	229,053	(32,275)	-	196,778
Legal	56,303	3,643	-	59,946
Site preparation	130,543	242,686	-	373,229
Technical surveying and reporting	639,422	54,631	-	694,053
Underground development	<u>2,170,372</u>	<u>805,056</u>	<u>-</u>	<u>2,975,428</u>
	<u>10,832,664</u>	<u>3,171,831</u>	<u>-</u>	<u>14,004,495</u>

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CAPSTONE GOLD CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2005
(Unaudited – prepared by management)

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

November 30, 2005	Balance, Beginning of Period	Additions	Written-off	Balance, End of Period
Basis Projects, Mexico <i>Continued...</i>				
Claudia Project				
Interest in property	184,950	83,683	-	268,633
Administration	80,313	-	-	80,313
Assay costs and geochemical	19,875	-	-	19,875
Field supplies and camp costs	7,183	-	-	7,183
Land holding costs	99,927	-	-	99,927
Legal	454	-	-	454
Site preparation	1,632	-	-	1,632
Technical surveying and reporting	<u>39,414</u>	<u>-</u>	<u>-</u>	<u>39,414</u>
	<u>433,748</u>	<u>83,683</u>	<u>-</u>	<u>517,431</u>
Copala Project				
Interest in property	211,371	95,000	-	306,371
Administration	244,289	59,945	-	304,234
Assay costs and geochemical	48,161	41,617	-	89,778
Drilling	18,493	286,026	-	304,519
Environmental costs	7,030	226	-	7,256
Field supplies and camp costs	15,621	5,642	-	21,263
Land holding costs	78,315	-	-	78,315
Legal	5,989	5,233	-	11,222
Site preparation	-	20,991	-	20,991
Technical surveying and reporting	<u>98,931</u>	<u>1,697</u>	<u>-</u>	<u>100,628</u>
	<u>728,200</u>	<u>516,377</u>	<u>-</u>	<u>1,244,577</u>
Promontorio Project				
Interest in property	79,264	35,625	-	114,889
Administration	62,853	-	-	62,853
Assay costs and geochemical	5,271	-	-	5,271
Field supplies and camp costs	5,791	-	-	5,791
Land holding costs	50,450	-	-	50,450
Legal	567	-	-	567
Technical surveying and reporting	<u>19,208</u>	<u>-</u>	<u>-</u>	<u>19,208</u>
	<u>223,404</u>	<u>35,625</u>	<u>-</u>	<u>259,029</u>

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CAPSTONE GOLD CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2005
(Unaudited – prepared by management)

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

November 30, 2005	Balance, Beginning of Period	Additions	Written-off	Balance, End of Period
Basis Projects, Mexico <i>continued...</i>				
Montoros Project				
Interest in property	52,843	23750	-	76,593
Administration	5,797	-	-	5,797
Field supplies	246	-	-	246
Geochemical	51	-	-	51
Land holding costs	47,135	-	-	47,135
Legal	399	-	-	399
Technical surveying and reporting	<u>3,899</u>	<u>-</u>	<u>-</u>	<u>3,899</u>
	<u>110,370</u>	<u>23,750</u>	<u>-</u>	<u>134,120</u>
Martha Project				
Administration	6,262	-	-	6,262
Camp costs	386	-	-	386
Technical surveying and reporting	<u>828</u>	<u>-</u>	<u>-</u>	<u>828</u>
	<u>7,476</u>	<u>-</u>	<u>-</u>	<u>7,476</u>
Other Projects, Mexico				
Reconnaissance Projects				
Administration	33,314	1,310	-	34,624
Consulting	17,175	-	-	17,175
Geochemical	445	-	-	445
Legal	<u>600</u>	<u>-</u>	<u>-</u>	<u>600</u>
	<u>51,534</u>	<u>1,310</u>	<u>-</u>	<u>52,844</u>
	<u>\$ 12,387,396</u>	<u>\$ 3,832,576</u>	<u>\$ -</u>	<u>\$ 16,219,972</u>

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

The Basis Projects Acquisition, Mexico

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

- i) Pay US\$250,000 upon regulatory approval (January 23, 2004) of the option agreement (paid).
- ii) Issue 1,000,000 common shares of the Company on January 23, 2004 (issued) and then issue 1,000,000 common shares of the Company on or before January 23, 2005 (issued) and a further 1,000,000 common shares of the Company on or before January 23, 2006 (issued).
- iii) Incur US\$1,000,000 in exploration and development expenditures in any or jointly in two or more of the Projects on or before January 23, 2005 (incurred).
- iv) Incur an additional US\$1,500,000 in exploration and development expenditures in any or jointly in two or more of the Projects on or before January 23, 2006 (incurred).
- v) Incur an additional US\$2,000,000 in exploration and development expenditures in any or jointly in two or more of the Projects on or before January 23, 2007 (incurred).
- vi) Incur an additional US\$5,500,000 in exploration and development expenditures in any or jointly two or more of the Projects between January 23, 2007 and January 23, 2009.

CAPSTONE GOLD CORP.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2005

(Unaudited – prepared by management)

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

The Basis Projects Acquisition, Mexico (cont'd...)

As part of the exploration and development expenditures described above the Company agreed to expend a total of US\$5,000,000 on the Cozamin project. In the event that the Cozamin project is abandoned, the Company's US\$10,000,000 obligation shall be credited with the difference between US\$5,000,000 and the actual amount of expenditures incurred on the Cozamin project, which credit shall be divided ratably among the years remaining to January 23, 2009. In the event that any of the other Projects are abandoned, the Company's US\$10,000,000 obligation shall be credited with the difference between US\$1,000,000 and the actual amount of the expenditures incurred on the individual projects, which credit shall be divided ratably among the years remaining to January 23, 2009.

An agreement between the Company, Capstone Mexico and Bacis has been executed, whereby Capstone Mexico has exercised its option to acquire a 90% interest in the Cozamin project. As a 90% holder, the Company has the following obligations; 1) the assumption of indebtedness of US\$675,000 plus interest (Libor plus 6%) and 2) when the Cozamin project has achieved commercial production for six months, a US\$1,000,000 cash payment or the equivalent value in the Company's common shares shall be paid to Bacis.

Bacis will retain a 1.5% net smelter return ("NSR") royalty on the projects and a carried 10% interest to completion of a feasibility study, which can be converted at Bacis' option into an additional 1.5% NSR royalty, giving Bacis a total 3% NSR royalty and the Company a 100% interest in the concessions.

7. RELATED PARTIES TRANSACTIONS

During the quarter ended November 30 2005, the Company:

- a) Paid or accrued management fees of \$45,000 (2004 - \$35,100) to a management company controlled by the president and director of the Company. At November 30, 2005, the amount receivable from this company was \$Nil (2004 - \$975).
- b) Paid or accrued directors fees of \$Nil (2004 - \$1,500) to directors of the Company.
- c) Charged rent of \$6,000 (2004 - \$6,000) and administrative services of \$1,500 (2004 - \$1,500) to a public company with a director in common.

CAPSTONE GOLD CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2005
(Unaudited – prepared by management)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
100,000,000 common shares, without par value			
Issued			
Balance, August 31, 2005	41,515,556	\$ 31,083,134	\$ 1,200,260
Issued for mineral properties	1,000,000	950,000	-
Issued for warrants	939,499	428,075	-
Issued for options	87,500	61,125	-
Agent's option exercised	480,920	372,637	-
Stock-based compensation	-	-	152,902
Balance, November 30, 2005	44,023,475	\$ 32,894,971	\$ 1,353,162

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 fixed plan, whereby it has reserved 20% of the issued shares for issuance under the plan. Options granted under the plan will have a term not to exceed 5 years and be subject to vesting provisions as follows: 15% on date of grant, 15% every three months for a period of 15 months, and 10% at the end of the next 3 month period. Beginning January 12, 2005 the vesting is as follows: 25% on date of grant and 25% every 3 months for a period of 9 months.

The following stock options were outstanding at November 30, 2005:

Number of Options	Exercise Price	Expiry Date
360,000	\$ 0.45	September 15, 2008
625,000	0.75	March 22, 2009
175,000	0.75	May 6, 2009
100,000	0.75	June 11, 2009
50,000	0.55	July 25, 2009
500,000	0.95	January 12, 2010
1,045,000	1.05	March 1, 2010
100,000	0.95	April 20, 2010
<u>25,000</u>	1.05	May 4, 2010
2,980,000		

CAPSTONE GOLD CORP.
NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2005
(Unaudited – prepared by management)

8. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock-based compensation

The total stock-based compensation expense recognized during the three months ended November 30, 2005 under the fair value method was \$Nil (2004 - \$Nil). The Company expensed \$152,902 (2004 - \$74,716) leaving an unamortized balance of \$7,898 (2004 - \$180,245).

The following weighted average assumptions were used for the Black-Scholes valuation of stock options:

	November 30, 2005	August 31, 2005
Risk-free interest rate	3.00%	3.00%
Expected life of options	2 years	2 years
Annualized volatility	46.68%	46.68%
Dividend rate	0.00%	0.00%

Warrants

At November 30, 2005, the following share purchase warrants were outstanding:

Number of Shares	Exercise Price	Expiry Date
6,486,614	\$1.25	January 26, 2006
5,070,402	1.25	December 15, 2007

9. COMMITMENT

The Company entered into an operating lease agreement for office premises. The annual lease commitment under the lease is as follows:

2006	\$ 80,231
2007	<u>71,317</u>
Total	<u>\$ 151,548</u>

CAPSTONE GOLD CORP.**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

November 30, 2005

(Unaudited – prepared by management)

10. 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	Property and Equipment	Mineral Properties	Other Assets
November 30, 2005				
Canada	\$ 596,298	\$ 75,123	\$ -	\$ 521,175
Mexico	<u>19,790,229</u>	<u>1,534,346</u>	<u>16,219,972</u>	<u>2,035,911</u>
	<u>\$ 20,386,527</u>	<u>\$ 1,609,469</u>	<u>\$ 16,219,972</u>	<u>\$ 2,557,086</u>
August 31, 2005				
Canada	\$ 3,369,999	\$ 76,550	\$ -	\$ 3,293,449
Mexico	<u>15,665,349</u>	<u>996,131</u>	<u>12,387,396</u>	<u>2,281,822</u>
	<u>\$ 19,035,348</u>	<u>\$ 1,072,681</u>	<u>\$ 12,387,396</u>	<u>\$ 5,575,271</u>

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	November 30, 2005	November 30, 2004
Cash paid during the period for income taxes	\$ -	\$ -
Cash paid during the year for interest	\$ -	\$ -

Significant non-cash transactions during the three month period ended November 30, 2005 were as follows:

- The Company issued 1,000,000 common shares with a value of \$950,000 pursuant to the Basis project agreement.
- The Company recorded the fair value of \$152,902 for stock options vested during the year in contributed surplus.

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

Significant non-cash transactions during the three month period ended November 30, 2004 were as follows:

- a) The Company recorded the fair value of \$74,716 for stock options vested during the year in contributed surplus.

12. SUBSEQUENT EVENTS

The following events occurred subsequent to November 30, 2005:

- a) The Company issued 77,824 common shares pursuant to the exercise of agent's options at \$0.90 per option.
- b) The Company completed a brokered private placement of 12,999,905 units at \$0.95 per unit, for gross proceeds of \$12,349,910. Each unit consists of one common share and one transferable common share purchase warrant, with each warrant entitling the holder to purchase one common share of the Company for three years from the date of closing at \$1.40. In addition the Company completed a non-brokered private placement for 50,000 units.

The Company paid an agents' fee equal to 6% of the gross proceeds of the brokered private placement in a combination of cash and units. Also, the Agents were granted 779,994 compensation options which will entitle the Agents to purchase one common share of the Company for three years from the date of closing at an exercise price of \$1.02.

All securities issued and issuable pursuant to this financing will be subject to a four-month hold period that expires on April 22, 2006.

- c) The Company paid the remaining debt on the Cozamin project in the amount of US\$675,000 plus interest of US\$49,694.77.
- d) An agreement among Capstone Mexico, Silverstone Resources, S.A. de C.V. ("Silverstone Mexico"), a wholly owned subsidiary of the Company, and Bacis whereby Capstone Mexico has agreed to assign to Silverstone Mexico all rights and obligations of Capstone Mexico to acquire the interest in the Company's silver-gold exploration properties, the Copala, Claudia, Promontorio, Montoros and Martha properties (collectively, the "Exploration Properties"), and that upon regulatory approval, the Company and Capstone Mexico will assign their respective obligations required for the exercise of the option to acquire a 90% interest in the Exploration Properties to Silverstone Resources Corp. ("Silverstone Canada") and Silverstone Mexico. Pursuant to this restructuring, Silverstone and Silverstone Mexico have entered into an option agreement with Bacis to acquire the 90% interest in the Exploration Properties and the Company and Capstone Mexico have entered into an amended and restated option agreement with Bacis in regard of their respective interests in the Cozamin Property.