Caracara Silver Inc.

Consolidated Financial Statements

As at and for the years ended

June 30, 2014 and 2013

(Expressed in Canadian dollars)

MANAGEMENT'S RESPONSIBILITY FOR
ANNUAL CONSOLIDATED FINANCIAL REPORTING

The accompanying audited annual consolidated financial statements of Caracara Silver Inc. ("Caracara" or the "Company") are the responsibility of the management and Board of Directors of the Company.

The audited annual consolidated financial statements (the "Financial Statements") have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the Financial Statements. Where necessary, management has made informed judgements and estimates in accounting for transactions that were not complete at the consolidated statement of financial position date. In the opinion of management, the Financial Statements have been prepared in accordance with International Financial Reporting Standards appropriate in the circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the Financial Statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the Financial Statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the Financial Statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

The Financial Statements have been audited by Smythe Ratcliffe LLP, Chartered Accountants, who were appointed by the shareholders. The independent auditors' report outlines the scope of their examination and gives their opinion on the Financial Statements.

"Nick Tintor"
President and Chief Executive Officer
October 21, 2014

"Stephen Gledhill"
Chief Financial Officer
October 21, 2014

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF CARACARA SILVER INC.

We have audited the accompanying consolidated financial statements of Caracara Silver Inc., which comprise the consolidated statements of financial position as at June 30, 2014 and 2013, and the consolidated statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Caracara Silver Inc. as at June 30, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 2 in the consolidated financial statements, which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP

Chartered Accountants

Vancouver, British Columbia
October 21, 2014

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Caracara Silver Inc.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at June 30,	**2014**	2013
	$	$
Assets		
Current assets		
Cash and cash equivalents *(note 8)*	**467,006**	1,278,565
Accounts receivable	**76,664**	31,091
Total current assets	**543,670**	1,309,656
Total assets	**543,670**	1,309,656
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 9)*	**52,401**	78,059
Total current liabilities	**52,401**	78,059
Total liabilities	**52,401**	78,059
Equity		
Share capital *(note 11)*	**7,413,722**	7,413,722
Reserve for share-based payments *(note 11)*	**1,283,568**	1,283,568
Deficit	**(8,206,021)**	(7,465,693)
Total equity	**491,269**	1,231,597
Total liabilities and equity	**543,670**	1,309,656

Approved for issuance on behalf of the Board on October 21, 2014:

"Robert Boaz" Director

"*Stephen Coates"* Director

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

Caracara Silver Inc.
Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars except weighted-average share information)

Years ended June 30,	**2014**	2013
	$	$
Exploration and evaluation expenditures *(note 12)*	**61,968**	775,221
Administrative expenses		
Consulting and professional fees	**32,914**	57,780
Directors' fees and expenses *(note 10)*	**71,470**	81,565
General and administrative	**199,032**	218,873
Investor relations	**29,596**	28,551
Management fees and salaries	**442,200**	442,200
Share-based payments *(notes 10 and 11)*	**-**	162,329
Shareholder and public company expenses	**16,721**	21,529
Total administrative expenses	**791,933**	1,012,827
Total expenses	**(853,901)**	(1,788,048)
Foreign exchange gain (loss)	**1,486**	(8,188)
Interest and other income *(note 12)*	**112,087**	16,333
Net loss and comprehensive loss for year	**(740,328)**	(1,779,903)
Basic and fully diluted loss per share	**(0.01)**	(0.03)
Weighted average number of common shares outstanding	**51,895,835**	51,895,835

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

Caracara Silver Inc.
Consolidated Statements of Changes in Equity
Years ended June 30, 2014 and 2013
(Expressed in Canadian dollars)

	Share Capital		Reserves			
	Number of shares	Amount	Share-based payments	Warrants	Deficit	Total
		$	$	$	$	$
Balance at June 30, 2012	**50,921,168**	**7,340,622**	**1,121,239**	**1,637,888**	**(7,323,678)**	**2,776,071**
Issued for property payments	974,667	73,100	-	-	-	73,100
Share-based payments	-	-	162,329	-	-	162,329
Expired warrants	-	-	-	(1,637,888)	1,637,888	-
Net loss for the year	-	-	-	-	(1,779,903)	(1,779,903)
Balance at June 30, 2013	**51,895,835**	**7,413,722**	**1,283,568**	**-**	**(7,465,693)**	**1,231,597**
Net loss for the year	-	-	-	-	(740,328)	(740,328)
Balance at June 30, 2014	**51,895,835**	**7,413,722**	**1,283,568**	**-**	**(8,206,021)**	**491,269**

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

Caracara Silver Inc.
Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended June 30,	**2014**	2013
	$	$
Operating activities		
Net loss	**(740,328)**	(1,779,903)
Adjustments to reconcile net loss to cash flow from operating activities:		
Share-based payments	**-**	162,329
Shares issued for property payments	**-**	73,100
Net change in non-cash working capital items:		
Accounts receivable	**(45,573)**	15,877
Accounts payable and accrued liabilities	**(25,658)**	(122,363)
Cash used for operating activities	**(811,559)**	(1,650,960)
Decrease in cash and cash equivalents at end of year	**(811,559)**	(1,650,960)
Cash and cash equivalents at beginning of year	**1,278,565**	2,929,525
Cash and cash equivalents at end of year	**467,006**	1,278,565

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

1. Corporate information

Caracara Silver Inc. (the "Company" or "Caracara") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, Canada, M5H 1T1.

2. Continuance of operations and going concern

These annual consolidated financial statements (the "Financial Statements") are prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company had a working capital of $491,269 as at June 30, 2014 (2013 - $1,231,597), and an accumulated deficit of $8,206,021 (2013 - $7,465,693). These conditions indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral properties, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management is currently assessing alternatives to raising additional funding, which may include additional equity offerings. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will be required to curtail the Company's operations.

The business of mining exploration involves a high degree of risk and there is no assurance that current exploration projects will result in future profitable mining operations. The Company has no source of revenue but has significant cash requirements to meet its administrative overhead, pay its debts and liabilities, and maintain its mineral interests.

These annual consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern.

3. Basis of preparation

3.1 Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Financial Statements were approved for issuance by the Company's Board of Directors on October 21, 2014.

3. **Basis of preparation** (continued)

3.2 Basis of presentation

The Financial Statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in *note 4.* The Financial Statements are presented in Canadian dollars, the Company's functional currency.

3.3 Adoption of new and revised standards and interpretations

The IASB issued new and revised International Accounting Standards, IFRS, and amendments, with those that are effective for the Company's financial year, beginning July 1, 2014. Some updates that are not applicable or are not consequential to the Company have been excluded in the Financial Statements.

- **IFRS 9 *Financial Instruments* (2014)**

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- **Derecognition**. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is applicable to the Company's annual periods beginning July 1, 2018.

4. **Summary of significant accounting policies**

4.1 Basis of consolidation

The Financial Statements include the financial statements of the Company and its wholly-owned subsidiaries, Solex del Peru S.A.C. ("Solex") and CSI Princesa Inc.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations from the effective date of acquisition or up to the effective date of disposal, as appropriate.

4. Summary of significant accounting policies (continued)

All intercompany transactions, balances, income and expenses are eliminated in full on consolidation.

4.2 Mineral properties

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

4.3 Decommissioning, restoration and similar liabilities ("asset retirement obligation" or "ARO")

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

As at June 30, 2014 and 2013, the Company has no material AROs.

4.4 Share-based payments

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions"). Where equity instruments are granted to employees or others providing similar services, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in profit or loss over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

In situations where equity instruments are issued to non-employees, they are recorded at the fair value of the goods or services received or at the fair value of the equity instruments issued (if it is determined the fair value of goods or services cannot be reliably measured), and are recorded at the date the goods or services are received.

4. Summary of significant accounting policies (continued)

Equity-settled transactions

The costs of equity- settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity- settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense is recognized for equity- settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share-based payment reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity- settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

For those equity-settled awards that expire unexercised after vesting, the recorded value is transferred to deficit.

The dilutive effect of outstanding options and warrants is reflected as additional dilution in the computation of fully-diluted earnings per share.

4.5 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the consolidated statement of financial position.

Deferred income tax

Deferred income tax is provided using the asset and liability method on temporary differences at the date of the consolidated statements of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. **Summary of significant accounting policies** (continued)

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the consolidated statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the consolidated statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred income taxes relating to items recognized directly in equity are recognized in equity and not in the consolidated statements of operations and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities that intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

4. Summary of significant accounting policies (continued)

4.6 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the years ended June 30, 2014 and 2013, all the outstanding stock options and warrants were antidilutive.

4.7 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company’s cash, cash equivalents and accounts receivable are classified as FVTPL.

Financial assets classified as loans and receivables and held- to- maturity are measured at amortized cost. The Company has no financial assets classified as loans and receivables.

Financial assets classified as available- for- sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for losses in value that are considered other than temporary.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

4.8 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company’s accounts payable and accrued liabilities are classified as other financial liabilities.

4. Summary of significant accounting policies (continued)

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through profit or loss. As at June 30, 2014, the Company has not classified any financial liabilities as FVTPL.

4.9 Impairment of financial assets

The Company assesses at each date of the consolidated statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

4.10 Impairment of non-financial assets

At each date of the consolidated statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4. Summary of significant accounting policies (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of comprehensive loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

4.11 Cash and cash equivalents

Cash in the consolidated statements of financial position comprises cash at banks and on hand. Cash equivalents consist of deposits that are readily convertible into a known amount of cash.

4.12 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

4.13 Related-party transactions and balances

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related-party transaction when there is a transfer of resources or obligations between related parties.

4.14 Foreign currency transactions

Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional and presentation currency of the Company and its subsidiaries is the Canadian dollar.

4. Summary of significant accounting policies (continued)

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of operations.

4.15 Significant accounting judgements and estimates

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgement applied in the preparation of the Financial Statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- Recognition of deferred tax assets and liabilities

In assessing the probability of realizing income tax assets and liabilities, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

- The determination of the Company's functional currency

The functional currency of the Company is the currency of the primary economic environment and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

The key estimates applied in the preparation of the Financial Statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The provision for income taxes and recognition of deferred income tax assets and liabilities.
- The provision for decommissioning and environmental restoration.

5. Capital management

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts and deficit, which as at June 30, 2014 totaled $491,268 (2013 - $1,231,597). The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The Company intends to raise additional funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The ability of the Company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended June 30, 2014. The Company is not subject to externally imposed capital restrictions.

6. Financial instruments

Fair value

As at June 30, 2014 and 2013, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these instruments.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgement, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

i) Credit risk

Credit risk is the risk of loss associated with a counter-party's inability to fulfill its payment obligations. The credit risk is attributable to various financial instruments, as noted below. The credit risk is limited to the carrying value amount reported on the consolidated statements of financial position.

Cash and cash equivalents – Cash and cash equivalents are held with major Canadian and Peruvian banks and therefore the risk of loss is minimal.

6. **Financial Instruments** (continued)

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at June 30, 2014, the Company had working capital of $491,269 (2013 - $1,231,597). The long-term continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. In addition, in order to meet its longer-term working capital requirements and property exploration expenditures, the Company intends on securing further financing to ensure that those obligations are properly discharged.

iii) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

a. Interest rate risk

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. Cash not required in the short term is invested in short-term guaranteed investment certificates ("GIC"), as appropriate.

b. Currency risk

Although the Company's operations are conducted in Canadian dollars, it has entered into contracts and/or agreements that require payment in United States dollars or Peruvian nuevos soles. Management believes that foreign currency risk derived from currency conversions is negligible, and therefore, does not hedge its foreign currency risk.

c. Price risk

The Company is not subject to price risk.

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7. Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a one-year period.

The Company's funds are kept in Canadian dollars, US dollars and Peruvian nuevos soles at major Canadian and Peruvian financial institutions. As at June 30, 2014 and 2013, the Company's exposure to foreign currency balances is as follows:

Account	Foreign Currency	Exposure ($CDN)	
		2014	2013
Cash	US dollar	35,577	189,177
Cash	Peruvian nuevos soles	566	499
Accounts receivable	US dollar	11,140	1,541
Accounts receivable	Peruvian nuevos soles	47,966	11,692
Accounts payable	Peruvian nuevos soles	21,039	33,924

The Company believes that a change of 10% in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by $9,500 (2013 - $20,300) for the year ended June 30, 2014.

8. Cash and cash equivalents

The balance at June 30, 2014, consists of cash amounting to $439,989 (2013 - $226,549) and GIC for $nil (2013 - $1,013,457) on deposit with a major Canadian bank and $27,017 (2013 - $38,559) on deposit with a major Peruvian bank.

9. Accounts payable and accrued liabilities

Accounts payable of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period for trade purchases is between 30 to 90 days.

The following is a breakdown analysis of the accounts payable and accrued liabilities:

As at June 30,	**2014**	2013
	$	$
Administrative and personnel	**902**	1,380
Suppliers	**20,352**	33,080
Taxes payable	**5,147**	3,099
Accrued liabilities	**26,000**	40,500
Total accounts payable and accrued liabilities	**52,401**	78,059

(Expressed in Canadian dollars)

10. Related party transactions and key management compensation

The Financial Statements include transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. These transactions were measured at their exchange amounts, being the amounts agreed to be the related parties. The Company incurred the following fees and expenses in the normal course of operations in connection to officers and directors, or companies controlled by them, as follows:

Year ended June 30,	2014	2013
	$	$
Short-term benefits	**442,200**	442,200
Share-based payments	**-**	150,734
Directors' fees and expenses	**71,470**	81,565

11. Share capital

Authorized share capital consists of an unlimited number of common shares.

Shares issued for property payment

The Company issued nil (2013 - 974,667) common shares during the year ended June 30, 2014. Shares issued during the year ended June 30, 2013 were in consideration of a property payment pursuant to an amended purchase agreement.

Warrants

A summary of warrant activity for the years ended June 30, 2014 and 2013 is as follows:

	No. of Warrants	Weighted Average Exercise Price
		$
Balance, June 30, 2012	7,975,800	0.58
Expired	(7,975,800)	0.58
Balance, June 30, 2013 and 2014	**-**	**-**

Options

Caracara has a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors, employees and consultants. The plan allows for the issuance of up to 10% of the issued and outstanding common shares. As at June 30, 2014, the Company had 2,256,250 (2013 - 2,256,250) options available for issuance.

There were no option activities during the years ended June 30, 2014 and 2013.

(Expressed in Canadian dollars)

11. Share capital (continued)

The following table provides additional information about outstanding stock options at June 30, 2014 and 2013:

June 30, 2014		June 30, 2013		
No. of Options Outstanding	**Remaining Life (Years)**	No. of Options Outstanding	Remaining Life (Years)	**Exercise Price ($)**
133,333	**0.9**	133,333	1.9	**0.30**
2,800,000	**2.2**	2,800,000	3.2	**0.60**
2,933,333	**2.2**	2,933,333	3.1	**0.59**

Share-based compensation during the year ended June 30, 2014 totaled $nil (2013 - $162,329) with such amounts expensed in the consolidated statements of operations.

Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% (2013 - 0%) in determining the expense recorded in the accompanying consolidated statements of operations and comprehensive loss.

12. Exploration and evaluation expenditures

The evaluation and exploration expenses for the Company are broken down as follows:

	Year ended June 30, 2014	Year ended June 30, 2013	Cumulative to June 30, 2014
	$	$	$
Acquisition costs	**-**	352,190	1,963,104
Exploration costs:			
Drilling	**-**	129,576	426,185
Environmental and community relations	**-**	11,376	233,416
Assaying and sampling	**144**	18,795	111,809
Field and camp supplies	**-**	117,561	567,215
Consulting and professional fees	**8,752**	57,195	592,441
General exploration expenditures	**68,536**	332,032	1,682,296
Total exploration costs	**77,432**	666,535	3,613,362
Recovery due to option agreement	**(15,464)**	(243,504)	(258,968)
Total exploration and evaluation expenditures	**61,968**	775,221	5,317,498

12. Exploration and evaluation expenditures (continued)

Mineral projects

Caracara controls 11 (2013 - 30) mineral claims along the Princesa-Pilunani mineralized trend located southeast of Lima, the capital of Peru or north of Juliaca, within the administrative department of Puno, in southern Peru. The Company holds another 3 (2013 - 3) claims within the administrative department of Cuzco. As of June 30, 2014, all of the 14 mineral claims were in good legal standing and were being held by Solex, a wholly-owned Peruvian subsidiary of the Company.

The Company operates 4 mineral exploration projects as follows:

Princesa Project: The key Princesa silver-zinc-lead project consists of 8 mining concessions.

Pilunani Project: The Pilunani silver-zinc-lead project consists of 14 mining concessions.

On September 27, 2010 (amended April 8, 2011), Caracara signed an agreement with Cybersonic, to acquire an extensive mineral exploration database including technical data and results from regional exploration throughout the Princesa-Pilunani trend. This database was used to map stake land proximal to the Princesa project area thereby consolidating the Princesa-Pilunani trend.

The terms of the amended agreement provided for cumulative payments of US$495,000 and the issue of 2,866,667 shares. All amounts relating to the amended agreement have been paid and all shares have been issued.

Potoni Project: The Potoni silver-zinc-lead project consists of 8 mining concessions. The properties lie to the east of the Princesa-Pilunani Belt.

Cullquimayo Project: The Cullquimayo project consisted of 13 mining concessions. 10 of these claims were originally acquired by staking while three of the claims were acquired in May 2005 under an option agreement that required an initial payment of US$5,000 per property (paid), payments of US$10,000 per property in years two (paid) and three (paid), and US$50,000 per property in year four. In April 2012, the Company paid the Optionor a total of US$176,173 consisting of US$150,000 towards the final option payments and US$26,173 toward legal fees. During the year ended June 30, 2014, the Company did not renew the licenses of 10 of these claims. The Pilunani project currently consists of three mining concessions.

Option agreement

On May 3, 2013, the Company announced that it had signed an option agreement with Inversiones Collodi SAC ("IC") with respect to Caracara's Peruvian exploration properties. IC is a private Peruvian mineral exploration and development company based in Lima. Under the terms of the agreement, IC would have the right to earn a 65% interest in Caracara's concessions by making exploration expenditures totalling US$12.5 million over a four-year period. In addition, IC would make cash payments to Caracara's wholly-owned affiliate company in Peru, totalling $1.85 million. The Company received the first $243,504 (US$242,270) payment during the year ended June 30, 2013 and a further $15,464 (US$15,000) towards professional services during the year ended June 30, 2014. However, on October 4, 2013, the Company received a notice from IC terminating its option agreement. As a result of the termination of the option agreement, Caracara retains a 100% interest in these concessions.

(Expressed in Canadian dollars)

12. Exploration and evaluation expenditures (continued)

In February 2014, the Company received $107,030 from IC towards the renewal of license fees in 2014, therefore, fulfilling all its obligations pursuant to the option agreement.

13. Segmented information

Operating segments

At June 30, 2014, the Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru. As the operations comprise a single reporting segment, amounts disclosed in the Financial Statements also represent the single reporting segment.

Geographic segments

Caracara is in the business of mineral exploration and production with operations in Canada and Peru. As such, management has organized the Company's operations by geographic area. The Peru segment is responsible for that country's mineral exploration and production activities while the Canadian segment manages corporate head office activities. Information concerning Caracara's geographic segments is as follows:

Year ended June 30,	2014	2013
	$	$
Consolidated loss		
Canada	(624,280)	(1,108,831)
Peru	(116,048)	(671,072)
Total loss	**(740,328)**	(1,779,903)
Significant non-cash expenses:		
Canada -		
Share-based payments	-	(162,329)
Shares issued for property payments	-	(73,100)
Total significant non-cash expenses	-	(235,429)

As at June 30,	2014	2013
	$	$
Identifiable assets		
Canada	457,546	1,257,864
Peru	86,124	51,792
Total assets	**543,670**	1,309,656

(Expressed in Canadian dollars)

14. Income taxes

A reconciliation of income taxes computed at Canadian statutory rates to the reported income taxes for the years ended June 30, 2014 and 2013 is provided as follows:

	2014	2013
	$	$
Loss for the year	**(740,328)**	(1,779,903)
Canadian statutory tax rate	**26%**	25.25%
Income tax recovery computed at the statutory rate	**(192,485)**	(449,426)
Foreign tax rates different from statutory rates	**(1,623)**	(27,855)
Items not deductible for income tax purposes	**74**	40,989
Effect of change in tax rate	**(121)**	(19,835)
Change in timing differences	**10,885**	67,596
Impact of exchange on tax assets and liabilities	**(35,410)**	-
Overprovided in prior years	**-**	306,035
Unused tax offsets not recognized as tax assets	**218,680**	82,496
	-	-

Effective April 1, 2013, the British Columbia corporate tax rate increased from 10% to 11% resulting in an overall increase in the Company's statutory tax rate from 25.0% to 26.0%.

The Company recognizes tax benefits on losses or other deductible amounts generated in countries where it is probable sufficient taxable income will be available to utilize deferred tax assets. The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts as at June 30, 2014 and 2013:

	2014	2013
	$	$
Non-capital losses carried forward	**3,707,753**	3,140,683
Exploration and evaluation assets	**3,950,617**	3,858,173
Deferred share issue costs	**206,131**	309,196
Equipment and others	**9,490**	10,153
Unrecognized deductible temporary differences	**7,873,991**	7,318,205

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(Expressed in Canadian dollars)

14. **Income taxes** (continued)

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately $2,651,000 and net operating loss for Peruvian tax purposes of approximately $1,056,000 available for carry-forward to reduce future years' taxable income. Non-capital losses expire as follows:

	$
Carried forward indefinitely	1,056,000
2030	2,000
2031	140,000
2032	1,027,000
2033	765,000
2034	717,000
Total non-capital loss carry-forwards	**3,707,000**