Caracara Silver Inc.

Unaudited Interim

Consolidated Financial Statements

As at and for the three and six months ended

December 31, 2014 and 2013

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements of Caracara Silver Inc. (the "Company") have been prepared by and are the responsibility of management. The unaudited Interim consolidated financial statements as at and for the three and six months ended December 31, 2014 and 2013 have not been reviewed by the Company's auditors.

MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED INTERIM CONSOLIDATED FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of the Company are the responsibility of management and the Board of Directors (the “Board”) of the Company.

The unaudited interim consolidated financial statements (the “Financial Statements”) have been prepared by management, on behalf of the Board, in accordance with the accounting policies disclosed in the notes to the unaudited interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 *Interim Financial Reporting* using accounting policies consistent 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 is responsible for reviewing and approving the unaudited interim consolidated 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 unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board for its consideration in approving the unaudited interim consolidated 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.

“Nick Tintor”
President and Chief Executive Officer

February 26, 2015

“Stephen Gledhill”
Chief Financial Officer

February 26, 2015

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at	**December 31, 2014**	June 30, 2014
	$	$
Assets		
Current assets		
Cash and cash equivalents *(note 7)*	**135,096**	467,006
Accounts receivable	**61,642**	76,664
Total current assets	**196,738**	543,670
Total assets	**196,738**	543,670
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(note 8)*	**69,276**	52,401
Total current liabilities	**69,276**	52,401
Total liabilities	**69,276**	52,401
Equity		
Share capital *(note 10)*	**7,413,722**	7,413,722
Reserve for share-based payments *(note 10)*	**1,283,568**	1,283,568
Deficit	**(8,569,828)**	(8,206,021)
Total equity	**127,462**	491,269
Total liabilities and equity	**196,738**	543,670

Approved by the Board on February 26, 2015

"Robert Boaz"
Director

"Stephen Coates"
Director

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

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Operations and Comprehensive Loss

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

	Three months ended		Six months ended	
	December 31, 2013	December 31, 2013	**December 31, 2013**	December 31, 2013
	$	$	**$**	$
Exploration and evaluation expenditures *(note 11)*	**7,307**	11,854	**36,444**	4,534
Administrative expenses				
Consulting and professional fees	**4,480**	10,287	**10,480**	23,749
Directors' fees and expenses (*note 9*)	**18,549**	18,549	**37,097**	37,097
General and administrative	**22,291**	35,301	**55,682**	91,287
Investor relations *(note 9)*	**146**	7,581	**3,682**	35,783
Management fees and salaries *(note 9)*	**110,550**	110,550	**221,100**	221,100
Shareholder and public company expenses	**2,786**	7,048	**3,562**	8,201
Total administrative expenses	**158,802**	189,316	**331,603**	417,217
Total expenses and expenditures	**166,109**	201,170	**368,047**	421,751
Net loss before other items	**(166,109)**	(201,170)	**(368,047)**	(421,751)
Other items				
Foreign exchange gain (loss)	**1,674**	1,996	**3,793**	(639)
Interest and other income	**149**	1,438	**447**	3,615
Loss and comprehensive loss for period	**(164,286)**	(197,736)	**(363,807)**	(418,775)
Basic and fully diluted loss per share	**(0.00)**	(0.00)	**(0.01)**	(0.01)
Weighted average number of common shares outstanding	**51,895,835**	51,895,835	**51,895,835**	51,895,835

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

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Changes in Equity
Periods ended December 31, 2014 and 2013
(Expressed in Canadian dollars)

	Share Capital				
	Number of shares	Amount	Reserve for Share-based payments	Deficit	Total
		$	$	$	$
Balance, June 30, 2013	**51,895,835**	**7,413,722**	**1,283,568**	**(7,465,693)**	**1,231,597**
Loss for period	-	-	-	(418,775)	(418,775)
Balance, December 31, 2013	**51,895,835**	**7,413,722**	**1,283,568**	**(7,884,468)**	**812,822**
Loss for period	-	-	-	(321,553)	(321,553)
Balance, June 30, 2014	**51,895,835**	**7,413,722**	**1,283,568**	**(8,206,021)**	**491,269**
Loss for period	-	-	-	(363,807)	(363,807)
Balance, December 31, 2014	**51,895,835**	**7,413,722**	**1,283,568**	**(8,569,828)**	**127,462**

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

Caracara Silver Inc.
Unaudited Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Six months ended	**December 31, 2014**	December 31, 2013
	$	$
Operating activities		
Net loss	**(363,807)**	(418,775)
Net change in non-cash working capital items:		
Accounts receivable	**15,022**	(7,396)
Accounts payable and accrued liabilities	**16,875**	126,342
Cash used for operating activities	**(331,910)**	(299,829)
Decrease in cash and cash equivalents for the period	**(331,910)**	(299,829)
Cash and cash equivalents at beginning of year	**467,006**	1,278,565
Cash and cash equivalents at end of period	**135,096**	978,736

Supplemental cash flow information:		
Interest paid	**-**	-
Income taxes paid	**-**	-

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

1. General

Caracara Silver Inc. "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

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 $127,462 as at December 31, 2014 (June 30, 2014 - $491,269), and an accumulated deficit of $8,569,828 (June 30, 2014 - $8,206,021). 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 for 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 liabilities, and maintain its mineral interests.

The 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, including comparatives, have been prepared in accordance with International Accounting Standards 34 *'Interim Financial Reporting'*, using accounting policies consistent with the IFRS issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The Financial Statements were approved for issuance by the Board on February 26, 2015.

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 set out in note 5. The Financial Statements are presented in Canadian dollars, the Company's functional currency.

Certain comparative amounts have been reclassified to conform to current period reporting. Loss and comprehensive loss for the period were not affected by the reclassifications.

3.3 Adoption of new and revised standards and interpretations

A final version of IFRS 9, which contains accounting requirements for financial instruments is 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. The Company has not yet adopted this Standard.

4. Capital management

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts and deficit, which as at December 31, 2014 totaled $127,462 (June 30, 2014 – $491,269). 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 does not establish quantitative returns 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.

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 six months ended December 31, 2014. The Company is not subject to externally imposed capital restrictions.

5. Financial instruments

Fair value

As at December 31, 2014, 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 its 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 carried on the 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.

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 December 31, 2014, the Company had working capital of $127,462 (June 30, 2014 – $491,269). 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 GICs, 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 nuevo sols. 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.

6. Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible".

The Company's funds are kept in Canadian and US dollars at a major Canadian financial institution. In Peru, the Company's funds are kept in Peruvian nuevos soles at a major Peruvian financial institution. As at December 31, 2014 and 2013, the Company's exposure to foreign currency balances is as follows:

Account	Foreign Currency	Exposure ($CDN)	
		December 31, 2014	June 30, 2014
Cash	US dollar	**2,352**	35,577
Cash	Peruvian nuevos soles	**487**	566
Accounts receivable	US dollar	**7,145**	11,140
Accounts receivable	Peruvian nuevos soles	**35,430**	47,966
Accounts payable	US dollar	**(1,841)**	-
Accounts payable	Peruvian nuevos soles	**(21,451)**	(21,039)

The Company believes that a change of 10% in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by $2,000 for the six months ended December 31, 2014.

7. Cash and cash equivalents

The balance at December 31, 2014, consists of cash amounting to $134,318 (June 30, 2014 – $439,989) on deposit with a major Canadian bank and $778 (June 30, 2014 - $27,017) on deposit with a major Peruvian bank.

8. 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.

(Expressed in Canadian dollars)

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

As at,	**December 31, 2014**	June 30, 2014
	$	$
Administrative and personnel	**1,400**	902
Consulting and professional fees	**15,204**	-
Suppliers	**22,124**	20,352
Value-added taxes payable	**-**	5,147
Related liabilities	**18,548**	-
Accrued liabilities	**12,000**	26,000
Total accounts payable and accrued liabilities	**69,276**	52,401

9. Related party transactions

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:

	Three months ended		**Six months ended**	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
	$	$	**$**	$
Management fees	**110,550**	110,550	**221,100**	221,100
Directors' fees and expenses	**18,549**	18,549	**37,097**	37,097

As at December 31, 2014, the Company's accounts payable included amounts owed to related parties for $18,548 (June 30, 2014 - $nil).

10. Share capital

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

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 December 31, 2014, the Company had 2,256,250 (June 30, 2014 – 2,256,250) options available for issuance.

(Expressed in Canadian dollars)

The following table provides additional information about outstanding stock options at December 31, 2014 and June 30, 2014:

December 31, 2014		June 30, 2014		
No. of Options Outstanding	**Remaining Life (Years)**	No. of Options Outstanding	Remaining Life (Years)	Weighted Average Exercise Price ($)
133,333	**0.4**	133,333	0.9	0.30
2,800,000	**1.7**	2,800,000	2.2	0.50
2,933,333	**1.7**	**2,933,333**	2.2	0.49

There was no share-based compensation during the six months ended December 31, 2014 or 2013.

11. Exploration and evaluation expenditures

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

	Three months ended		**Six months ended**		Cumulative
	Dec. 31, 2014	Dec. 31, 2013	**Dec. 31, 2014**	Dec. 31, 2013	Dec. 31, 2014
	$	$	**$**	$	$
Acquisition costs	**-**	-	**-**	-	1,963,104
Exploration costs:					
Drilling	**-**	-	**-**	-	426,185
Environmental and community relations	**-**	-	**-**	-	233,416
Assaying and sampling	**-**	144	**-**	144	111,809
Field and camp supplies	**-**	-	**-**	-	567,215
Consulting and professional fees	**-**	400	**2,054**	1,400	594,495
General exploration expenditures	**7,307**	11,310	**34,390**	18,454	1,716,686
	7,307	11,854	**36,444**	19,998	3,649,806
Recovery from option agreement (see below)	**-**	-	**-**	(15,464)	(258,968)
Total exploration and evaluation expenditures	**7,307**	11,854	**36,444**	4,534	5,353,942

Mineral projects

The Company's Princesa-Pilunani project consists of 11 (December 31, 2013 – 30) mineral claims totaling 6,900 hectares, located within the Puno region at approximately 1,000 kilometers to the southeast from Lima, the capital of Peru. The Princesa-Pilunani project is divided into three sub-groups named Princesa, Pilunani and Potoni. This lead-zinc-silver project has been the focus of most of the exploration work carried out by the Company.

In July 2014, the Company did not renew the licenses of the remaining 3 claims that contained in the Cullquimayo Project (December 31, 2013 – 3). As of December 31, 2014, all of the Company's claims were in good standing and were being held by Solex Del Peru SAC ("Solex"), a wholly-owned Peruvian subsidiary of the Company.

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 early during fiscal 2014. 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.

12. Segmented information

Operating segments

At December 31, 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 in Canada and Peru. As such, management has organized the Company's reportable segments 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 reportable segments is as follows:

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(Expressed in Canadian dollars)

	Three months ended		Six months ended	
	December 31, 2014	December 31, 2013	**December 31, 2014**	December 31, 2013
	$	$	**$**	$
Consolidated loss and comprehensive loss:				
Canada	**(144,730)**	(55,939)	**(300,575)**	(299,615)
Peru	**(19,556)**	(141,797)	**(63,232)**	(119,160)
Total loss and comprehensive loss	**(164,286)**	(197,736)	**(363,807)**	(418,775)

As at	**December 31, 2014**	June 30, 2014
	$	$
Identifiable assets:		
Canada	**153,385**	457,546
Peru	**43,353**	86,124
Total assets	**196,738**	543,670