Caracara Silver Inc.

Consolidated Financial Statements

As at and for the years ended

June 30, 2016 and 2015

(Expressed in Canadian dollars)

Smythe CPA

INDEPENDENT AUDITOR'S 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, 2016 and 2015 and the consolidated statements of operations and comprehensive loss, changes in equity (deficiency) 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, 2016 and 2015, 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 LLP

Chartered Professional Accountants

Vancouver, British Columbia
October 20, 2016

Caracara Silver Inc.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at June 30,	2016	2015
	$	$
Assets		
Current assets		
Cash	**3,006**	9,275
Accounts receivable	**1,625**	1,686
Total current assets	**4,631**	10,961
Total assets	**4,631**	10,961
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(notes 8 and 9)*	**87,012**	48,828
Advances from related parties *(note 9)*	**21,500**	-
Promissory notes *(note 10)*	**66,060**	-
Total current liabilities	**174,572**	48,828
Total liabilities	**174,572**	48,828
Deficiency		
Share capital *(note 11)*	**7,413,722**	7,413,722
Reserve for share-based payments *(note 11)*	**1,227,568**	1,227,568
Deficit	**(8,811,231)**	(8,679,157)
Total deficiency	**(169,941)**	(37,867)
Total liabilities and deficiency	**4,631**	10,961

Approved for issuance on behalf of the Board on October 20, 2016:

"Robert Boaz" — Director

"Stephen Coates" — Director

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

Caracara Silver Inc.
Consolidated Statements of Operations and Comprehensive Loss

(Expressed in Canadian dollars)

Years ended June 30,	**2016**	2015
	$	$
Exploration and evaluation expenditures *(note 12)*	**42,157**	71,525
Administrative expenses		
Consulting and professional fees	**21,393**	15,480
Directors' fees and expenses *(note 9)*	**-**	25,617
General and administrative	**11,670**	127,801
Investor relations	**741**	5,516
Management fees and salaries *(note 9)*	**34,000**	299,800
Shareholder and public company expenses	**17,079**	13,582
Total administrative expenses	**84,883**	487,796
Total expenses	**(127,040)**	(559,321)
Foreign exchange gain	**1,026**	5,116
Recovery of accounts payable	**-**	24,622
Interest and other income (expense)	**(6,060)**	447
Net loss and comprehensive loss for year	**(132,074)**	(529,136)
Basic and fully diluted loss per share	**(0.00)**	(0.01)
Weighted average number of common shares outstanding	**51,895,835**	51,895,835

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

Caracara Silver Inc.
Consolidated Statements of Changes in Deficiency
Years ended June 30, 2016 and 2015
(Expressed in Canadian dollars)

	Share Capital				
	Number of shares	**Amount**	**Share-based payments**	**Deficit**	**Total**
		$	**$**	**$**	**$**
Balance at June 30, 2014	51,895,835	7,413,722	1,283,568	(8,206,021)	491,269
Expiry of options	-	-	(56,000)	56,000	-
Net loss for the year	-	-	-	(529,136)	(529,136)
Balance at June 30, 2015	51,895,835	7,413,722	1,227,568	(8,679,157)	(37,867)
Net loss for the year	**-**	**-**	**-**	**(132,074)**	**(132,074)**
Balance at June 30, 2016	**51,895,835**	**7,413,722**	**1,227,568**	**(8,811,231)**	**(169,941)**

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

Caracara Silver Inc.
Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

Years ended June 30,	**2016**	2015
	$	$
Operating activities		
Net loss	**(132,074)**	(529,136)
Adjustment to reconcile net loss to cash flow from operating activities:		
Interest and other expense *(note 10)*	**6,060**	-
Recovery of accounts payable	**-**	(24,622)
Net change in non-cash working capital items:		
Accounts receivable	**61**	74,978
Accounts payable and accrued liabilities	**38,184**	21,049
Cash used in operating activities	**(87,769)**	(457,731)
Financing activities		
Advances from related parties *(note 9)*	21,500	-
Proceeds from promissory note *(note 10)*	60,000	-
Cash provided by financing activities	**81,500**	-
Decrease in cash at end of year	**(6,269)**	(457,731)
Cash at beginning of year	**9,275**	467,006
Cash at end of year	**3,006**	9,275

The accompanying notes are an integral part of these 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.

At the annual general and special meeting of its shareholders held on August 29, 2016, the shareholders of the Company approved, among other items, amending the Company's articles to allow the directors of the Company to approve the subdivision or consolidation of any or all of its shares without further shareholder approval as well as the option agreement for the Company's Princesa-Pilunani mineral concessions (notes 12 and 15(i)).

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 deficit of $169,941 as at June 30, 2016 (2015 - $37,867), and an accumulated deficit of $8,811,231 (2015 - $8,679,157).

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 even limited Company operations. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

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

These 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, which could be material.

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 20, 2016.

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 Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account.

The Financial Statements include the financial statements of the Company and its wholly-owned subsidiaries, Solex del Peru S.A.C. ("Solex") incorporated in Peru and CSI Princesa Inc. incorporated in Ontario, Canada. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statements of operations and comprehensive loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-Company transactions, balances, income and expenses are eliminated on consolidation.

3.4 Adoption of new and revised standards and interpretations

IFRS 9 *Financial Instruments*

Issued by IASB July 2014; effective for the Company's annual period beginning July 1, 2018.

IFRS 9 will replace IAS 39 Financial *Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets.** Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".
- **Classification and measurement of financial liabilities.** When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets.** An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.

- **Hedge accounting:** Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company is currently assessing the implications IFRS 9 will have on the Financial Statements.

IFRS 15 *Revenue from Contracts with Customers*

Issued by IASB May 2014; effective for the Company's annual period beginning July 1, 2018.

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

Revenue is recognized based on a five-step model:
1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company is currently assessing the implications IFRS 15 will have on the Financial Statements.

Annual Improvements 2012-2014 Cycle

Issued by IASB September 2014; effective for the Company's annual period beginning July 1, 2016.

The following standards have been revised to incorporate amendments issued by the IASB:
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Clarifies the application of guidance when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and the circumstances in which an asset (or disposal group) no longer meets the criteria for held for distribution.
- IFRS 7 *Financial Instruments: Disclosures* – Clarifies guidance on servicing contracts and the applicability of the amendments to IFRS 7 regarding offsetting financial assets and financial liabilities to interim financial statements.
- IAS 19 *Employee Benefits* – Clarifies the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds.
- IAS 34 *Interim Financial Reporting* – Clarifies the meaning of disclosure of information "elsewhere in the interim financial report".

The Company does not expect these amendments will have a significant impact on the Financial Statements.

IFRS 16 Leases

Issued by IASB January 2016; effective for the Company's annual period beginning July 1, 2019.

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers.*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:
- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.
- The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Company is currently assessing the implications IFRS 16 will have on the Financial Statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Issued by IASB January 2016; effective for the Company's annual period beginning July 1, 2017.

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Company is currently assessing the implications Amendments to IAS 7 will have on the Financial Statements.

4. Summary of significant accounting policies

4.1 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.

4.2 Decommissioning, restoration and similar liabilities ("asset retirement obligation")

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, 2016 and 2015, the Company has no significant asset retirement obligations.

4.3 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.

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.

4.4 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.

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

- where the deferred income tax asset or 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 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.

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.

4.5 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, 2016 and 2015, all the outstanding stock options and warrants were anti-dilutive.

4.6 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 is 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. The Company has no financial assets classified as available-for-sale.

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.

4.7 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 and promissory note are classified as other financial liabilities.

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. The Company has not classified any financial liabilities as FVTPL.

4.8 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.

4.9 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.

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 profit or loss, unless the relevant asset is carried at a revalued 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 (or 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.

4.10 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.

4.11 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.

4.12 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.

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 and comprehensive loss.

4.13 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 area 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:

- The going concern assumption

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- 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.

5. Capital management

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts and deficit. 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 property is in the exploration 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, 2016. The Company is not subject to externally imposed capital restrictions.

6. Financial instruments

Fair value

As at June 30, 2016 and 2015, 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 carried on the consolidated statements of financial position.

Cash is 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 June 30, 2016, the Company had a working capital deficit of $169,941 (2015 - $37,867), and accordingly, does not have sufficient cash to meet its current obligations. The 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.

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 US 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.

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, 2016 and 2015, the Company's exposure to foreign currency balances is as follows:

Account	**Foreign Currency**	**Exposure ($CDN)**	
		2016	2015
Cash	US dollar	**1,797**	370
Accounts payable	US dollar	**(30,378)**	**-**

The Company believes that a change of 10% (2015 - 16%) in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by $2,858 for the year ended June 30, 2016 (2015 - $59).

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.

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

As at June 30,	**2016**	2015
	$	$
Administrative and personnel *(note 9)*	**39,134**	15,944
Suppliers	**30,378**	17,884
Accrued liabilities	**17,500**	15,000
Total accounts payable and accrued liabilities	**87,012**	48,828

9. 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. The Company incurred 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,	**2016**	2015
	$	$
Directors' fees and expenses	**-**	25,617

For the year ended June 30, 2016, $34,000 (2015 - $299,800) of management fees was paid or payable to a company controlled by the Company's CEO and CFO.

As at June 30, 2016, amounts owing to a director is $18,000 (2015 - $5,000) and to a company controlled by the Company's CEO and CFO is $27,500 (2015 - $5,000), of which $3,500 is related to a demand loan payable and $24,000 is related to the administration and personnel fees payable. The amounts owing are unsecured, interest-free and have no fixed terms of repayment.

10. Promissory note

During the year ended June 30, 2016, the Company completed a loan financing raising proceeds of $60,000, for which the Company issued a promissory note (the "Note"). The Note bears interest at a rate of 12% per annum. The Note plus any accrued and unpaid interest will become due and payable, in full, upon the completion of any private placement completed by the Company. As at June 30, 2016, the balance of the note plus accrued interest thereon, totals $66,060. For the year ended June 30, 2016, the Company has incurred interest on the loan in the amount of $6,060 (2015 - $nil).

11. Share capital

Authorized share capital consists of an unlimited number of common shares, without par value.

The Company did not issue any common shares during the years ended June 30, 2016 and 2015.

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, 2016, the Company had 2,389,583 (2015 - 2,389,583) options available for issuance.

During the year ended June 30, 2016, no options expired. During the year ended June 30, 2015, 133,333 options with a fair value of $56,000 expired.

The following table provides additional information about outstanding stock options at June 30, 2016 and 2015:

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(Expressed in Canadian dollars)

	2016			2015		
Expiry Date	**No. of Options Outstanding and Exercisable**	**Remaining Life (Years)**	**Exercise Price ($)**	No. of Options Outstanding and Exercisable	Remaining Life (Years)	Exercise Price ($)
20-Sep-16	**2,800,000**	**0.2**	**0.50**	2,800,000	1.2	0.50

12. Exploration and evaluation expenditures

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

	Year ended June 30, 2016	Year ended June 30, 2015	Cumulative to June 30, 2016
	$	$	$
Acquisition costs	**-**	-	1,963,104
Exploration costs			
Drilling	**-**	-	426,185
Environmental and community relations	**-**	-	233,416
Assaying and sampling	**-**	-	111,809
Field and camp supplies	**-**	-	567,215
Consulting and professional fees	**-**	2,054	594,495
General exploration expenditures	**42,157**	69,471	1,769,302
Total exploration costs	**42,157**	71,525	3,702,422
Recovery due to option agreement	**-**	-	(258,968)
Total exploration and evaluation expenditures	**42,157**	71,525	5,406,558

Mineral projects

During the year ended June 30, 2016, the Company was not able to maintain all of its concessions within its Princesa-Pilunani project, allowing 8 to lapse but retaining 3 of the core claims of its Princesa sub-project. As at June 30, 2016, the Company's Princesa project consists of 3 mineral claims (2015 – 11, for Princesa and Pilunani sub-projects), located within the Puno region southeast from Lima, the capital of Peru.

See *note 15 (i)* for details of an option agreement of the Princesa-Pilunani project, entered subsequent to June 30, 2016.

Contingency

Solex is currently appealing an order by the Organismo de Evaluaciaon y Fascalizacion Ambiental ("OEFA") (the local Peruvian environmental authority) to pay a fine, the amount of which is not yet determined but could amount to approximately $8,000, for failing to make proper restoration to one of its old projects (the "Marcia" project). Although Solex completed the restoration pursuant to the closure plan, the OEFA contends that certain areas within Marcia, were not restored properly. The Company believes that Solex's appeal will be successful and the fine will be reduced to a prescribed diminimous amount. As the outcome cannot be determined at this time, no accrual has been made in these Financial Statements.

(Expressed in Canadian dollars)

13. Segmented information

Operating segments

At June 30, 2016, 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,	**2016**	2015
	$	$
Consolidated loss		
Canada	**(83,784)**	(397,592)
Peru	**(48,290)**	(131,544)
Total loss	**(132,074)**	(529,136)

As at June 30,	**2016**	2015
	$	$
Identifiable assets		
Canada	**2,834**	10,846
Peru	**1,797**	115
Total assets	**4,631**	10,961

(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, 2016 and 2015 is provided as follows:

	2016	2015
	$	$
Loss for the year	**(132,074)**	(529,136)
Canadian statutory tax rate	**26%**	26%
Income tax recovery computed at the statutory rate	**(34,339)**	(137,575)
Foreign tax rates different from statutory rates	**(19,104)**	(2,102)
Items not deductible for income tax purposes	**(45,904)**	153
Effect of change in tax rate	**126,736**	-
Change in timing differences	**681**	39,669
Impact of foreign exchange on tax assets and liabilities	**(8,120)**	(220,994)
Losses and share issue costs overprovided in prior years	**18,324**	-
Unused tax offsets not recognized as tax assets	**(38,274)**	320,849
	-	-

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 consist of the following amounts as at June 30, 2016 and 2015:

	2016	2015
	$	$
Non-capital losses carried forward	**4,097,597**	4,316,016
Exploration and evaluation assets	**4,452,661**	4,658,473
Deferred share issue costs	**-**	103,066
Equipment and others	**7,806**	6,339
Unrecognized deductible temporary differences	**8,558,064**	9,083,894

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately $3,309,000 and net operating loss for Peruvian tax purposes of approximately $788,000 available for carry-forward to reduce future years' taxable income.

(Expressed in Canadian dollars)

Non-capital losses expire as follows:

	$
Carried forward indefinitely	788,000
2030	2,000
2031	135,000
2032	1,032,000
2033	765,000
2034	717,000
2035	486,000
2036	172,000
Total non-capital loss carry-forwards	4,097,000

15. Events after the reporting date

(i) Option agreement

On August 31, 2016, the Company executed an option agreement (the “Agreement”) with Alcon Exploration Corp. (“Alcon”), whereby Alcon has the option to earn a 100% interest in the Company’s Princesa silver concessions located in Peru (the “Property”).

Alcon can exercise the option by paying the Caracara an aggregate of $250,000 (of which $50,000 has been paid to the Company upon the execution of the Agreement) in various installments over a three-year period and issuing 2,000,000 common shares of Alcon to Caracara upon closing of a going-public transaction in accordance with the terms of the Agreement. If the option is exercised, Caracara shall retain a 1.5% net smelter returns royalty in the Property, subject to the right of Alcon to purchase 1% of the royalty for a payment to Caracara of USD$1,000,000.

(ii) Expiry of options

On September 20, 2016, all of the outstanding options of the Company (2,800,000 options, exercisable at $0.50 per option), expired unexercised.