



**Unaudited Interim  
Consolidated Financial Statements**

**As at and for the three and six months ended**

**December 31, 2016 and 2015**

**NOTICE TO READER**

*The accompanying unaudited interim consolidated financial statements of Caracara Silver Inc. (the "Company" or "Caracara") 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, 2016 and 2015 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.

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.

As the Company is a Venture Issuer (as defined under *National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the evaluation, design, establishment and/or maintenance of disclosure controls and procedures ("DC&P) and/or ICFR, as defined in NI 52-109, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

*"Nick Tintor"*  
President and Chief Executive Officer

February 8, 2017

*"Stephen Gledhill"*  
Chief Financial Officer

February 8, 2017

**Caracara Silver Inc.**  
**Unaudited Interim Consolidated Statements of Financial Position**  
*(Expressed in Canadian dollars)*

| <i>As at</i>   | <b>December 31,<br/>2016</b> | June 30,<br>2016 |
|--|------------------------------|------------------|
|  | \$                           | \$               |
| <b>Assets</b>  |                              |                  |
| <b>Current assets</b>                                      |                              |                  |
| Cash ( <i>note 7</i> )                                     | <b>7,703</b>                 | 3,006            |
| Sales taxes recoverable                                    | <b>3,237</b>                 | 1,625            |
| <b>Total current assets</b>                                | <b>10,940</b>                | 4,631            |
| <b>Total assets</b>  | <b>10,940</b>                | 4,631            |
| <b>Liabilities</b>   |                              |                  |
| <b>Current liabilities</b>                                 |                              |                  |
| Accounts payable and accrued liabilities ( <i>note 8</i> ) | <b>68,703</b>                | 87,012           |
| Due to related parties ( <i>note 10</i> )                  | <b>52,000</b>                | 21,500           |
| Promissory note ( <i>note 9</i> )                          | <b>69,660</b>                | 66,060           |
| <b>Total current liabilities</b>                           | <b>190,363</b>               | 174,572          |
| <b>Total liabilities</b>                                   | <b>190,363</b>               | 174,572          |
| <b>Equity</b>  |                              |                  |
| Share capital ( <i>note 11</i> )                           | <b>7,413,722</b>             | 7,413,722        |
| Reserve for share-based payments ( <i>note 11</i> )        | <b>1,227,568</b>             | 1,227,568        |
| Deficit  | <b>(8,820,713)</b>           | (8,811,231)      |
| <b>Total equity</b>  | <b>(179,423)</b>             | (169,941)        |
| <b>Total liabilities and equity</b>                        | <b>10,940</b>                | 4,631            |

Approved by the Board on February 8, 2016:

*“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<br>31, 2016 | December<br>31, 2015 | December<br>31, 2016 | December<br>31, 2015 |
|  | \$                   | \$                   | \$                   | \$                   |
| <b>Exploration and evaluation expenditures</b><br><i>(note 11)</i> | -                    | 1,611                | <b>(49,500)</b>      | 5,144                |
| <b>Administrative expenses</b>                                     |                      |                      |                      |                      |
| Consulting and professional fees                                   | <b>1,740</b>         | 10,410               | <b>5,490</b>         | 11,149               |
| Directors' fees and expenses <i>(note 10)</i>                      | <b>5,000</b>         | 274                  | <b>10,000</b>        | 274                  |
| General and administrative   | <b>3,183</b>         | 1,138                | <b>4,594</b>         | 3,100                |
| Investor relations <i>(note 10)</i>                                | <b>150</b>           | -                    | <b>150</b>           | 741                  |
| Management fees and salaries <i>(note 10)</i>                      | <b>9,000</b>         | 11,000               | <b>18,000</b>        | 16,000               |
| Shareholder and public company expenses                            | <b>4,882</b>         | 7,168                | <b>16,265</b>        | 9,794                |
| <b>Total administrative expenses</b>                               | <b>23,955</b>        | 29,990               | <b>54,499</b>        | 41,058               |
| <b>Total expenses and expenditures</b>                             | <b>23,955</b>        | 31,601               | <b>(4,999)</b>       | 46,202               |
| <b>Net loss before other items</b>                                 | <b>(23,955)</b>      | (31,601)             | <b>(4,999)</b>       | (46,202)             |
| <b>Other items</b>   |                      |                      |                      |                      |
| Foreign exchange gain (loss)                                       | <b>(680)</b>         | 3,635                | <b>(833)</b>         | 1,623                |
| Interest expense <i>(note 9)</i>                                   | <b>(1,800)</b>       | (1,800)              | <b>(3,600)</b>       | (2,460)              |
| <b>Loss and comprehensive loss for period</b>                      | <b>(26,435)</b>      | (29,766)             | <b>(9,482)</b>       | (47,039)             |
| <b>Basic and fully diluted loss per share</b>                      | <b>(0.00)</b>        | (0.00)               | <b>(0.00)</b>        | (0.00)               |
| <b>Weighted average number of common shares outstanding</b>        | <b>51,895,835</b>    | 51,895,835           | <b>51,895,835</b>    | 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, 2015 and 2014  
*(Expressed in Canadian dollars)*

|                                   | Share Capital       |              | Reserve for<br>Share-based<br>payments | Deficit     | Total     |
|-----------------------------------|---------------------|--------------|--|-------------|-----------|
|                                   | Number of<br>shares | Amount<br>\$ |  |             |           |
| <b>Balance, June 30, 2015</b>     | 51,895,835          | 7,413,722    | 1,227,568                              | (8,679,157) | (37,867)  |
| Loss for period                   | -                   | -            | -                                      | (47,039)    | (47,039)  |
| <b>Balance, December 31, 2015</b> | 51,895,835          | 7,413,722    | 1,227,568                              | (8,726,196) | (84,906)  |
| Loss for period                   | -                   | -            | -                                      | (85,035)    | (85,035)  |
| <b>Balance, June 30, 2016</b>     | 51,895,835          | 7,413,722    | 1,227,568                              | (8,811,231) | (169,941) |
| Loss for period                   | -                   | -            | -                                      | (9,482)     | (9,482)   |
| <b>Balance, December 31, 2016</b> | 51,895,835          | 7,413,722    | 1,227,568                              | (8,820,713) | (179,423) |

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)*

| <b>Six months ended</b>                           | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|---|------------------------------|----------------------|
|   | \$                           | \$                   |
| <b>Operating activities</b>                       |                              |                      |
| Net loss  | <b>(9,482)</b>               | (47,039)             |
| Net change in non-cash working capital items:     |                              |                      |
| Accounts receivable                               | <b>(1,612)</b>               | (3,278)              |
| Interest payable <i>(note 9)</i>                  | <b>3,600</b>                 | 2,460                |
| Accounts payable and accrued liabilities          | <b>(18,309)</b>              | (18,141)             |
| <b>Cash used for operating activities</b>         | <b>(25,803)</b>              | (65,998)             |
| <b>Financing activities</b>                       |                              |                      |
| Proceeds from promissory note <i>(note 9)</i>     | -                            | 60,000               |
| Advances from related parties <i>(note 10)</i>    | <b>30,500</b>                | -                    |
| <b>Cash provided from financing activities</b>    | <b>30,500</b>                | 60,000               |
| <b>Increase (decrease) in cash for the period</b> | <b>4,697</b>                 | (5,998)              |
| Cash at beginning of year                         | <b>3,006</b>                 | 9,275                |
| <b>Cash at end of period</b>                      | <b>7,703</b>                 | 3,277                |
| <b>Supplemental cash flow information:</b>        |                              |                      |
| Interest paid                                     | -                            | -                    |
| Income taxes paid                                 | -                            | -                    |

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

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and six months ended December 31, 2016 and 2015 (Expressed in Canadian dollars)

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#### 1. General

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. In addition, the shareholders also approved the option agreement for the Company's Princesa-Pilunani mineral concessions (note 12).

As the Company has optioned its only property, it does not meet the continued listing requirements of the TSX Venture Exchange ("TSXV"). As a result, as of October 17, 2016, the Company has migrated to the NEX market, a sub-board of the TSXV, and trades under the symbol "CSV.H"

#### 2. Continuance of operations

These unaudited interim 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 \$179,423 as at December 31, 2016 (June 30, 2016 – \$169,941), and an accumulated deficit of \$8,820,713 (June 30, 2016 – \$8,811,231). 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 the acquisition or exploration and development of any 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. 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 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.

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three and six months ended December 31, 2016 and 2015**  
*(Expressed in Canadian dollars)*

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**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'. Interim financial statements would not normally include all the information required for full annual financial statements and should be read in conjunction with the audited annual consolidated financial statements of the Company as at and for the years ended June 30, 2016 and 2015.

The Financial Statements were approved for issuance by the Board on February 8, 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 set out in note 5. The Financial Statements are presented in Canadian dollars, the Company's functional currency.

**3.3 Basis on 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**

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".



## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and six months ended December 31, 2016 and 2015 (Expressed in Canadian dollars)

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- **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:

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and six months ended December 31, 2016 and 2015 (Expressed in Canadian dollars)

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- 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.

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and six months ended December 31, 2016 and 2015 (Expressed in Canadian dollars)

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- 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. 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 6 months ended December 31, 2016. The Company is not subject to externally imposed capital restrictions.

#### **5. Financial instruments**

##### **Fair value**

As at December 31, 2016, 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.

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and six months ended December 31, 2016 and 2015 (Expressed in Canadian dollars)

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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 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 December 31, 2016, the Company had working capital deficit of \$179,423 (June 30, 2016 – \$169,941) 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-acquisition and 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 GIC's, 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" over a one-year period.

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three and six months ended December 31, 2016 and 2015**  
*(Expressed in Canadian dollars)*

The Company's funds are kept in Canadian and US dollars at a major Canadian financial institution. As at December 31, 2016 and 2015, the Company's exposure to foreign currency balances is as follows:

| Account          | Foreign Currency | Exposure (\$CDN)     |                  |
|------------------|------------------|----------------------|------------------|
|                  |                  | December 31,<br>2016 | June 30,<br>2016 |
| Cash             | US dollar        | 1,991                | 1,797            |
| Accounts payable | US dollar        | (30,218)             | (30,378)         |

The Company believes that a change of 10% (2016 - 10%) in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by approximately \$2,800 for the 6 months ended December 31, 2016 (June 30, 2016 - \$2,800).

**7. Cash**

The balance at December 31, 2016, consists of cash amounting to \$7,703 (June 30, 2016 – \$3,006) on deposit with major Canadian and Peruvian banks.

**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 an analysis of the accounts payable and accrued liabilities:

| As at,  | December 31,<br>2016 | June 30,<br>2016 |
|---|----------------------|------------------|
|   | \$                   | \$               |
| Administrative and personnel                          | -                    | 39,134           |
| Suppliers   | 59,703               | 30,378           |
| Accrued liabilities                                   | 9,000                | 9,000            |
| <b>Total accounts payable and accrued liabilities</b> | <b>68,703</b>        | <b>87,012</b>    |

**9. 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 December 31, 2016, the balance of the note plus accrued interest thereon, totals \$69,660. For the 3 and 6 months ended December 31, 2016, the Company has incurred interest on the loan in the amount of \$1,800 (2015 - \$nil) and \$3,600 (2015 - \$nil), respectively.

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three and six months ended December 31, 2016 and 2015**  
*(Expressed in Canadian dollars)*

**10. 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:

|                 | 3 months ended               |                      | 6 months ended               |                      |
|-----------------|------------------------------|----------------------|------------------------------|----------------------|
|                 | <b>December 31,<br/>2016</b> | December 31,<br>2015 | <b>December 31,<br/>2016</b> | December 31,<br>2015 |
|                 | \$                           | \$                   | \$                           | \$                   |
| Management fees | <b>9,000</b>                 | 11,000               | <b>18,000</b>                | 16,000               |
| Directors' fees | <b>5,000</b>                 | -                    | <b>10,000</b>                | -                    |

As at December 31, 2016, amounts due to related parties includes amounts due to RGMS of \$42,000 (June 30, 2016 - \$21,500) and the Company's directors equal to \$10,000 (June 30, 2016 - \$nil).

**11. Share capital**

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

The Company did not issue any common shares during the 6 months ended December 31, 2016 or the year ended June 30, 2016.

**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, 2016, the Company had 5,189,583 (June 30, 2016- 2,389,583) options available for issuance.

During the 6 months ended December 31, 2016, all outstanding options expired.

The following table provides additional information about outstanding stock options at December 31, 2016 and June 30, 2016:

| December 31, 2016                |                           |                                  | June 30, 2016             |      | Weighted<br>Average<br>Exercise<br>Price (\$) |
|----------------------------------|---------------------------|----------------------------------|---------------------------|------|---|
| No. of<br>Options<br>Outstanding | Remaining<br>Life (Years) | No. of<br>Options<br>Outstanding | Remaining<br>Life (Years) |      |   |
| -                                | -                         | 2,800,000                        | 0.2                       | 0.50 |   |
| -                                | -                         | <b>2,800,000</b>                 | 0.2                       | 0.50 |   |

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and six months ended December 31, 2016 and 2015 (Expressed in Canadian dollars)

There was no share-based compensation during the 6 months ended December 31, 2016 or 2015.

#### 12. Exploration and evaluation expenditures

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

|  | 3 months ended   |                  | 6 months ended   |                  | Cumulative       |
|--|------------------|------------------|------------------|------------------|------------------|
|  | Dec. 31,<br>2016 | Dec. 31,<br>2015 | Dec. 31,<br>2016 | Dec. 31,<br>2015 | Dec. 31,<br>2016 |
|  | \$               | \$               | \$               | \$               | \$               |
| <b>Acquisition costs</b>                             | -                | -                | -                | -                | 1,963,104        |
| <b>Exploration costs:</b>                            |                  |                  |                  |                  |                  |
| Drilling   | -                | -                | -                | -                | 426,185          |
| Environmental and community relations                | -                | -                | -                | -                | 233,416          |
| Assaying and sampling                                | -                | -                | -                | -                | 111,809          |
| Field and camp supplies                              | -                | -                | -                | -                | 567,215          |
| Consulting and professional fees                     | -                | -                | -                | -                | 594,495          |
| General exploration expenditures                     | -                | 1,611            | 500              | 5,144            | 1,769,802        |
|  | -                | 1,611            | 500              | 5,144            | 3,702,922        |
| Recovery from option agreement (see below)           | -                | -                | (50,000)         | -                | (308,968)        |
| <b>Total exploration and evaluation expenditures</b> | -                | 1,611            | (49,500)         | 5,144            | 5,357,058        |

#### 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.

On August 31, 2016 (the "Option Date"), the Company executed an option agreement (the "Option 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 and has been recorded as a reduction to exploration expenditures during the 6 months ended December 31, 2016) 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 Option 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.

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three and six months ended December 31, 2016 and 2015**  
*(Expressed in Canadian dollars)*

**13. Segmented information**

**Operating segments**

As at December 31, 2016, the Company has only one operating and geographic segment, the corporate administration of the Company from Canada. As such, amounts disclosed in the Financial Statements also represent the single operating and geographic reporting segments.

Prior to the Option Date, the Company had the following segmented information:

**Geographic segments**

Caracara is in the business of mineral exploration. Prior to the Option Date, 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:

|   | <b>3 months ended</b>        |                      | <b>6 months ended</b>                    |                      |
|---|------------------------------|----------------------|--|----------------------|
|   | <b>December 31,<br/>2016</b> | December 31,<br>2015 | <b>December 31,<br/>2016<sup>1</sup></b> | December 31,<br>2015 |
|   | \$                           | \$                   | \$                                       | \$                   |
| Consolidated loss and comprehensive loss: |                              |                      |  |                      |
| Canada                                    | -                            | (25,645)             | <b>(33,047)</b>                          | (39,385)             |
| Peru                                      | -                            | (4,121)              | <b>50,000</b>                            | (7,654)              |
| <b>Total loss and comprehensive loss</b>  | -                            | (29,766)             | <b>16,953</b>                            | (47,039)             |

<sup>1</sup>For the period from July 1, 2016 to August 31, 2016 (the Option Date).

| <b>As at</b>         | <b>August 31,<br/>2016<sup>1</sup></b> | June 30,<br>2016 |
|----------------------|--|------------------|
|                      | \$                                     | \$               |
| Identifiable assets: |  |                  |
| Canada               | <b>25,091</b>                          | 2,824            |
| Peru                 | <b>1,812</b>                           | 1,797            |
| <b>Total assets</b>  | <b>26,903</b>                          | 4,631            |

<sup>1</sup>The Option Date.