



## **Consolidated Financial Statements**

**As at and for the years ended**

**June 30, 2018 and 2017**

**(Expressed in Canadian dollars)**

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF CARACARA SILVER INC.

We have audited the accompanying consolidated financial statements of Caracara Silver Inc., which comprise the consolidated statements of financial position as at June 30, 2018 and 2017 and the consolidated statements of operations and comprehensive loss, changes in shareholders' 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, 2018 and 2017, 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 23, 2018

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**Caracara Silver Inc.**  
**Consolidated Statements of Financial Position**

*(Expressed in Canadian dollars)*

As at June 30,	2018	2017
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	1,121,383	2,733
Amounts receivable	14,330	3,020
<b>Total current assets</b>	<b>1,135,713</b>	<b>5,753</b>
<b>Total assets</b>	<b>1,135,713</b>	<b>5,753</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>(notes 8)</i>	114,103	88,518
Amounts due to related parties <i>(note 9)</i>	44,860	77,000
Shareholder loan <i>(note 10)</i>	-	12,841
Promissory note <i>(note 11)</i>	-	73,260
<b>Total current liabilities</b>	<b>158,963</b>	<b>251,619</b>
<b>Total liabilities</b>	<b>158,963</b>	<b>251,619</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital <i>(note 12)</i>	8,046,137	7,413,722
Contributed surplus <i>(note 12)</i>	699,705	-
Deficit	(7,769,092)	(7,659,588)
<b>Total shareholders' equity (deficiency)</b>	<b>976,750</b>	<b>(245,866)</b>
<b>Total liabilities and shareholders' equity (deficiency)</b>	<b>1,135,713</b>	<b>5,753</b>

Going concern *(note 2)*

Approved for issuance on behalf of the Board on October 23, 2018:

"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,	2018	2017
	\$	\$
<b>Exploration and evaluation income</b> <i>(note 13)</i>	<b>(50,000)</b>	(49,500)
<b>Administrative expenses</b>		
Consulting and professional fees	114,252	12,990
Directors' fees and expenses <i>(note 9)</i>	10,000	20,000
General and administrative	4,047	31,404
Investor relations	61	150
Management fees and salaries <i>(note 9)</i>	36,500	36,000
Shareholder and public company expenses	33,200	18,174
<b>Total administrative expenses</b>	<b>198,060</b>	118,718
<b>Total expenses</b>	<b>(148,060)</b>	(69,218)
Foreign exchange gain	2,196	1,117
Gain on retirement of promissory note <i>(note 11)</i>	19,860	-
Gain on forgiveness of accounts payable <i>(note 8)</i>	23,868	-
Interest	(7,368)	(7,824)
<b>Net loss and comprehensive loss for the year</b>	<b>(109,504)</b>	(75,925)
<b>Basic and fully diluted loss per share</b>	<b>(0.01)</b>	(0.01)
<b>Weighted average number of common shares outstanding</b>	<b>8,094,933</b>	5,189,584

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

**Caracara Silver Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity (Deficiency)**  
Years ended June 30, 2018 and 2017  
*(Expressed in Canadian dollars)*

	Share Capital		Contributed surplus	Deficit	Total
	Number of shares <i>(note 12)</i>	Amount			
		\$	\$	\$	\$
Balance at June 30, 2016	5,189,568	7,413,722	1,227,568	(8,811,231)	(169,941)
Expiry of options	-	-	(1,227,568)	1,227,568	-
Net loss for the year	-	-	-	(75,925)	(75,925)
Balance at June 30, 2017	5,189,568	7,413,722	-	(7,659,588)	(245,866)
<b>Issuance of shares for cash</b>	<b>19,213,333</b>	<b>1,366,000</b>	-	-	<b>1,366,000</b>
<b>Share issue costs</b>	-	<b>(33,880)</b>	-	-	<b>(33,880)</b>
<b>Fair value of issued warrants</b>	-	<b>(642,786)</b>	<b>642,786</b>	-	-
<b>Fair value of issued finders' units</b>	-	<b>(56,919)</b>	<b>56,919</b>	-	-
<b>Net loss for the year</b>	-	-	-	<b>(109,504)</b>	<b>(109,504)</b>
<b>Balance at June 30, 2018</b>	<b>24,402,901</b>	<b>8,046,137</b>	<b>699,705</b>	<b>(7,769,092)</b>	<b>976,750</b>

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,	2018	2017
	\$	\$
<b>Operating activities</b>		
Net loss	(109,504)	(75,925)
Adjustment to reconcile net loss to cash flow from operating activities:		
Interest <i>(note 11)</i>	6,600	7,824
Gain on promissory note retirement <i>(note 11)</i>	(19,860)	-
Gain on forgiveness of accounts payable <i>(note 8)</i>	(23,868)	-
Net change in non-cash working capital items:		
Amounts receivable	(11,310)	(1,395)
Accounts payable and accrued liabilities	49,453	1,506
Shareholder loan <i>(note 10)</i>	(12,841)	55,500
<b>Cash used for operating activities</b>	<b>(121,330)</b>	<b>(12,490)</b>
<b>Financing activities</b>		
Shares issued for cash (net of issuance costs)	1,332,120	-
Proceeds from (repayment of) shareholder loan <i>(note 10)</i>	(32,140)	12,217
Repayment of promissory note <i>(note 11)</i>	(60,000)	-
<b>Cash provided from financing activities</b>	<b>1,239,980</b>	<b>12,217</b>
<b>Increase (decrease) in cash at end of year</b>	<b>1,118,650</b>	<b>(273)</b>
Cash at beginning of year	2,733	3,006
<b>Cash at end of year</b>	<b>1,121,383</b>	<b>2,733</b>



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

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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#### 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.

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 traded under the symbol "CSV.H". On April 30, 2018, the Company completed a 1-for-10 share consolidation (note 12) and changed its symbol to "SILV.H".

#### 2. Continuance of operations and going concern

These annual consolidated financial statements (the "Consolidated 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 working capital of \$976,750 as at June 30, 2018 (2017 – deficit of \$245,866), and an accumulated deficit of \$7,769,092 (2017 - \$7,659,588).

On August 13, 2018, the Company and Xtraction Services, Inc. ("Xtraction") entered into a binding letter of intent setting out the conditions of a proposed business combination between Caracara and Xtraction (the "Transaction") pursuant to which the Company will acquire all of the issued and outstanding common shares of Xtraction. It is currently contemplated that the Transaction will be structured as a "reverse triangular merger" between Xtraction, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware.

Upon completion of the Transaction, the parties intend that the Company's shares will be delisted from the TSXV and listed on the Canadian Securities Exchange or the NEO Exchange. The Transaction is subject to TSXV and shareholder approval of both Xtraction and Caracara shareholders.

Should the Transaction not complete, the ability of the Company to continue as a going concern and meet its commitments as they become due, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management continues to assess 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.

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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The Consolidated Financial Statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, which could be material.

### 3. Basis of preparation

#### 3.1 Statement of compliance

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

The Consolidated Financial Statements were approved for issuance by the Company's Board of Directors on October 23, 2018.

#### 3.2 Basis of presentation

The Consolidated 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 Consolidated Financial Statements are presented in Canadian dollars, the Company's functional currency.

#### 3.3 Basis of consolidation

Subsidiaries are entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. The existence and effect of potential voting rights that are presently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company and are deconsolidated from the date on which control ceases.

The Consolidated 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 intercompany 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.



## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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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 has assessed the implications of IFRS 9 and does not expect there to be a substantial impact to the Consolidated 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 has assessed the implications of IFRS 15 and does not expect there to be a substantial impact to the Consolidated Financial Statements.

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## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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#### 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 Company is currently assessing the implications IFRS 16 will have on the Consolidated 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.

On the disposal of interest in connection with the option agreement (*note 13*), the Company does not recognize expenses related to the exploration and evaluation performed on the property by the optionee. In addition, the cash or shares consideration received directly from the optionee is credited against exploration and evaluation expenditures in profit or loss.

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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#### 4.2 Decommissioning, restoration and similar liabilities (“asset retirement obligation” or “ARO”)

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and property, plant and equipment, 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.

#### 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.

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.

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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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, 2018 and 2017, all the outstanding stock options and warrants were anti-dilutive.

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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#### 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 profit or loss. 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, amounts due to related parties, shareholder loan 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.

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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#### ***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.

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

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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 and 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 Consolidated 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 remeasured. 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 Unit offerings**

Warrants issued by the Company typically accompany an issuance of shares in the Company (a "unit") and entitle the warrant holder to exercise the warrants for a stated price for a stated number of common shares in the Company. The fair value of the components of the units sold are measured using the relative fair value approach, based on the calculated fair value of the stand-alone shares through reference to the quoted market price at the completion of the financing and the fair value of the stand-alone warrant, using the Black-Scholes option pricing model. The fair value of units exercisable into common shares and warrants are estimated using the Geske option model. Consideration received on the exercise of warrants is recorded as share capital and the recorded amount to reserve is transferred to share capital.

#### **4.14 Significant accounting judgments and estimates**

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments 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.

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

The key areas of judgment applied in the preparation of the Consolidated 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.

- The determination of the fair value of derivative instruments (warrants, units and finders' units)

As noted above, the Company estimates the fair value of derivative instruments for any issued share purchase warrants and units using the Black-Scholes option pricing model and the fair value of compound instruments (such as finders' units exercisable into a common share and share purchase warrant) using the Geske option pricing model. Use of both of these models requires management to make subjective assumptions and use variables that it deems appropriate in the circumstances, including expected price volatility, expected life, interest rates and forfeiture rates. Changes in the inputted assumptions and variables could have a material effect on the estimated fair value and the Company's contributed surplus.

#### 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 only property has been optioned, and as a result, the Company currently has no source of operating cash flow, other than the annual option receipt (note 13). The Company intends to raise additional funds as and when required to purchase any new projects. There is no assurance that the



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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, 2018. The Company is not subject to externally imposed capital restrictions.

#### 6. Financial instruments

##### Fair value

As at June 30, 2018 and 2017, 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 judgment, 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 statements of financial position.

Cash is held with a major Canadian bank 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, 2018, the Company had working capital of \$976,750 (2017 – deficit of \$245,866). While management believes the Company has sufficient cash to meet its current obligations, it will be required to raise additional funds for any newly-proposed business opportunities. 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, property exploration expenditures or other business opportunities 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,

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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. The promissory note was fully discharged during the year ended June 30, 2018.

**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 other foreign currencies. 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 and US dollars at major Canadian and Peruvian financial institutions. As at June 30, 2018 and 2017, the Company's exposure to foreign currency balances is as follows:

Account	Foreign Currency	Exposure (\$CDN)	
		2018	2017
Cash	US dollar	182,245	40
Accounts payable	US dollar	(28,459)	(52,433)

The Company believes that a change of 10% in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by approximately \$15,400 for the year ended June 30, 2018 (2017 - \$5,200).

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

#### 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,	2018	2017
	\$	\$
Suppliers	84,085	72,018
Accrued liabilities	30,018	16,500
<b>Total accounts payable and accrued liabilities</b>	<b>114,103</b>	<b>88,518</b>

During the year ended June 30, 2018, the Company settled with some of its Peruvian accounts payable on a discounted basis. The resulting gain on forgiveness' of accounts payable of \$23,868, has been recorded and is shown on the consolidated statements of operations and comprehensive loss.

#### 9. Related party transactions and key management compensation

The Consolidated Financial Statements include transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. 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:

Years ended June 30,	2018	2017
	\$	\$
Management fees	36,500	36,000
Directors' fees and expenses	10,000	20,000

For the year ended June 30, 2018, \$36,500 (2017 - \$36,000) of management fees was paid or payable to a company controlled by the Company's CEO and CFO.

As at June 30, 2018, amounts owing to directors is \$30,000 (2017 - \$20,000) and to a company controlled by the Company's CEO and CFO is \$14,860 (2017 - \$57,000). The amounts owing are unsecured, interest-free and have no fixed terms of repayment. Subsequent to June 30, 2018, all amounts due to related parties were paid in full.

#### 10. Loan from shareholder

During the year ended June 30, 2017, the Company was provided a loan from a shareholder in the amount of \$12,217. The loan was due on demand, unsecured and bore interest at 15% per annum. During the year ended June 30, 2018, the loan of \$13,609 (including accrued interest of \$1,392), was paid in full. Interest on the loan amounted to \$768 (2017 - \$624), with such amount included in the consolidated statements of operations and comprehensive loss.

## Caracara Silver Inc.

### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

#### 11. Promissory note

The following is a continuity of the promissory note payable (the "Note") to a third party, which bore interest at a rate of 12% per annum and was retired during the year ended June 30, 2018.

	\$
Advanced on August 28, 2015	60,000
Accrued interest to June 30, 2017	13,260
Balance, June 30, 2017	73,260
<b>Accrued interest for the year ended June 30, 2018</b>	<b>6,600</b>
<b>Gain on retirement of Note</b>	<b>(19,860)</b>
<b>Retirement amount paid</b>	<b>(60,000)</b>
<b>Balance, June 30, 2018</b>	<b>-</b>

#### 12. Share capital

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

##### **Consolidation**

On April 30, 2018, the Company completed a 1-for-10 share consolidation (the "Consolidation"). Outstanding shares and weighted-average outstanding shares, options and warrants have been adjusted to account for the Consolidation.

##### **Year ended June 30, 2018**

In June 2018, the Company completed a private placement issuing 16,213,333 units (each a "Unit") at \$0.075 per Unit, raising gross proceeds of \$1,216,000. Each Unit consisted of one common share and one share-purchase warrant (a "Warrant"). The Warrants are exercisable into one common share at a price of \$0.15 each, until maturity on June 10, 2019. In addition, the Company paid cash finders fees of \$33,881 and issued 451,743 finders' units (each a "Finder Unit"). Each Finder Unit is exercisable for \$0.10 into one common share and finders'-share warrant (a "Finder-Share Warrant"). Each Finder-Share Warrant is exercisable for \$0.15 into one common share until expiry on June 10, 2019.

The fair value of \$569,419 for the warrants issued was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.90%, expected volatility of 319.57%, expected life of one year, dividend rate of nil and share price at the issuance date of \$0.125. A fair value of \$56,919 for the Finders' Units issued was estimated using the Geske option pricing model with the following assumptions: Risk-free interest rate of 1.90%, expected volatility of 186.34%, dividend rate of nil, share price at the issuance date of \$0.125, exercise price of the compound option of \$0.10, exercise price of the underlying option of \$nil, an expected life of the compound option of 0.5 years and expected life of the underlying option of one year.

In November 2017, the Company completed a private placement issuing 3,000,000 Units at \$0.05 per Unit, raising gross and net proceeds of \$150,000. Each Unit consisted of one common share and one Warrant. Each Warrants is exercisable into one common share at a price of \$0.05, until expiry on November 3, 2018.

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### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

A fair value of \$73,366 for the Warrants issued was estimated using the Black-Scholes option pricing model with the following assumptions: Risk-free interest rate of 1.43%, expected volatility of 373.9%, expected life of one year, dividend rate of nil and share price at the issuance date of \$0.10.

#### **Year ended June 30, 2017**

The Company did not issue any common shares during the years ended June 30, 2017.

#### **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, 2018, the Company had 2,440,290 (2017 – 518,584, adjusted for the Consolidation) options available for issuance.

During the year ended June 30, 2018, nil (2017 - 280,000) options with a fair value of \$nil (2017 - \$1,227,568), expired unexercised.

#### **Warrants**

The changes in warrants outstanding are as follows:

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price (\$)</b>
Balance as at June 30, 2017	-	-
Warrants issued	19,213,333	0.13
<b>Balance as at June 30, 2018</b>	<b>19,213,333</b>	<b>0.13</b>

As at June 30, 2018, the Company had the following warrants outstanding:

<b>Date of Expiry</b>	<b>Type</b>	<b>Exercise Price (\$)</b>	<b>Number</b>	<b>Weighted Average Remaining Life in Years</b>
November 3, 2018	Warrant	0.05	3,000,000	0.35
June 10, 2019	Warrant	0.15	16,213,333	0.95
<b>Total</b>		<b>0.13</b>	<b>19,213,333</b>	<b>0.85</b>

**Caracara Silver Inc.**

**Notes to the Consolidated Financial Statements**  
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**13. Exploration and evaluation expenditures (income)**

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

	<b>Year ended June 30, 2018</b>	Year ended June 30, 2017	Cumulative to June 30, 2018
	\$	\$	\$
<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	-	500	1,769,802
<b>Total exploration costs</b>	-	500	3,702,922
<b>Recovery due to option agreement</b>	<b>(50,000)<sup>1</sup></b>	<b>(50,000)<sup>1</sup></b>	<b>(358,968)</b>
<b>Total exploration and evaluation expenditures (income)</b>	<b>(50,000)</b>	<b>(49,500)</b>	<b>5,307,058</b>

<sup>1</sup>Payments received pursuant to the Option Agreement, as defined below.

**Mineral projects**

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 Caracara the following amounts:

- (a) An aggregate sum of \$250,000 as follows:
  - (i) \$50,000 (the "Initial Payment") within seven business days of the approval of the Option Agreement by the TSXV (the "Approval Date") (received);
  - (ii) \$50,000 on or before the first anniversary of the Approval Date (the "First Anniversary Payment") (received); and
  - (iii) \$150,000 on or before the second anniversary of the Approval Date (the "Second Anniversary Payment"); and

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### Notes to the Consolidated Financial Statements As at and for the years ended June 30, 2018 and 2017 (Expressed in Canadian dollars)

- (b) 2,000,000 common shares of the capital of Caracara upon closing of a going-public transaction by the Optionor, in accordance with the Option Agreement.

The Initial Payment and the First Anniversary Payment have been recorded as a reduction to exploration expenditures during the year ended June 30, 2018 and 2017.

#### Contingency

During the year ended June 30, 2017, Solex appealed an order by the Organismo de Evaluacion y Fiscalizacion Ambiental ("OEFA") (the local Peruvian environmental authority) to pay a fine, the amount of which was not determined, but could amount to approximately US\$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 as original. In November 2016, the OEFA denied Solex's appeal and confirmed Solex as a repeat offender, but did not establish any fine. The Company believes that any fine levied will be reduced to a prescribed de minimis amount. As the outcome cannot be determined at this time, no accrual has been made in these Consolidated Financial Statements.

#### 14. Segmented information

As at June 30, 2018, the Company has only one operating and geographic segment, the corporate administration of the Company from Canada. As such, amounts disclosed in the Consolidated Financial Statements also represent the single operating and geographic reporting segments.

#### 15. Income taxes

A reconciliation of income taxes computed at Canadian statutory rates to the reported income taxes for the years ended June 30, 2018 and 2017 is provided as follows:

	2018	2017
	\$	\$
Loss for the year	(109,504)	(75,925)
Canadian statutory tax rate	26.5%	26%
Income tax recovery computed at the statutory rate	(29,018)	(19,741)
Foreign tax rates different from statutory rates	(431)	2,313
Effect of change in tax rate	(34,030)	105,839
Change in timing differences	(4,415)	1,249,885
Impact of foreign exchange on tax assets and liabilities	-	(13,950)
Losses overprovided in prior years	-	694
Unused tax offsets not recognized as tax assets	67,894	(1,325,040)
	-	-

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In September 2017, the British Columbia (BC) Government proposed changes to the general corporate income tax rate to increase the rate from 11% to 12% effective January 1, 2018 and onwards. This change in tax rate was substantively enacted on October 26, 2017. The relevant deferred tax balances have been remeasured to reflect the increase in the Company's combined Federal and Provincial (BC) general corporate income tax rate from 26% to 27%.

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, 2018 and 2017:

	2018	2017
	\$	\$
Non-capital losses carried forward	4,324,000	4,147,000
Exploration and evaluation assets	11,830	11,830
Share issue costs	27,100	-
Unrecognized deductible temporary differences	4,362,930	4,158,830

The Company has accumulated non-capital losses for Canadian income tax purposes of approximately **\$3,446,000** and net operating loss for Peruvian tax purposes of approximately **\$877,000** available for carry-forward to reduce future years' taxable income.

Non-capital losses expire as follows:

	\$
Carried forward indefinitely	877,000
2030	2,000
2031	140,000
2032	1,027,000
2033	765,000
2034	717,000
2035	486,000
2036	172,000
2037	50,000
2038	88,000
<b>Total non-capital loss carry-forwards</b>	<b>4,324,000</b>