



**Unaudited Interim  
Consolidated Financial Statements**

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

**March 31, 2014 and 2013**

**NOTICE TO READER**

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

## **MANAGEMENT'S RESPONSIBILITY FOR UNAUDITED INTERIM CONSOLIDATED FINANCIAL REPORTING**

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

The unaudited interim consolidated financial statements (the "Financial Statements") have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited interim consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the statement of financial position date. In the opinion of management, the unaudited interim consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 'Interim Financial Reporting' using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

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

The Board of Directors 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 of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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

*"Nick Tintor"*  
President and Chief Executive Officer

May 27, 2014

*"Stephen Gledhill"*  
Chief Financial Officer

May 27, 2014

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

<i>As at</i>	<b>March 31, 2014</b>	June 30, 2013
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>(note 7)</i>	<b>703,675</b>	1,278,565
Accounts receivable	<b>82,328</b>	31,091
<b>Total current assets</b>	<b>786,003</b>	1,309,656
<b>Total assets</b>	<b>786,003</b>	1,309,656
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>(note 8)</i>	<b>172,118</b>	78,059
<b>Total current liabilities</b>	<b>172,118</b>	78,059
<b>Total liabilities</b>	<b>172,118</b>	78,059
<b>Equity</b>		
Share capital <i>(note 10)</i>	<b>7,413,722</b>	7,413,722
Reserve for share-based payments	<b>1,283,568</b>	1,283,568
Deficit	<b>(8,083,405)</b>	(7,465,693)
<b>Total equity</b>	<b>613,885</b>	1,231,597
<b>Total liabilities and equity</b>	<b>786,003</b>	1,309,656

*Continuance of operations (note 2)*

Approved by the Board on May 27, 2014:

*“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		Nine months ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
	\$	\$	\$	\$
<b>Exploration and evaluation expenditures</b> <i>(note 11)</i>	<b>11,858</b>	19,796	<b>16,392</b>	1,018,450
<b>Administrative expenses</b>				
Consulting and professional fees	<b>10,000</b>	7,000	<b>33,749</b>	39,780
General and administrative	<b>75,712</b>	70,041	<b>204,096</b>	214,056
Investor relations	<b>3,236</b>	1,871	<b>27,168</b>	24,427
Management fees and salaries <i>(note 9)</i>	<b>110,550</b>	110,550	<b>331,650</b>	331,650
Share-based compensation <i>(notes 9 &amp; 10)</i>	-	33,362	-	156,839
Shareholder and public company expenses	<b>7,661</b>	14,558	<b>15,862</b>	19,250
<b>Total administrative expenses</b>	<b>207,159</b>	237,382	<b>612,525</b>	786,001
<b>Total operating expenses</b>	<b>219,017</b>	257,178	<b>628,917</b>	1,804,451
<b>Net loss before other items</b>	<b>(219,017)</b>	(257,178)	<b>(628,917)</b>	(1,804,451)
<b>Other items</b>				
Foreign exchange loss	<b>7,428</b>	(3,994)	<b>6,789</b>	(8,203)
Interest and other income (net)	<b>801</b>	3,263	<b>4,416</b>	13,690
<b>Net loss and comprehensive loss</b>	<b>(210,788)</b>	(257,909)	<b>(617,712)</b>	(1,798,964)
<b>Basic and fully diluted loss per share</b>				
	<b>(0.00)</b>	(0.01)	<b>(0.01)</b>	(0.04)
<b>Weighted average number of common shares outstanding</b>				
	<b>51,895,835</b>	51,895,834	<b>51,895,835</b>	51,490,316

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 March 31, 2014 and 2013  
*(Expressed in Canadian dollars)*

	Share Capital		Reserves			Total
	Number of shares	Amount	Reserve for Share-based payments	Warrants	Deficit	
		\$	\$	\$	\$	\$
<b>Balance, July 1, 2012</b>	<b>50,921,168</b>	<b>7,340,622</b>	<b>1,121,239</b>	<b>1,637,888</b>	<b>(7,323,678)</b>	<b>2,776,071</b>
Issued for property payments	974,667	73,100	-	-	-	73,100
Share-based compensation	-	-	156,839	-	-	156,839
Net loss	-	-	-	-	(1,798,964)	(1,798,964)
<b>Balance, March 31, 2013</b>	<b>51,895,835</b>	<b>7,413,722</b>	<b>1,278,078</b>	<b>1,637,888</b>	<b>(9,122,642)</b>	<b>1,207,046</b>
Share-based compensation	-	-	5,490	-	-	5,490
Fair value of expired warrants	-	-	-	(1,637,888)	1,637,888	-
Net loss	-	-	-	-	19,061	19,061
<b>Balance, June 30, 2013</b>	<b>51,895,835</b>	<b>7,413,722</b>	<b>1,283,568</b>	<b>-</b>	<b>(7,465,693)</b>	<b>1,231,597</b>
Net loss	-	-	-	-	(617,712)	(617,712)
<b>Balance, March 31, 2014</b>	<b>51,895,835</b>	<b>7,413,722</b>	<b>1,283,568</b>	<b>-</b>	<b>(8,083,405)</b>	<b>613,885</b>

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>Nine months ended</b>	<b>March 31, 2014</b>	March 31, 2013
	\$	\$
<b>Operating activities</b>		
Net loss	<b>(617,712)</b>	(1,798,964)
Adjustments to reconcile net loss to cash flow from operating activities:		
Share-based compensation	-	156,839
Net change in non-cash working capital items:		
Accounts receivable	<b>(51,237)</b>	6,142
Accounts payable and accrued liabilities	<b>94,059</b>	(72,390)
<b>Cash used in operating activities</b>	<b>(574,890)</b>	(1,708,373)
<b>Financing activities</b>		
Issuance of common shares net of issuance costs	-	73,100
<b>Cash provided from financing activities</b>	-	73,100
<b>Increase (decrease) in cash and cash equivalents at end of period</b>	<b>(574,890)</b>	(1,635,273)
Cash and cash equivalents at beginning of year	<b>1,278,565</b>	2,929,525
<b>Cash and cash equivalents at end of period</b>	<b>703,675</b>	1,294,252
<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 nine months ended March 31, 2014 and 2013 (Expressed in Canadian dollars)

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#### 1. General

Caracara Silver Inc. (the "Company" or "Caracara") (formerly Ansue Capital Corp. ("Ansue")) was incorporated under the laws of British Columbia on December 3, 2009. Ansue was a capital pool company ("CPC") as defined by the rules of the TSX Venture Exchange ("TSXV") in Policy 2.4 of the TSXV. On July 18, 2011, Ansue announced that at the Annual Meeting of the shareholders of Ansue, all matters regarding a Qualifying Transaction with Southern Andes Energy Inc. ("SAE") were approved including the proposed name change of Ansue to Caracara Silver Inc.

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

#### 2. Continuance of operations

The Financial Statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. To date, the Company has not generated any revenues and continues to use funds for operations. For the nine months ended March 31, 2014, cash used for operations totalled \$574,890 (2013 – \$1,708,373). The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that it has sufficient working capital to meet the Company's liabilities and commitments as they become due over the short term, although there is a risk that additional financing may be required but will not be available on a timely basis or on terms acceptable to the Company. The Financial Statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

#### 3. Basis of preparation

##### 3.1 Statement of compliance

The Financial Statements, including comparatives, have been prepared in accordance with International Accounting Standards 34 'Interim Financial Reporting'. 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, 2013 and 2012.

The financial statements were approved for issuance by the Company's Board of Directors on May 27, 2014.

##### 3.2 Basis of presentation

The Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out in *note 5*. The financial statements are presented in Canadian dollars, the Company's functional currency

Some comparative amounts have been reclassified to provide consistency with current period disclosure.

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and nine months ended March 31, 2014 and 2013 (Expressed in Canadian dollars)

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#### 3.3 Basis of consolidation

The Financial Statements include the financial statements of the Company and its wholly-owned subsidiaries: Solex del Peru SAC ("Solex") and CSI Princesa Inc. ("Princesa"), which the Company controls. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-Company transactions, balances, income and expenses are eliminated on consolidation.

#### 3.4 Adoption of new and revised standards and interpretations

- **IFRS 9 Financial Instruments: Classification and Measurement** – annual periods beginning on or after January 1, 2015, introduces new requirements for the classification and measurement of financial instruments. The Company has not early-adopted this standard but is assessing what impact the application will have on the Financial Statements.

#### 4. Capital management

The Company considers its capital to be equity, which is comprised of share capital, reserves and deficit, which as at March 31, 2014 totaled \$613,885 (June 30, 2013 – \$1,231,597). The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

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

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

#### 5. Financial instruments

##### Fair value

The Company has designated its cash as FVTPL, which is measured at fair value. Accounts receivable is classified for accounting purposes as loans and receivables, which are measured at amortized cost that approximates fair value. Accounts payable and accrued liabilities are classified for accounting purposes as other financial liabilities, which are measured at amortized cost, which also approximates fair value. Fair values of accounts receivable and accounts payable and accrued liabilities are determined from transaction values that were derived from observable market inputs. Cash and cash equivalents are based on Level 1 measurements.



## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and nine months ended March 31, 2014 and 2013 (Expressed in Canadian dollars)

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As at March 31, 2014 and 2013, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent due to the relatively short periods to maturity of these instruments.

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

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

#### **i) Credit risk**

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

- a. Cash and cash equivalents – Cash and cash equivalents are held with major Canadian and Peruvian banks and therefore the risk of loss is minimal.
- b. Accounts receivables - The Company is not exposed to any significant risk as partial of the receivables are due from the Canadian government for harmonized sales taxes ("HST") of \$16,750 (June 31, 2013 - \$15,467). \$60,469 is the Peruvian equivalent of HST that the Company foreign subsidiary will receive as credit on future taxable services. The remainder of \$5,109 is prepaid on insurance.

#### **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 March 31, 2014, the Company had working capital of \$613,885 (June 30, 2013 – \$1,231,597). The long-term continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. In addition, in order to meet its longer-term working capital requirements and property exploration expenditures, the Company intends on securing further financing to ensure that those obligations are properly discharged.

#### **iii) Market risk**

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

##### **a. Interest rate risk**

The Company is not exposed to significant interest rate price risk due to the short-term nature of its monetary assets and liabilities. Cash not required in the short term is invested in short-term GICs, as appropriate.

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and nine months ended March 31, 2014 and 2013 (Expressed in Canadian dollars)

#### 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

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

Account	Foreign Currency	Exposure (\$CDN)	
		March 31, 2014	June 30, 2013
Cash and cash equivalents	US dollar	129,100	189,676
Accounts receivable	US dollar	60,469	13,232
<b>Total</b>		<b>189,569</b>	<b>202,908</b>

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 \$19,000 (June 30, 2013 - \$20,300).

#### 7. Cash and cash equivalents

The balance at March 31, 2014, consists of cash amounting to \$169,174 (June 30, 2013 - \$226,549) and GIC for \$517,874 (June 30, 2013 - \$1,013,457) on deposit with a major Canadian bank and \$16,627 (June 30, 2013 - \$38,559) on deposit with a major Peruvian bank.

#### 8. Accounts payable and accrued liabilities

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

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## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and nine months ended March 31, 2014 and 2013 (Expressed in Canadian dollars)

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

	As at,	
	March 31, 2014	June 30, 2013
	\$	\$
1 – 30 days	124,809	21,313
30 – 60 days	-	888
61 – 90 days	-	-
> 90 days	17,309	15,358
Total accounts payable	142,118	37,559
Accrued liabilities	30,000	40,500
Total	172,118	78,059

#### 9. Related-party transactions

The Financial Statements include transactions with directors and/or officers of the Company and/or corporations related to or controlled by them. Share-based compensation expenses were recorded at fair value estimated using the Black-Scholes valuation model. The Company incurred the following fees and expenses in the normal course of operations in connection with officers and/or directors, or companies controlled by them, as follows:

	Three months ended		Nine months ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
	\$	\$	\$	\$
Management fees	110,550	110,550	331,650	331,650
Share-based compensation	-	33,362	-	156,839
Directors' fees	25,000	17,500	52,500	52,500

#### 10. Share capital

- (i) Authorized share capital consists of an unlimited number of common shares.
- (ii) Issued and outstanding share capital:

The number of shares outstanding represents the legal number of outstanding shares of the Company, but the book value associated with them for accounting purposes is based upon Caracara's share capital account as at August 19, 2011, the date of a merger that affected a reverse takeover transaction plus the Company's share activity since that date. The dollar amount of the legal stated capital of the Company's therefore differs from the amounts reflected in the consolidated statements of changes in equity.

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and nine months ended March 31, 2014 and 2013 (Expressed in Canadian dollars)

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#### 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 March 31, 2014, the Company had 2,256,250 (June 30, 2013 – 2,256,250) options available for issuance.

There has been no option activity during the 9 months ended March 31, 2014, or the comparative period.

The following table provides additional information about outstanding stock options at March 31, 2014:

No. of options outstanding and exercisable	Remaining life (years)	Weighted average exercise price (\$)
133,333	1.1	0.30
2,800,000	2.4	0.50
<b>2,933,333</b>	<b>2.4</b>	<b>0.49</b>

#### Share-based compensation

There was no share-based compensation recorded during the three and nine months ended March 31, 2014 (share-based compensation that had vested during the three and nine months ended March 31, 2013 totaled \$33,362 and \$156,839 respectively, with such amounts expensed in the consolidated statements of operations). Companies are required to utilize an estimated forfeiture rate when calculating the expense for the reporting period. Based on the best estimate, management applied the estimated forfeiture rate of 0% (March 31, 2013 - 0%) in determining the expense recorded in the consolidated interim statements of operations.

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**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three and nine months ended March 31, 2014 and 2013**  
*(Expressed in Canadian dollars)*

**11. Exploration and evaluation expenditures**

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

	Three months ended		Nine months ended		Cumulative to March 31, 2014
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013	
	\$	\$	\$	\$	\$
<b>Acquisition costs</b>	-	-	-	356,463	1,963,104
<b>Exploration costs:</b>					
Drilling	-	(63,063)	-	156,637	426,185
Environmental and community relations	-	4,843	-	22,248	233,416
Assaying and sampling	-	1,039	144	39,185	111,809
Field and camp supplies	-	11,705	-	143,682	567,215
Consulting and professional fees	4,293	5,092	5,693	42,205	589,382
General exploration expenditures	7,565	60,180	26,019	258,029	1,639,778
	<b>11,858</b>	19,796	<b>31,856</b>	561,986	3,567,785
Recovery from option agreement (see below)	-	-	<b>(15,464)</b>	-	(258,967)
<b>Total exploration and evaluation expenditures</b>	<b>11,858</b>	19,795	<b>16,392</b>	918,449	5,271,922

**Mineral projects**

Caracara controls thirty (2013 – thirty) mineral claims along the Princesa-Pilunani mineralized trend located southeast of Lima, the capital of Peru or north of Juliaca, within the administrative department of Puno, in southern Peru. The Company holds another three (2013 – thirteen) claims within the administrative department of Cuzco. As of March 31, 2014, all of the thirty-three mineral claims were in good legal standing and were being held by Solex, a wholly-owned Peruvian subsidiary of the Company.

The Company operates four mineral exploration projects as follows:

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

**Pilunani Project:** The Pilunani silver-zinc-lead project originally consisted of eighteen mining concessions. During the year ended June 30, 2012, the Company did not renew the licenses of four of these claims. The Pilunani project currently consists of fourteen mining concessions.

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

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three and nine months ended March 31, 2014 and 2013 (Expressed in Canadian dollars)

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The terms of the amended agreement provide for the following:

- i) Payment of US\$30,000 upon execution of the letter of intent (paid by SAE, July 16, 2010);
- ii) Payment of US\$65,000 upon execution and closing of the Purchase Agreement (paid by SAE, September 28, 2010)
- iii) Payment of US\$120,000 upon the first anniversary of the closing of the Qualifying Transaction (paid October 5, 2011) ;
- iv) Payment of US\$280,000 upon the second anniversary of the closing of the Qualifying Transaction (paid October 29, 2012);
- v) Issuance of 1,892,000 common shares of the Company upon the closing of the Qualifying Transaction (issued October 6, 2011); and
- vi) Issuance of 974,667 common shares of the Company upon the first anniversary date of the closing of the Qualifying Transaction (issued October 22, 2012).

#### **Potoni Project**

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

#### **Cullquimayo Project**

The Cullquimayo project consisted of thirteen mining concessions. Ten of these claims were originally acquired by staking while three of the claims were acquired in May 2005 under an option agreement that required an initial payment of US\$5,000 per property (paid), payments of US\$10,000 per property in years two (paid) and three (paid), and US\$50,000 per property in year four. In year four, the Optionor of the three optioned properties showed unwillingness to conclude the transaction and receive the final option payment. Subsequently, the Optionor requested completion of the final payment of US\$150,000 and, pursuant to an arbitration process in Peru, the Company has been considered to still owe this amount. The Company set aside US\$150,000 as accrued liabilities towards the payment. In April 2012, the Company paid the Optionor a total of US\$176,173 consisting of US\$150,000 towards the final option payments and US\$26,173 toward legal fees. During the year 2013, the Company did not renew the licenses of ten of these claims with a total area of 8,000 hectares. The Pilunani project currently consists of three mining concessions.

#### **Option agreement**

On May 3, 2013, the Company announced that it had signed an option agreement with Inversiones Collodi SAC ("IC") with respect to Caracara's Peruvian exploration properties. IC is a private Peruvian mineral exploration and development company based in Lima. Under the terms of the agreement, IC would have the right to earn a 65% interest in Caracara's concessions by making exploration expenditures totalling US\$12.5 million over a four-year period. In addition, IC would make cash payments to Caracara's wholly-owned affiliate company in Peru, totalling \$1.85 million. The Company received the first US\$242,370 payment owing last fiscal year and a further US\$15,000 towards professional services during the current period. However, on October 4, 2013, the Company received a notice from IC terminating its option agreement. IC carried out a limited 2,400-m drilling program on the Princesa silver-zinc-lead project but did not conduct any drilling on Caracara's principal Pilunani zinc-lead project or the Parcuayo project, as was originally contemplated. As a result of the termination of the option agreement, Caracara retains a 100% interest in these highly prospective concessions.

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three and nine months ended March 31, 2014 and 2013**  
*(Expressed in Canadian dollars)*

**12. Segmented information**

**Operating segments**

At March 31, 2014, the Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru. As the operations comprise a single reporting segment, amounts disclosed in the Financial Statements also represent the single operating segment.

**Geographic segments**

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

	Three months ended		Nine months ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
	\$	\$	\$	\$
<b>Net loss</b>				
Canada	(86,721)	(155,012)	(374,485)	(1,027,583)
Peru	(124,067)	(102,897)	(243,227)	(771,381)
	<b>(210,788)</b>	<b>(257,909)</b>	<b>(617,712)</b>	<b>(1,798,964)</b>

	Three months ended		Nine months ended	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
	\$	\$	\$	\$
<b>Significant non-cash items</b>				
Canada:				
Share-based compensation	-	33,362	-	156,839
	-	33,362	-	156,839

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three and nine months ended March 31, 2014 and 2013**  
*(Expressed in Canadian dollars)*

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<b>As at</b>	<b>March 31, 2014</b>	<b>June 30, 2013</b>
<b>Identifiable assets</b>	<b>\$</b>	<b>\$</b>
Canada	<b>708,907</b>	1,257,864
Peru	<b>77,096</b>	51,792
	<b>786,003</b>	1,309,656