



**Unaudited Interim  
Consolidated Financial Statements  
As at and for the three months ended  
September 30, 2013 and 2012**

**NOTICE TO READER**

*The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of management. The unaudited interim consolidated financial statements as at and for the three months ended September 30, 2013 and 2012 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 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

November 28, 2013

*"Stephen Gledhill"*  
Chief Financial Officer

November 28, 2013

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

<i>As at</i>	September 30, 2013	June 30, 2013
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents <i>(note 7)</i>	1,033,933	1,278,565
Accounts receivable	44,580	31,091
<b>Total current assets</b>	<b>1,078,513</b>	<b>1,309,656</b>
<b>Total assets</b>	<b>1,078,513</b>	<b>1,309,656</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities <i>(note 8)</i>	67,955	78,059
<b>Total current liabilities</b>	<b>67,955</b>	<b>78,059</b>
<b>Total liabilities</b>	<b>67,955</b>	<b>78,059</b>
<b>Equity</b>		
Share capital <i>(note 10)</i>	7,413,722	7,413,722
Reserve for warrants <i>(note 10)</i>	-	-
Reserve for share-based payments <i>(note 10)</i>	1,283,568	1,283,568
Deficit	(7,686,732)	(7,465,693)
<b>Total equity</b>	<b>1,010,558</b>	<b>1,231,597</b>
<b>Total liabilities and equity</b>	<b>1,078,513</b>	<b>1,309,656</b>

Approved by the Board on November 28, 2013:

*“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	September 30, 2013	September 30, 2012
	\$	\$
<b>Exploration and evaluation expenditures (note 11)</b>	<b>8,143</b>	489,696
<b>Administrative expenses</b>		
Consulting and professional fees	13,462	8,460
General and administrative	55,986	50,347
Investor relations (note 9)	28,202	10,644
Management fees and salaries (note 11)	129,098	128,050
Share-based compensation (note 9)	-	90,115
Shareholder and public company expenses	1,153	884
<b>Total administrative expenses</b>	<b>227,901</b>	288,500
<b>Total expenses and expenditures</b>	<b>236,044</b>	778,196
<b>Loss before other items</b>	<b>(236,044)</b>	(778,196)
<b>Other items:</b>		
Foreign exchange loss	(2,635)	(6,850)
Interest and other income	17,640	6,606
<b>Loss and comprehensive loss for period</b>	<b>(221,039)</b>	(778,440)
<b>Basic and fully diluted loss per share</b>	<b>(0.00)</b>	(0.02)
<b>Weighted average number of common shares outstanding</b>	<b>51,895,835</b>	50,921,168

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 September 30, 2013 and 2012  
*(Expressed in Canadian dollars)*

	Share Capital		Reserves			Total
	Number of shares	Amount \$	Reserve for Share-based payments \$	Warrants \$	Deficit \$	
<b>Balance, June 30, 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>
Share-based compensation	-	-	90,115	-	-	90,115
Net loss	-	-	-	-	(778,440)	(778,440)
<b>Balance, September 30, 2012</b>	<b>50,921,168</b>	<b>7,340,622</b>	<b>1,211,354</b>	<b>1,637,888</b>	<b>(8,102,118)</b>	<b>2,087,746</b>
Issued for property payments	974,667	73,100	-	-	-	73,100
Share-based compensation	-	-	72,214	-	-	72,214
Fair value of expired warrants	-	-	-	(1,637,888)	1,637,888	-
Net loss	-	-	-	-	(1,001,463)	(1,001,463)
<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	-	-	-	-	(221,039)	(221,039)
<b>Balance, September 30, 2013</b>	<b>51,895,835</b>	<b>7,413,722</b>	<b>1,283,568</b>	<b>-</b>	<b>(7,686,732)</b>	<b>1,010,558</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>Three months ended</b>	<b>September 30, 2013</b>	September 30, 2012
	\$	\$
<b>Operating activities</b>		
Net loss	<b>(221,039)</b>	(778,440)
Adjustments to reconcile net loss to cash flow from operating activities:		
Share-based compensation	-	90,115
Net change in non-cash working capital items:		
Accounts receivable	<b>(13,489)</b>	(34,160)
Accounts payable and accrued liabilities	<b>(10,104)</b>	(8,144)
<b>Cash used in operating activities</b>	<b>(244,632)</b>	(730,629)
<b>Increase (decrease) in cash and cash equivalents at end of period</b>	<b>(244,632)</b>	(730,629)
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>1,033,933</b>	2,198,896
<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 months ended September 30, 2013 and 2012 (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. As at September 30, 2013, the Company has not generated any revenues from operations and used \$244,632 (2012 – \$730,629) funds for operating activities for the three month period ended September 30, 2013. 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, 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

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved by the Company's Board of Directors on November 28, 2013.

##### 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.

##### 3.3 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.

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three months ended September 30, 2013 and 2012**  
*(Expressed in Canadian dollars)*

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- **IFRS 11 Joint Arrangements** – effective for annual periods commencing on or after January 1, 2013, outlines the accounting by entities that jointly control an arrangement.
- **IAS 32 Financial Instruments: Presentation** – effective for annual periods beginning on or after January 1, 2014 with earlier application permitted when applied with the corresponding amendment to IFRS 7. The IASB amended this standard to address inconsistencies identified in applying some of the offsetting criteria. The Company has not early adopted this standard but it 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, reserve accounts and deficit, which as at September 30, 2013 totaled \$1,010,558 (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. 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 three months ended September 30, 2013. 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 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. Fair values of other financial assets are based on Level 1 measurements and the remaining financial instruments are based on Level 2 measurements.

As at September 30, 2013 and 2012, 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 investments.

Fair value estimates are made at a specific point in time, based on relevant market information and



**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
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information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

**i) Credit risk**

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

**Cash and cash equivalents** – Cash and cash equivalents are held with major Canadian and Peruvian banks and therefore the risk of loss is minimal.

**ii) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at September 30, 2013, the Company had working capital of \$1,010,558 (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.

**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.

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
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**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 three month period:

The Company's funds are kept in Canadian and US dollars at a major Canadian financial institution. As at September 30, 2013 and 2012, the Company's exposure to foreign currency balances is as follows:

Account	Foreign Currency	Exposure (\$CDN)	
		September 30, 2013	June 30, 2013
Cash and cash equivalents	US dollar	121,480	189,676
Accounts receivable	US dollar	16,541	13,232

The Company believes that a change of 10% in foreign exchange rates would cause consolidated net loss and comprehensive loss to increase/decrease by \$13,800 (2013 - \$20,300) for the three months ended September 30, 2013 and June 30, 2013.

**7. Cash and cash equivalents**

The balance at September 30, 2013, consists of cash amounting to \$176,288 (June 30, 2013 – \$226,549) and GIC for \$815,505 ((June 30, 2013 - \$1,013,457) on deposit with a major Canadian bank and \$42,140 ((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.

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

	As at,	
	September 30, 2013	June 30, 2013
	\$	\$
1 – 30 days	283	39,313
30 – 60 days	3,043	888
61 – 90 days	573	-
> 90 days	13,556	2,602
Total accounts payable	17,455	37,599
Accrued liabilities	50,500	40,500
Total	67,955	78,059

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three months ended September 30, 2013 and 2012 (Expressed in Canadian dollars)

#### 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 (*note 13*). The Company incurred the following fees and expenses in the normal course of operations in connection with officers and directors, or companies controlled by them, as follows:

Three months ended	September 30, 2013	September 30, 2012
	\$	\$
Management fees	110,550	110,550
Share-based compensation	-	54,715

The Company considers its Chief Executive Officer and Chief Financial Officer to be key management. The remuneration of directors and key management personnel was as follows:

Three months ended	September 30, 2013	September 30, 2012
	\$	\$
Share-based compensation	-	35,402
Directors' fees	17,500	17,500

Key management personnel were not paid post-employment benefits, termination benefits or other long-term benefits during the years ended September 30, 2013 and 2012.

#### 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.

##### Shares issued for property payment

The Company issued 974,667 (2012 - 1,892,000) common shares during the year ended June 30, 2012 in consideration of a property payment pursuant to the amended Purchase Agreement with

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three months ended September 30, 2013 and 2012 (Expressed in Canadian dollars)

Cybersonic (note 11). The Company did not issue any common shares during the three months ended September 30, 2013.

(iii) Escrowed shares:

As at September 30, 2013, the Company had no shares held in escrow (June 30, 2013 – nil). The final number of escrowed shares was released on May 25, 2013.

#### Warrants

A summary of warrant activity for the three month periods ended September 30, 2013 and 2012 is as follows:

	No. of warrants	Weighted average exercise price
		\$
Balance, June 30, 2012 and September 30, 2012	7,975,800	0.58
Expired	(7,975,800)	0.58
<b>Balance, June 30, 2013 and September 30, 2013</b>	<b>-</b>	<b>-</b>

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of the warrant issued in fiscal 2012:

	September 30, 2012
Weighted average information	
Risk-free interest rate	2.7%
Expected life	2.0 years
Expected volatility	171%
Expected dividends	-
Share price on issuance of warrants	\$0.58
Fair value of warrants	\$0.24

#### 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 September 30, 2013, the Company had 2,256,250 (2012 – 2,058,784) options available for issuance.

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
**As at and for the three months ended September 30, 2013 and 2012**  
*(Expressed in Canadian dollars)*

A summary of option activity for the three months ended September 30, 2013 and 2012 is as follows:

	<b>No. of Options</b>	<b>Weighted average exercise price (\$)</b>
Balance at June 30, 2012, June 30 2013 and September 30, 2013	2,933,333	0.59

The following table provides additional information about outstanding stock options at September 30, 2013 and 2012:

<b>September 30, 2013</b>		June 30, 2013		<b>Weighted Average Exercise Price (\$)</b>
<b>No. of Options Outstanding</b>	<b>Remaining Life (Years)</b>	No. of Options Outstanding	Remaining Life (Years)	
<b>133,333</b>	<b>1.7</b>	133,333	1.9	<b>0.30</b>
<b>2,800,000</b>	<b>3.0</b>	2,800,000	3.2	<b>0.60</b>
<b>2,933,333</b>	<b>2.9</b>	<b>2,933,333</b>	3.1	<b>0.59</b>

The following table summarizes the assumptions used with the Black-Scholes valuation model for the determination of the fair value of options issued in fiscal 2012:

	September 30, 2012
<b>Weighted average information</b>	
Risk-free interest rate	1.44%
Expected life	5.0 years
Expected volatility	102%
Expected dividends	-
Share price on issuance of options	\$0.45
Fair value of options	\$0.33

There was no share-based compensation vested during the three months ended September 30, 2013 (September 30, 2012 - \$90,115), 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% (September 30, 2012 - 0%) in determining the expense recorded in the accompanying statements of operations.

**11. Exploration and evaluation expenditures**

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

Caracara Silver Inc.

Notes to the Unaudited Interim Consolidated Financial Statements  
As at and for the three months ended September 30, 2013 and 2012  
(Expressed in Canadian dollars)

	3 months ended		Cumulative to September 30, 2013
	September 30, 2013	September 30, 2012	
	\$	\$	\$
<b>Acquisition costs</b>	-	-	1,963,104
<b>Exploration costs:</b>			
Drilling	-	191,267	426,185
Environmental and community relations	-	1,409	233,416
Assaying and sampling	-	18,436	111,665
Field and camp supplies	-	77,290	567,215
Consulting and professional fees	1,000	22,292	584,689
General exploration expenditures	7,143	179,001	1,620,903
<b>Total exploration costs</b>	<b>8,143</b>	489,696	3,544,073
Recovery from option agreement (see below)	-	-	(243,504)
<b>Total exploration and evaluation expenditures</b>	<b>8,143</b>	489,696	5,263,673

**Mineral projects**

Caracara controls 30 (2012 – 30) 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 (2012 – 13) claims within the administrative department of Cuzco. As of September 30, 2013, all of the 33 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 18 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 14 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.

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);

## Caracara Silver Inc.

### Notes to the Unaudited Interim Consolidated Financial Statements As at and for the three months ended September 30, 2013 and 2012 (Expressed in Canadian dollars)

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- 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 13 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 ended September 30, 2013, the Company did not renew the licenses of 10 of these claims with a total area of 8,000 hectares. The Pilunani project currently consists of three mining concessions.

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. 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.

## 12. Segmented information

### Operating segments

At September 30, 2013, the Company's operations comprise a single reporting operating segment engaged in mineral exploration in Peru. As the operations comprise a single reporting segment, amounts disclosed in the Financial Statements also represent the single reporting segment.

**Caracara Silver Inc.**

**Notes to the Unaudited Interim Consolidated Financial Statements**  
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**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:

	<b>Three months ended</b>	
	<b>September 30, 2013</b>	September 30, 2012
	\$	\$
Consolidated loss		
Canada	<b>(243,676)</b>	(342,216)
Peru	<b>22,637</b>	(436,224)
<b>Total loss</b>	<b>(221,039)</b>	(778,440)
Significant non-cash items:	\$	\$
Canada -		
Share-based compensation	-	90,115
<b>Total significant non-cash items</b>	-	90,115
	<b>September 30, 2013</b>	June 30, 2013
<b>As at</b>	\$	\$
Identifiable assets		
Canada	1,019,832	1,257,864
Peru	58,681	51,792
<b>Total assets</b>	<b>1,078,513</b>	1,309,656