Caracara Silver Inc.

**(formerly Ansue Capital Corp.)**

# Management's Discussion and Analysis

# of the Financial Condition and Results of Operations

# For the three months ended September 30, 2011

December 29, 2011

*This management discussion and analysis ("MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at December 29, 2011. The MD&A of the operating results and financial condition of the Company for the quarter ended September 30, 2011, should be read in conjunction with the Company's unaudited interim consolidated financial statements (the "Financial Statements") and the related notes for the three months ended September 30, 2011. The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars unless otherwise noted. Other information contained in this MD&A has also been prepared by management and is consistent with the data contained in the Financial Statements. Additional information relating to the Company may be found under its profile on SEDAR at www.sedar.com.*

## *MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING ("ICFR")*

Management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. The internal control system was designed to provide reasonable assurance to the Company's management regarding the preparation and presentation of the financial statements.

The inherent limitations in all control systems are such that they can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any have been detected. Therefore, no matter how well designed, ICFR has inherent limitations and can provide only reasonable assurance with respect to financial statement preparation and may not prevent and detect all misstatements.

As the Company is a Venture Issuer (as defined under under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*) ("NI 52-109"), the Company and Management are not required to include representations relating to the establishment and/or maintenance of disclosure controls and procedures ("DC&P) and/or ICFR, as defined in NI 52-109. The reader is directed to disclosure of the inherent limitations of ICFR for small to mid-size companies under the ***Risks and uncertainties*** section of this MD&A with regards to segregation of duties.

## *CAUTIONARY NOTE*

This document contains or refers to forward-looking information. Such forward-looking information includes, among other things, statements regarding targets, estimates and/or assumptions in respect of future production, capital costs and future economic, market and other conditions, and is based on current expectations that involve a number of business risks and uncertainties. Factors that could cause actual results to differ materially from any forward-looking statement include, but are not limited to: the grade and recovery of ore which is mined varying from estimates; exploration and development costs varying significantly from estimates; inflation; fluctuations in commodity prices; delays in the development of the any project caused by unavailability of equipment, labour or supplies, climatic conditions or otherwise; termination or revision of any debt financing; failure to raise additional funds required to finance the completion of a project; and other factors. Forward-looking statements are subject to significant risks and uncertainties and other factors that could cause actual results to differ materially from expected results. Readers should not place undue reliance on forward-looking statements. These forward-looking statements are made as of the date hereof and we assume no responsibility to update them or revise them to reflect new events or circumstances, except as required by law. See the section entitled ***Risks and uncertainties***.

### *Corporate*

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. ("Southern Andes") were approved including the proposed name change of Ansue to Caracara Silver Inc. The head office, principal address and registered and records office of the Company is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, M5H 1T1.

### *Corporate Merger*

On April 13, 2011, Southern Andes and Ansue entered into a Qualifying Transaction, pursuant to which Ansue agreed to acquire from Southern Andes, by issuing 100,000,000 pre-Consolidation shares to Southern Andes (as hereinafter defined), all of the issued and outstanding shares in the capital of Caracara, Alpaca, Solex and the Southern Andes silver assets. In exchange, Ansue agreed to undertake the settlement of the intercompany debt and the acceptance of obligations (of Caracara to issue 3.0 million common shares as set forth in the agreement dated as of September 27, 2010 among Cybersonic Ltd., Caracara and Alpaca, which will, pursuant to an amendment agreement dated as of April 8, 2011, on completion of the Corporate Merger, become an obligation of Ansue to issue an aggregate of 8.6 million pre-Consolidation common shares) on behalf of Southern Andes and Caracara, respectively.

Immediately prior to the completion of the Corporate Merger, Ansue completed a 1 for 3 share consolidation (the "Consolidation") of its capital, after which, Ansue will have 1,353,334 shares outstanding.

Based on the relative ownership percentages of the combined Company by the shareholders of Southern Andes prior to the transaction and former Ansue shareholders, and the composition of the Board of Directors of the newly-combined Company, from an accounting perspective, Caracara is considered to be the accounting acquirer and therefore the Corporate Merger has been accounted for as a reverse takeover. For financial reporting purposes, the Company is considered a continuation of Caracara, the legal subsidiary, except with regard to authorized and issued share capital, which is that of Ansue, the legal parent. Consequently, comparative amounts in these Financial Statements are those of consolidated Caracara only, which are inclusive of Caracara, Solex and Alpaca. Ansue was not considered to be an acquired business under accounting guidance as it was a CPC. Therefore, the Corporate Merger has been accounted for as a capital transaction and not a business combination. Further, under IFRS, as the transaction is not considered to be a business acquisition, *IFRS 3, Business Combination*, is not applicable, and such transactions have been accounted for pursuant to *IFRS 2, Share-based Payments*. Pursuant to *IFRS 2*, an equity-settled, share-based payment is to be measured based on the value of the goods or services received along with the corresponding increase in equity. If the value of the goods or services cannot be measured reliably, the fair value of the equity instruments given up should be used. The fair value of the Caracara equity issued has been determined as follows:

| | $ |
|---|---|
| 1,353,334[1] common shares issued to Ansue shareholders at $0.33 per share[2] *(note 14)* | 446,600 |
| 133,333[1] options issued to Ansue optionholders at $0.42 per option[3] *(note 15)* | 56,000 |
| 46,667[1] broker warrants issued to Ansue brokers at $0.29 per broker warrant[3] *(note 16)* | 13,533 |
| **Fair value of shares issued** | **516,134** |

***Allocated to Ansue's net assets as follows:***

| | $ |
|---|---|
| Cash | 127,112 |
| HST receivable | 4,641 |
| **Net assets** | **131,753** |
| Listing costs | 384,380 |
| **Fair value of shares issued** | **516,134** |

[1] Subsequent to a 1 for 3 share Consolidation.
[2] Note 14 of the Financial Statements discloses the Black-Scholes variables used to determine the fair value of the warrants ($0.12 each) included as part of the Units that were issued at $0.45 each.
[3] Note 14 of the Financial Statements discloses the Black-Scholes variables used to determine the fair value of the options and broker warrants.

On May 31, 2011, Ansue completed a private placement (the "Offering") of 14,242,501 units (each a "Unit") for aggregate gross proceeds of $6,409,125.45. Each Unit was automatically converted for no further consideration into one Company Unit on a post-Consolidation basis immediately upon completion of the Qualifying Transaction. Note 14 discloses the assumptions and variables used in the Black-Scholes option pricing model to determine the fair value of the included 7,121,250 warrants included in the Offering. In connection with the Offering, cash costs of $437,339 were incurred. The selling group received 854,550 broker warrants valued at $303,365 (*notes 14 and 15*). Each Ansue Agent's Warrant will be exercisable until May 31, 2013, for one Ansue Unit on a post-Consolidation basis at the Offering Price.

**Highlights from July 1, 2011 to current date**

***August 19, 2011 –***

The Company closed on the Corporate Merger. See Corporate Merger section of this MD&A for further details.

***September 28, 2011 –***

The Company announced the start of field programs at its Princesa project in Peru. Details may be found in the press release of that date.

***December 15, 2011 –***

An announcement by the Company regarding the preliminary results from its reconnaissance exploration program from its Marcia concession, part of the larger Princesa-Pilunani project. The 2011 field program included regional and property scale geological mapping, channel sampling and more than 65 line kilometres of induced polarization ("IP") surveys over Caracara's Princesa project and on four other key target areas across the Company's large 24,600 hectare land holdings.

**Marcia Project**

Marcia is located approximately 18 kilometres southeast of the Princesa project and has been the site of small scale mining in the past. Historic records show production of 14,320 tons grading 54.8 oz silver per ton and 30% lead by Banco Minero in the early 1970s.

Caracara's exploration work consisting of mapping, trenching and IP surveys has identified zinc and lead mineralization in two discrete mineralized areas known as Marcia 1 and Marcia 2. At

Marcia 1, the site of the historic small scale mining, mineralization consisting of galena and secondary zinc minerals is stratabound and has been remobilized by faulting. Alteration minerals include limonite, jarosite, iron, manganese and barite. Channel samples returned the following values.

| Channel | Zinc % | Lead % | Sample Width (metres) |
|---|---|---|---|
| C-1 | 16.36 | 2.39 | 1.05 |
| C-2 | 14.08 | 3.03 | 1.4 |
| C-3 | 22.21 | 2.29 | 1.7 |
| C-4 | 12.40 | 3.00 | 1.8 |

Trench T-1, exposed continuous mineralization across 16 m grading 3.78% Zinc and 1.01% lead while Trench T-4 located 120 metres south of T-1 assayed 2.14% zinc and 0.5% lead across 11.9 metres.

Marcia 1 has been mapped and sampled across 150 metres of strike and is up to 16 metres in width.

**New Discovery at Marcia 2**

The Marcia 2 showing is a new discovery located 600 metres northeast of Marcia 1. Marcia 2 consists of a series of sub parallel mineralized structures mapped along strike for 350 metres which include disseminations and veins of galena and sphalerite within sub volcanic andesite intrusive and sedimentary breccias.

Very limited sampling has returned high grades of zinc and lead including 15.82% zinc and 23.8% lead across 1 metre in Trench T-8 and 2.72% zinc and 2.49% lead across 4 metres in Trench T-5.
Preliminary geophysical IP profiles suggest that Marcia 1 and Marcia 2 may be surface expressions of a larger buried mineralized target.

**Princesa Project**

At the Princesa project, Caracara geologists have relogged core and developed a new interpretation of the Princesa mineralized structure. Work has also included completion of 29 line kilometres of IP survey across the property.

Although preliminary, the IP work has identified a strong zone of high chargeability which extends 600 metres to the southeast of the interpreted position of the main Princesa structure. This extension area is covered by Quaternary deposits and will be drilled in 2012
Caracara's projects are divided into three work areas known as Princesa, Pilunani and Potoni and total 24,600 hectares of land in 34 concessions.

## Results of operations

During the quarter ended September 30, 2011, the Company incurred net losses of $1,066,826 compared to a net loss for the period ended September 30, 2010, of $341,861. The increase in net loss for the quarter ended September 30, 2011, is two-fold: The comparative period amounts are for a 1-month period given the company was incorporated on September 1, 2010. Second, as the Company has just completed its go-public transaction, the current period contains many costs that (although are ongoing in nature) were not present during the comparative period last year. Details of the increased expenditures follow:

### General and administrative costs

Increased costs of $16,294 during the current quarter are a result of corporate and administrative infrastructure set-up as the Company commences its work plan on its Princesa project.

### Management fees and salaries

Management fees were not incurred during the comparative period. The increase of $117,425 is a result of the administrative management agreement entered into with RG Mining Investments Inc. ("RGMI") (see related-party disclosure in this MD&A). RGMI provides the corporate administrative and accounting services along with the services of the Company's CEO, CFO, VP Exploration, VP Finance and Corporate Secretary.

### Consulting and professional fees

Increased costs of $335,763 during the current quarter are mainly the result of legal fees regarding the Corporate Merger.

### Shareholder, public company costs and investor relations costs

There were no costs under this category in the comparative period. Costs incurred for the quarter of $55,093 are in regards to the Company's go-public transaction and regulatory fees and shareholder reporting during this process.

### Share-based compensation

For the quarterended September 30, 2011, the Company incurred share-based compensation of $263,324 (2010 - $nil). The fair value of the options issued during the quarter totalled $957,000 (2010 - $nil) or $0.33 each. The Black-Scholes option pricing model was utilized to determine the fair value of the options. The following assumptions were used in the valuation: Exercise price - $0.50; risk-free interest rate – 1.44%; expected life – 5.0 years; expected volatility – 102%; and dividend yield of zero.

### Mineral properties

| *Princesa project, Peru* | **3 months ended September 30, 2011** | **Period ended September 30, 2010[1]** | **Cumulative to September 30, 2011** |
|---|---|---|---|
| | $ | $ | $ |
| Acquisition Costs | **120,000** | 156,002 | 718,238 |
| Exploration Costs: | | | |
| Drilling | **-** | - | 95,723 |
| Database | **-** | - | 20,000 |
| Environmental and community relations | **-** | - | 101,857 |
| Assaying and sampling costs | **1,113** | - | 69,110 |
| Field Supplies | **4,810** | - | 72,245 |
| Consulting and professional fees | **33,635** | - | 307,189 |
| General exploration expenses | **88,244** | 170,660 | 1,017,786 |
| | **127,801** | 170,660 | 1,683,909 |
| **Total** | **247,801** | **326,662** | **2,402,147** |

[1] Period from September 1, 2010 (date of incorporation) to September 30, 2010.

### Princesa project

The Princesa project is located approximately 1,000 km southeast of Lima, the capital of Peru, within the administrative department of Puno. It consists of 8 mining concessions covering an area totalling 5,400 hectares which are held by Solex, a wholly-owned Peruvian subsidiary of the Company.

Caracara controls more than 24,000 hectares of land along the Princesa-Pilunani mineralized trend located 210 kilometres north of Juliaca, in Southern Peru. On the key Princesa silver-zinc-lead project, historic drilling of 6,889 metres led to the estimation of NI 43-101-compliant inferred mineral resources of 4.6 million tonnes grading 90.88 grams silver per tonne, 1.69% zinc and 1.66% lead along a zone striking for 1.5 kilometres and to a depth of 150 metres.

On September 27, 2010 (amended April 8, 2011), Caracara signed an agreement (the "Purchase Agreement") with Cybersonic Ltd. ("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 approximately 10,000 hectares of land proximal to the Princesa project area thereby consolidating the Princesa-Pilunani trend.

### Commitments

The terms of the amended agreement provide for the following:

i) Payment of US$30,000 upon execution of the letter of intent (paid, July 16, 2010);
ii) Payment of US$65,000 upon execution and closing of the Purchase Agreement (paid, September 28, 2010)
iii) Payment of US$120,000 upon the 1$^{st}$ anniversary of the closing of the Corporate Merger;
iv) Payment of US$280,000 upon the 2$^{nd}$ anniversary of the closing of the Corporate Merger;
v) Issuance of 1,892,000 common shares of the Company upon the closing of the Corporate Merger (issued October 6, 2011 – *note 19*);
vi) Issuance of 974,666 common shares of the Company upon the 1$^{st}$ anniversary date of the closing of the Corporate Merger.

### Summary of quarterly results:

| | Quarter ended Sept. 30, 2011 $ (IFRS) | Quarter ended June 30, 2011 $ (IFRS) | Quarter ended March 31, 2011 $ IFRS | Quarter ended December 31, 2010 $ IFRS |
|---|---|---|---|---|
| Total revenues | – | – | – | – |
| Net loss | 1,066,826 | 548,873 | 766,724 | 546,043 |
| Basic and diluted net loss per common share | $0.570 | $164.678 | $230.040 | $163.829 |
| Total assets | 5,138,702 | 1,678 | 362,593 | 898,164 |
| Long-term debt | - | - | - | - |
| Shareholders' equity (deficit) | 4,856,521 | (2,192,075) | (1,643,203) | (876,478) |
| Cash dividends declared per common share | - | - | - | - |

| | **Period Sept. 30, 2010[1] $ (IFRS)** |
|---|---|
| Total revenues | – |
| Net loss | 330,435 |
| Basic and diluted net loss per common share | $99.141 |
| Total assets | 1,368,373 |
| Long-term debt | - |
| Shareholders' equity (deficit) | (330,435) |
| Cash dividends declared per common share | - |

[1] The Company was incorporated on September 1, 2010.

The Company's operations are not generally subject to seasonal variations. The timing of exploration activities is influenced primarily by the availability of funds and the identification of suitable exploration targets, however, due to either their location or nature the exploration of some properties may be restricted during certain times of the year due to climatic conditions.

**Liquidity and capital resources**

As at September 30, 2011, the Company had cash and cash equivalents of $5,082,846 and a working capital surplus of $4,856,521 compared to cash and cash equivalents of $138 and a working capital deficiency of $553,214 at June 30, 2011. The increase in the Company's cash and working capital position is attributed to the completion of the Corporate Merger that included a financing done by Ansue that garnered net proceeds (after issuance costs) of $5,971,896.

**Future changes in accounting standards**

**Adoption of new and revised standards and interpretations**

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after July 1, 2011. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has (or will) consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of the Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- **IFRS 9** ***'Financial Instruments: Classification and Measurement'*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. The Company will adopt beginning July 1, 2013.

- **IFRS 10 '*Consolidated Financial Statements'*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The Company will adopt on July 1, 2013.

- **IFRS 11 '*Joint Arrangements'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The Company will adopt on July 1, 2013.

- **IFRS 12 '*Disclosure of Interests in Other Entities'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The Company will adopt on July 1, 2013.

- **IFRS 13 '*Fair Value Measurement'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy. The Company will adopt on July 1, 2013.

As noted, the Company has not early adopted these standards, amendments and interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

**First-time adoption of IFRS**

The Company has adopted IFRS on July 1, 2011 with a transition date of September 1, 2010, the date of incorporation (also the **"Transition Date"**). Under **IFRS 1 *'First time Adoption of International Financial Reporting Standards'***, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied.

The Company elected to take the following IFRS 1 optional exemptions:

- To apply the requirements of **IFRS 3, *Business Combinations**,* prospectively from the Transition Date;

- In accordance with **IFRS 1**, as the Company has elected to implement **IFRS 3** prospectively, it also elects to apply **AIS 27, *Consolidated and Separate Financial Statements*** prospectively;

- To apply the requirements of **IFRS 2, *Share-based payments***, only to equity instruments granted after November 7, 2002, which had not vested as of the Transition Date; and

- Retrospective application of IFRS would require the Company to determine cumulative currency translation difference in accordance with *IAS 21 – The effects of Changes in Foreign Exchange Rates* from the date a subsidiary was formed or acquired. IFRS 1 permits cumulative translation gains and losses to be reset to zero at the transition date. The Company elected to reset all cumulative translation gains and losses to zero in opening deficit at the Transition Date; and

As the Transition Date occurs during the Company's transition year (with the transition period commencing on September 1, 2010 (date of incorporation) and finishing on June 30, 2011), the Company's Consolidated Statement of Financial Position as at the Transition Date is its opening Statement of Financial Position and has not been previously reported (under Canadian GAAP or otherwise) and as such, no reconciliation has been provided.

## Significant accounting policies

### *Going concern*

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, 2011, the Company has not generated any revenues from operations and used $1,016,301 funds for operating activities for the 3 months ended September 30, 2011. 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. These Financial Statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

### *Management estimates*

The preparation of Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates are the assessment of impairment of value of mineral properties, equity component of the convertible debenture, the assumptions used in determining stock based compensation and future income tax asset valuation allowances. Actual results could differ from those estimates.

### *Basis of consolidation*

The preparation of the Financial Statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates, when applicable, relate to asset retirement obligations; property, plant and equipment, recoverability of accounts receivable, valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. The most significant judgements, when applicable, relate to recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

The Financial Statements contain management's judgement and estimates regarding the recoverability of its accounts receivable and the calculation of share-based payments.

### *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.

***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").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

***Equity-settled transactions***

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

***Financial assets***

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables and its related-party loan receivable is classified as held-to-maturity.

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.

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.

***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 trade and other payables 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 the statement of comprehensive income. As at September 30, 2011, the Company has not classified any financial liabilities as FVTPL.

***Impairment of financial assets***

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

***Assets carried at amortized cost***

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

***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.

***Impairment of non-financial assets***

At each date of the 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 the statement of comprehensive income, unless the relevant asset is carried at a re-valued 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 (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.

**Transactions with related parties**

During the 3 months ended September 30, 2011, RG Mining Investments Inc. ("RGMI") charged the Company $147,400 (September 30, 2010 - $nil) for management and administrative fees and $15,000 (September 30, 2010 - $nil) for investor relations and Company web-based set-up costs. RGMI provides management and administrative services to the Company and provides the services of the Company's personnel. The agreement providing the services has a term of 1 year and expires May 31, 2012. It is automatically renewed for successive 12-month periods unless terminated upon 60 days prior notice by either party or upon the criminal conviction, death, disability, incapacity, bankruptcy, insolvency, gross negligence, gross dereliction of duty or gross misconduct, of RGMI or the personnel it provides to the Company. The Company's CEO and CFO beneficially own RGMI.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**Risks and uncertainties**

***Operational***

The operations of the Company are speculative due to the high-risk nature of its business, which is the acquisition, financing, exploration and development of mining properties. The risks below are not the only ones facing the Company. Additional risks not currently known to the Company, or that the Company currently deems immaterial, may also impair the Company's operations. If any of the following risks actually occur, the Company's business, financial condition and operating results could be adversely affected.

***Exploration and development risk***

Caracara's business of exploring mineral resources involves a variety of operational, financial and regulatory risks that are typical in the mining industry. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and Caracara's common shares should be considered speculative.

***Financing risk***

There can be no assurance that any funding required by the Company will become available, and, if so, that it will be offered on reasonable terms or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects or that they can be secured on competitive terms

***Segregation of duties***

Segregation of duties is a basic, key internal control and one of the most difficult to achieve in a small company. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Due to the Company's small size and limited resources, a complete segregation of duties within the Company's accounting group cannot be fully achieved. The result is that the Company is highly reliant on the performance of mitigating procedures during the process of closing its financial statements in order to ensure the financial statements are presented fairly in all material respects. Management will identify and hire additional accounting resources where cost effective and when required. Where it is not cost effective to obtain additional accounting resources, management will review existing mitigating controls and, if appropriate, implement changes to its internal control processes whereby more effective mitigating controls will be adopted.

## Outstanding Share Data

As at December 29, 2011, the Company had 50,921,168 common shares outstanding, 3,033,333 outstanding options and 7,975,000 warrants outstanding.

## General

The Company also discloses information related to its activities on SEDAR at www.sedar.com and on its website www.caracarasilver.com.