Solex del Peru S.A.C. – Silver Operations

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

June 30, 2011

and

June 30, 2010

February 28, 2012

This management discussion and analysis ("MD&A") has been prepared based on information available to Solex del Peru S.A.C. – Silver Operations ("Solex" or the "Company") as at February 28, 2012. The MD&A of the operating results and financial condition of the Company for the years ended June 30, 2011 and 2010, should be read in conjunction with the Company's audited financial statements (the "Financial Statements") and the related notes thereto. 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

Solex del Peru S.A.C. is an exploration stage company. The Company is a wholly-owned subsidiary of Southern Andes Energy Inc. ("SAE"), a publicly-listed company incorporated in Canada whose shares are listed in the TSX Venture Exchange. Solex was incorporated on October 18, 2005.

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 in Lima, Peru.

Contingency

In February 2010, the Company was informed that a claim was filed with respect to payment of US$150,000 owed by the Company as consideration of the acquisition of mineral interests. The Company has accrued this amount.

Corporate Merger

On April 13, 2011, Southern Andes Energy Inc. ("SAE") and Ansue Capital Corp. ("Ansue") entered into a Qualifying Transaction (as such term is defined under the TSX Venture Exchange Policy 2.4), pursuant to which Ansue agreed to acquire from SAE, by issuing 100,000,000 pre-Consolidation (or 33,333,333 post-consolidation) shares, SAE's' interests in Caracara Silver Inc. ("Caracara"), its wholly-owned subsidiary Exploraciones S.A.C. ('Alpaca") and Solex. In exchange, Ansue agreed to undertake the settlement of the intercompany debt and the acceptance of obligations of the Company to issue 1,892,000 common shares and a further 974,667 common shares as well as cash payments totaling US$400,000 to Cybersonic Ltd. ("Cybersonic"), all as set forth in the agreement dated as of September 27, 2010 among Cybersonic, Caracara and Alpaca.

The Qualifying Transaction was completed on August 19, 2011. Based on the relative ownership percentages of the combined Company by the shareholders of SAE 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, the Company is considered to be the accounting acquirer and therefore the Qualifying Transaction has been accounted for as a reverse takeover. For financial reporting purposes, the combined company is considered a continuation of the Company, the legal subsidiary, except with regard to authorized and issued share capital, which is that of Ansue, the legal parent. Ansue was not considered to be an acquired business under accounting guidance as it was a capital pool company. Therefore, the Qualifying Transaction will be accounted for as a capital transaction and not a business combination.

The Financial Statements have been prepared as at June 30, 2011, and as such, do not reflect the Corporate Merger, however, these carve-out financial statements of the Company present the financial position and results of operations on a carve-out basis and represent the silver operations of Solex which remain in the Company just prior to acquisition by Ansue. The carve-out financial statements and notes thereto have been derived from the accounting records of Solex on a carve-out basis. The carve-out financial statements have been presented in accordance with the continuity of interest basis of accounting with financial statement amounts based on amounts recorded by Solex.

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. The proceeds of the Offering were held in escrow until the completion of the Corporate Merger (August 19, 2011).

Results of operations

During the year ended June 30, 2011, the Company incurred a net income of $5,148 (2010 – loss of $148,174).

A summary of the Company's results follows:

	Year ended June 30, 2011	Year ended June 30, 2010
	$	$
Exploration expenditures	**(622)**	(130,755)
Foreign exchange gain (loss)	**5,770**	(17,419)
Net income (loss)	**5,148**	(148,174)

Exploration and evaluation expenditures

Minerals - Silver					
Properties	**Princesa-Bilunani, Other**	**Princesa**	**Pilunani**	**Culiqui-mayo**	**Total**
Acquisition costs	-	-	-	-	-
Licenses	-	13,198	60,184	55,960	129,342
Legal expenses	-	145	657	611	1,413
Litigation provision	-	-	-	159,574	159,574
June 30, 2010	**-**	**13,343**	**60,841**	**216,145**	**290,329**
Acquisition costs	-	-	-	-	-
Logistics	-	-	622	-	622
June 30, 2011	**-**	**-**	**622**	**-**	**622**
Cumulative to June 30, 2011	**870,063**	**193,128**	**324,570**	**388,864**	**1,776,624**

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 that are held by Solex .

The Company controls land along the Princesa-Pilunani mineralized trend located 210 kilometres north of Juliaca, in Southern Peru. The Princesa project is a silver-zinc-lead project.

On September 27, 2010 (amended April 8, 2011), Caracara and SAE signed an agreement (the "Purchase 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 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 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 1st anniversary of the closing of the Qualifying Transaction;
iv) Payment of US$280,000 upon the 2nd anniversary of the closing of the Qualifying Transaction;
v) Issuance of 1,892,000 common shares of the Company upon the closing of the Qualifying Transaction (issued October 6, 2011 – notes 5 and 16); and
vi) Issuance of 974,666 common shares of the Company upon the 1st anniversary date of the closing of the Qualifying Transaction.

Summary of quarterly results:

	Quarter ended Jun. 30, 2011	**Quarter ended Mar. 31, 2011**	**Quarter ended Dec. 31, 2010**	**Quarter ended Sept. 30, 2010**
	$	$	$	$
Total revenues	–	–	–	–
Net loss	–	5,468	(320)	–
Basic and diluted net loss per common share	–	0.55	(0.03)	–
Total assets	–	–	–	–
Long-term debt	–	–	–	–
Shareholders' equity (deficit)	(1,771,476)	(1,771,476)	(1,776,944)	(1,776,624)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Jun. 30, 2010	**Quarter ended Mar. 31, 2010**	**Quarter ended Dec. 31, 2009**	**Quarter ended Sept. 30, 2009**
	$	$	$	$
Total revenues	–	–	–	–
Net loss	(59,270)	(37,044)	(22,226)	(29,634)
Basic and diluted net loss per common share	(5.93)	(3.70)	(2.22)	(2.96)
Total assets	-	-	-	-
Long-term debt	-	-	-	-
Shareholders' equity (deficit)	(1,776,624)	(1,717,354)	(1,680,311)	(1,658,085)
Cash dividends declared per common share	-	-	-	-

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 June 30, 2011, the Company had cash of $nil (2010 - $nil) and a working capital deficit of

$1,767,503 (2010 - $1,772,651), with the majority of the deficiency ($1,623,273; 2010 - $1,613,077)) due to SAE. This amount was repaid to SAE upon completion of the Qualifying Transaction on August 19, 2011. 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.

Significant accounting policies

Continuance of operations

These 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 June 30, 2011, the Company has not generated any revenues from operations, has an accumulated deficit of $1,771,476 (2010 - $1,776,624).

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis and at amounts that differ from those shown in the these financial statements.

The continuity of the Company as a going concern is dependent upon the continued financial support of its shareholders or obtaining equity or debt financing. 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. Actual results could differ from those estimates.

Significant accounting judgments and estimates

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 and equipment. 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.

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.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost.

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 June 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.

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.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Transactions with related parties

For the year ended June 30, 2011, the sole shareholder has funded all operations for the Company including administrative and property maintenance expenses. As at June 30, 2011, the balance due to SAE of $1,623,273 (2010 - $1,613,077) is unsecured and without interest, stated terms, or repayment.

The remuneration of directors and other members of key management during the year is $nil (2010 - $nil).

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.

Political and demographic risk

Some operations of the Company are conducted in Peru, as a result of which Solex will be subject to political instability and changes in government policies, laws and regulations in Peru. Any changes in regulations or shifts in political conditions are beyond the Company's control and may adversely affect Solex's business, including, income taxes, expropriation of property, employment, land use, water use, environmental legislation and exploration safety.

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.

Off-Statement-of-Financial-Position transactions

The Company has no off-statement-of-financial-position transactions.

Outstanding Share Data

As at February 28, 2012, the Company (now the continuing entity after the Corporate Merger) had 51,921,168 common shares, 3,033,333 option and 8,022,467 warrants outstanding.

General

The Company also discloses information related to its activities on SEDAR at www.sedar.com under its continuing entity name of Caracara Silver Inc.