**Management's Discussion and Analysis**

**of the Financial Condition and Results of Operations**

**Three and six months ended December 31, 2013**

February 26, 2014

*This management discussion and analysis ("MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at February 26, 2014. The MD&A of the operating results and financial condition of the Company for the second quarter and 6 months ended December 31, 2013, should be read in conjunction with the Company's unaudited interim consolidated financial statements (the "Financial Statements") and the related notes as at and for the three and six months ended December 31, 2013 and 2012 and the Company's audited consolidated financial statements for the years ended June 30, 2013 and 2012. 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*

Caracara Silver Inc. is focused on acquiring, exploring and developing silver, zinc and lead resources to meet the world's growing demand. The Company holds 43 concessions totalling 29,099 hectares in Southern Peru. The Company is the continuing entity of Ansue Capital Corp. ("Ansue"), which 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. On August 19, 2011, the Company closed on a qualifying transaction and completed the Corporate Merger (see note 4 of the Financial Statements). Based on the relative ownership percentages of the combined Company by the shareholders of Southern Andes prior to the transaction, former Ansue shareholders and the composition of the Board of Directors of the newly-combined Company, from an accounting perspective, Solex del Peru S.A.C. ("Solex") (a former Southern Andes subsidiary) 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 Company is considered a continuation of Solex, a legal subsidiary, except with regard to authorized and issued share capital, which is that of Ansue, the legal parent.

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.

The Financial Statements were approved for issuance by the Board of Directors on February 26, 2014.

## *Option agreement*

On May 3, 2013, the Company announced that it had signed an option agreement with Inversiones Collodi SAC ("IC") with respect to Caracara's Peruvian exploration properties. IC is a private Peruvian mineral exploration and development company based in Lima. Under the terms of the agreement, IC would have the right to earn a 65% interest in the Company's concessions by making exploration expenditures totaling US$12.5 million over a four-year period. In addition, IC would make cash payments to the Company's wholly-owned affiliate company in Peru, totaling US$1.85 million. The Company received US$242,370 as first payment against this total.

However, on October 4, 2013, the Company reported that it had received notice from IC terminating its option agreement. During the four-month period of the agreement, IC carried out a limited 2,400-m drilling program on the Princesa silver-zinc-lead project and did not conduct any drilling on Caracara's principal Pilunani zinc-lead project or the Parcuyo project, as was originally contemplated.

The Company did benefit from a both a US$242,370 option payment and US$1.3M of costs expended on the project by IC, along with the payment of all concession land fees, which will allow the Company to maintain its large 29,000-hectare land position in Peru to May, 2015. The Company further received US$15,000 towards professional services. As a result of the termination of the option agreement, Caracara retains a 100% interest in these highly prospective concessions.

## *Project update*

The Company controls two groups of claims located in the southeast part of Peru. The first group is the Princesa-Pilunani project which consists of 30 (2013 – 30) mineral claims totaling 20,699 hectares located within the Puno Department at approximately 1,000 kilometers to the southeast from Lima, the capital of Peru. This lead-zinc-silver project has been the focus of most of the exploration work carried out by the Company since the Ansue merger. The second group is the Cullquimayo project which consists of

3 (2013 – 13) claims covering 2,400 hectares located within the Cusco Department. In May 2013, 10 claims totaling 6,000 hectares were dropped following a reconnaissance geological survey. As of December 31, 2013, all of these clams were in good standing and were being held by Solex Del Peru SAC, a wholly-owned Peruvian subsidiary of the Company.

The Princesa-Pilunani project is divided into three sub-groups named Princesa, Pilunani and Potoni, all located within a 45 kilometers long metallogenic belt underlined by several lead-zinc+/-silver showings and old mines which are associated with cross cutting structures and diatreme breccia. Twenty of these base metals occurrences are located within the Company's claims including the Princesa mineralized zone which hosts a NI 43-101 inferred resources of 4.6 million tonnes grading 90.88 g/t Ag, 1.69% Zn and 1.66% Pb.

The following paragraphs describe summarily the most significant results from the last exploration program at the Princesa and Pilunani Projects.

***Princesa Project: Princesa property***

In August 2012, 2 ddh's totaling 344.60 meters tested the Princesa Structure vertical continuity of the mineralization cut in holes PRIN07-61 and 62 where mineralization consisted of disseminations, hairline veinlets and locally semi massive blebs of pyrite-galena-sphalerite. The best results of these two holes:

DDH PRIN12-01: 9.2 meters grading 47.4 g/t Ag, 1.10% Zn and 1.47% Pb
DDH PRIN12-02: 33.7 meters grading 9.2 g/t Ag, 0.38% Zn and 0.34% Pb

From May to September 2013, IC completed a drilling program comprised of 16 ddh's totaling 3,048.90 meters which tested the westernmost and the down dip extensions of the Princesa Structure (13 ddh's) and some IP anomalies (3 ddh's).

The most significant results were as follows:

DDH PRIN13-04: Princesa Structure: 17.9 meters grading 14.7 g/t Ag, 0.86% Zn and 0.84% Pb
DDH PRIN13-07: Princesa Structure: 15.2 meters grading 86.1 g/t Ag, 0.77% Zn and 2.56% Pb
DDH PRIN13-08: Princesa Structure: 19.4 meters grading 64.4 g/t Ag, 1.56% Zn and 0.75% Pb
DDH PRIN13-10: Princesa Structure: 31.3 meters grading 25.6 g/t Ag, 1.48% Zn and 0.79% Pb
DDH PRIN13-16: IP Anomaly: 2.1 meters grading 129.6 g/t Ag, 0.3% Zn and 0.62% Pb

Following the termination of the option agreement, IC met all contractual obligations and the Company received all legal, administrative and technical information related to the property. The Company put the property in care and maintenance.

***Pilunani Project: Pilunani Property***

The Company applied to terminate the semi detailed environmental impact study initiated by IC in order to obtain a drilling permit from the Peruvian authorities. The Company plans to test the extension of the sub-surface mineralization occurring at the old Sosa Mine and to do some follow-up drilling on two wide areas underlined by moderate IP anomalies and wide zones of low grade Pb-Zn mineralization cut in previous drillings with occasional high grade Pb-Zn structures. In 2013, all technical data have been reviewed and re-interpreted in order to improve the geological model and to pin point the best drilling targets. These results confirmed the validity of the past results and interpretations.

The old Sosa mine occupies an area of three hectares in the centre part of the mining concession. Limited small scale production occurred in the 1980's but mining operations were ceased in 1984 due to terrorist threats. Mineralization consists of narrow stringers of galena-sphalerite and zinc oxide which appears as a white coloured powder within a mixture of limonite-goethite-jarosite-hematite. Previous work done by South American Goldfields over the historical workings included five trenches spaced 25 m apart and a soil geochemical survey covering an area of 1 km x 1 km. The most significant values in the trenches were:

T-3: Central Part: 2.83% Zn and 1.17% Pb/67 m
T-4: South Part: 5.73% Zn and 1.46% Pb/71 m

South American Goldfields acquired the property between 2004 and 2006, and completed some surface sampling, mapping and ground geophysics and further drilled 9 short ddh's to test the depth and lateral extent of the Sosa Mine mineralization. These holes cut a shallow low-dipping Pb-Zn horizon with an average thickness of 11.5 meters.

The following table shows the best results of this first drilling campaign:

| Hole | From | To | L (m) | Ag g/t | Pb % | Zn % |
|---|---|---|---|---|---|---|
| PIL-1 | - | 20.2 | 20.2 | 6.05 | 5.60 | 6.40 |
| PIL-3 | - | 7.35 | 7.35 | 1.23 | 1.39 | 5.15 |
| PIL-4 | - | 7.1 | 7.1 | 1.05 | 2.05 | 4.63 |
| PIL-6 | - | 15.6 | 15.6 | 3.4 | 1.71 | 5.14 |
| PIL-7 | - | 17.2 | 17.2 | 3.07 | 1.24 | 6.84 |
| PIL-10 | 32.7 | 43.95 | 11.25 | 3.6 | 4.70 | 3.39 |

From March to May 2007, the Company completed a second drill program consisting of 8 ddh's which tested the geochemical and geophysical anomalies surrounding the mine area. Most of these holes have intersected wide zones, tens of metres, with sphalerite-galena-pyrite mineralization as fine disseminations and stringers which explained well the IP anomalies.

The most significant results were as follows:

| Hole | From | To | L (m) | Ag g/t | Pb % | Zn % |
|---|---|---|---|---|---|---|
| PIL-12 | 2.5 | 26.0 | 23.5 | 0.1 | 0.10 | 0.58 |
| PIL-13 | 30.0 | 48.5 | 18.5 | 0.1 | 0.67 | 1.30 |
| | 72.3 | 94.3 | 22.0 | 0.2 | 0.88 | 1.00 |
| PIL-14 | 49.0 | 54.0 | 5.0 | 2.5 | 0.96 | 1.07 |
| | 84.0 | 87.0 | 3.0 | 8.1 | 1.08 | 2.09 |
| PIL-16 | 20.7 | 23.8 | 3.1 | 0.4 | 0.89 | 10.9 |
| PIL-17 | 37.0 | 40.0 | 3.0 | 0.1 | 0.43 | 1.59 |
| | 45.5 | 48.5 | 3.0 | 0.5 | 0.53 | 1.14 |
| PIL-18 | 4.0 | 35.5 | 31.5 | 0.22 | 0.30 | 0.86 |
| | 45.0 | 49.5 | 4.5 | 0.3 | 0.19 | 1.10 |

The Company believes that the Pilunani Property, especially when taking into account that the high grade Pb-Zn mineralisation of the old Sosa Mine is open in all directions, presents a good potential to host a high grade carbonate replacement Zn-Pb deposit. With respect to the areas underlined by the IP mineralization and the wide zones of low grade Pb-Zn mineralization the Company also believe that roots of this system could be richer and be associated to a porphyry system.

The Company is re-evaluating all results obtained during the last exploration program and hopes to receive the permitting required to get ready to drill at Pilunani in April 2014.

### *Results of operations*

**Loss for 3 months ended December 31, 2013 and 2012 – $197,736 vs. $762,616.**

During the 3 months ended December 31, 2013, the Company incurred losses of $197,736 compared to a loss for the same period in 2012 of $762,616. The reduction in net loss for the quarter ended December 31, 2013, is mainly due to reduced exploration activities following the termination of the option agreement.

**Consulting and professional fees - $10,287 vs. $24,321.**

Current quarter costs reflect normalized expense patterns for the operations. The decrease of approximately $14,000 during this period is due to decreased audit accrual.

**General and administrative - $53,850 vs. $76,168.**

The decrease of $22,318 for the period is attributable to reduced administrative fees at the Company's subsidiary.

**Investor relations - $7,581 vs. $11,911.**

The decrease of $4,330 is attributable to reduced convention costs during the three month period.

**Share-based compensation - $Nil vs. $33,362.**

No new options were issued for the current quarter and the difference in share-based compensation from last year is entirely due to the vesting of previously issued options.

**Shareholder and public company expenses - $7,048 vs. $3,808.**

The increase of $3,240 is entirely attributed to increased costs of the Company's 2013 annual special meeting.

**Loss for 6 months ended December 31, 2013 and 2012 – $418,775 vs. $1,541,055.**

During the 6 months ended December 31, 2013, the Company incurred losses of $418,775 compared to a loss for the same period in 2012 of $1,541,055. The reduction in loss for the six months ended December 31, 2013, is mainly attributed to reduced exploration costs during the period as IC carried out the activities prior to the termination of the option agreement. The Company did not incur any major exploration activities following the termination of the agreement.

**Consulting and professional fees - $23,749 vs. $32,780.**

Current period costs reflect normalized expense patterns for operations. The decrease of approximately $9,000 during the period is due to decreased audit accrual.

**General and administrative - $128,384 vs. $144,015.**

The increase of $15,631 for the period is attributable to reduced administrative fees at the Company's subsidiary.

**Investor relations - $35,783 vs. $22,555.**

The increase of $13,228 is attributable to increased investor relations and convention activities during the six month period.

**Share-based compensation - $Nil vs. $123,477.**

No new options were issued for the current period and the difference in share-based compensation from last year is entirely due to the vesting of previously issued options.

**Shareholder and public company expenses - $8,201 vs. $4,692.**

The increase of $3,509 is mainly attributed to increased costs of the Company's 2013 annual special meeting.

## *Exploration and evaluation expenditures*

| | **Three months ended December 31, 2013** | Three months ended December 31, 2012 | **Six months ended December 31, 2013** | Six months ended December 31, 2012 | Cumulative to December 31, 2013 |
|---|---|---|---|---|---|
| | **$** | $ | **$** | $ | $ |
| **Acquisition costs** | **-** | 356,560 | **-** | 356,560 | 1,963,104 |
| **Exploration costs:** | | | | | |
| Drilling | **-** | 28,336 | **-** | 219,603 | 426,185 |
| Environmental and community relations | **-** | 15,995 | **-** | 17,404 | 233,416 |
| Assaying and sampling | **144** | 19,710 | **144** | 38,147 | 111,809 |
| Field and camp supplies | **-** | 54,687 | **-** | 131,977 | 567,215 |
| Consulting and professional fees | **400** | 14,821 | **1,400** | 37,113 | 585,089 |
| General exploration expenditures | **11,310** | 18,849 | **18,453** | 197,850 | 1,632,213 |
| | **11,854** | 152,398 | **19,997** | 642,094 | 3,555,927 |
| Recovery from option agreement (see below) | **-** | - | **(15,463)** | - | (258,967) |
| **Total exploration and evaluation expenditures** | **11,854** | 508,958 | **4,534** | 998,654 | 5,260,063 |

### *Summary of quarterly results*

| | Quarter ended Dec.31, 2013 | Quarter ended Sep. 30, 2013 | Quarter ended Jun. 30, 2013 | Quarter ended Mar. 31, 2013 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Total revenues | – | – | – | – |
| Income/(loss) | (197,736) | (221,039) | 19,061 | (257,908) |
| Basic and diluted net loss per share | – | – | – | (0.005) |
| Total assets | 1,017,223 | 1,078,513 | 1,309,656 | 1,335,077 |
| Long-term debt | – | – | – | – |
| Deficit | (7,884,468) | (7,686,732) | (7,465,693) | (9,122,642) |
| Cash dividends declared per common share | – | – | – | – |

| | Quarter ended Dec. 31, 2012 | Quarter ended Sept. 30, 2012 | Quarter ended Jun. 30, 2012 | Quarter ended Mar. 31, 2012 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| | | | | (Restated) |
| Total revenues | – | – | – | – |
| Income/(loss) | (762,616) | (778,440) | (1,083,210) | (775,785) |
| Basic and diluted net loss per share | (0.01) | (0.02) | (0.03) | (0.02) |
| Total assets | 1,577,756 | 2,280,024 | 2,976,493 | 3,931,058 |
| Long-term debt | – | – | – | – |
| Deficit | (8,864,733) | (8,102,118) | (7,323,678) | (5,874,279) |
| 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 December 31, 2013, the Company had cash and cash equivalents of $978,736 and working capital of $812,822 compared to cash and cash equivalents of $1,278,565 and working capital of $1,231,597 at June 30, 2013. The positive working capital position is attributed to the completion of the Corporate

Merger in 2011, which included a financing completed by Ansue that garnered net proceeds (after issuance costs) of $5,971,897. The Company has not participated in any financing activities since.

The Company is a junior mining company and does not issue debt to finance its operations. It relies entirely on equity financings.

Following the termination of the option agreement by IC in October 2013, the Company will be required to provide more cash for its operations. During the year ended June 30, 2013, the Company received US$242,370 in option payments and a further US$15,000 towards professional services. The Company was expected to receive US$300,000 during the year ending June 30, 2014. As this payment will no longer be received by the Company from IC, it will continue to monitor its cash resources against expenditure forecasts associated with the recent developments to assess its financing requirements.

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

The IASB issued a number of new and revised International Accounting Standards, IFRS, and amendments that are effective for the Company's financial year beginning on July 1, 2013, except as indicated.

- **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.

- **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.

### *Transactions with related parties*

During the 3 months ended December 31, 2013, RG Mining Investments Inc. ("RGMI") charged the Company $110,550 (2012 - $110,550) for management and administrative fees. RGMI provides management and administrative services to the Company and provides the services of the Company's personnel. The agreement providing the services has an existing term expiring on May 31, 2014. The agreement 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.

During the 3 months ended December 31, 2013, the fair value of vested stock options issued to directors and officers of the Company amounted to $Nil (2012 - $26,364).

During the quarter ended December 31, 2013, the Company incurred board of directors' fees of $10,000 (2012 - $17,500).

During the 6 months ended December 31, 2013, RGMI charged the Company $221,100 (2012 - $221,100) for management and administrative fees. The fair value of vested stock options issued to directors and officers of the Company during the 6 months ended December 31, 2013 amounted to $Nil (2012 - $87,513).

During the 6 months ended December 31, 2013, the Company incurred board of directors' fees of $27,500 (2012 - $35,000).

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 are 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, the Company and its wholly-owned subsidiary, 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 the Company's and/or 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.

## *Outstanding Share Data*

As at February 26, 2014, the Company 51,895,835 common shares outstanding and 2,933,333 options outstanding.

## *General*

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