Caracara Silver Inc.

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

Three and nine months ended March 31, 2014

May 27, 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 May 27, 2014. The MD&A of the operating results and financial condition of the Company for the three and nine months ended March 31, 2014, 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 nine months ended March 31, 2014 and 2013 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. The Qualifying Transaction has been accounted for as a reverse takeover. As such, 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 on May 27, 2014.

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 thirty (2013 – thirty) 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 Qualifying Transaction. The second group is the Cullquimayo project which consists of three (2013 – thirteen) claims covering 2,400 hectares located within the Cusco Department. In May 2013, ten claims totaling 6,000 hectares were dropped following a reconnaissance geological survey at Cullquimayo. As of March 31, 2014, all of the Company's claims 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.

<u>Princesa property</u>

The most recent exploration activities took place at Princesa property where Inversiones Collodi completed a 16-holes drill program in order to test the extensions of the inferred resources of Princesa Zone. The program was completed in September 2013. 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

Pilunani property

On February 27th 2014, the Company presented to the Peruvian authorities a semi-detailed environmental impact study in order to obtain a drilling permit to test the extension of the sub-surface mineralization occurring at the old Sosa Mine and to do some follow-up drilling on the NW zone where 3 old drill holes returned wide low grade Pb-Zn values (1-2% Zn equivalent) underlined by moderate IP anomalies. On May 5th 2014, the Company received a report from the Peruvian authorities containing 44 observations which need to be properly addressed before the Company receives any permit. Among these observations, the Company is obliged to comply with a new environmental law that came into effect on April 5th, 2014 where the Environmental Impact Assessment ("EIAsd") would have an additional section regarding "New Standards for Environmental Quality" to monitor and characterize air, soil, water and noise qualities using specific techniques. On May 12th 2014, our environmental consultant sent a group of 5 environmental specialists to the project site to collect the relevant information. The Company's official report will be presented by the beginning of June 2014.

The Sosa mine occupies an area of three hectares in the centre part of the Pilunani mining concession and was the site of limited small scale production until 1984. 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, completed by South American Goldfields prior to 2005, included surface sampling, mapping and ground geophysics. Along with these, five 25m-spaced trenches were dug over the historical Sosa Mine area. The most significant values in the trenches were as follows:

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

Solex acquired the property in 2006 and drilled an additional 9 short diamond drill holes ("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 the 2006 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, Solex 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 the IP anomalies.

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 good potential to host a carbonate replacement Zn-Pb deposit. With respect to the areas underlined by the induced polarization ("IP") mineralization and the wide zones of low grade Pb-Zn mineralization, the Company believes that roots of this system could be associated with a structurally controlled sedimentary system.

The Company is currently planning assay work and revision of old drilling data until June 2014 when it is expected to receive the permitting required to drill at Pilunani.

Results of operations

Loss for 3 months ended March 31, 2014 and 2013 – $210,788 versus $257,909.

The reduction in net loss for the quarter ended March 31, 2014, is due mainly to reduced exploration activities until the issuance of the drilling permits at Pilunani.

Consulting and professional fees - $10,000 vs. $7,000.

Current quarter costs reflect normalized expense patterns for the operations. The increase of $3,000 during this period is due to increased audit accrual.

General and administrative - $75,712 vs. $70,041.

The increase of $5,671 for the period is attributable to increased travel expense during the current period.

Investor relations - $3,236 vs. $1,871.

The increase of $1,365 is attributable to press release expenses 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 - $7,661 vs. $14,558.

The decrease of $6,897 is mainly attributed to regulatory fees incurred early in the comparative period.

Loss for 9 months ended March 31, 2014 and 2013 – $617,712 versus $1,798,964.

The reduction in loss for the nine months ended March 31, 2014, is mainly attributed to reduced exploration costs during the period as Inversiones Collodi SAC carried out the activities prior to the termination of an option agreement. The Company did not incur any major exploration activities following the termination of the agreement.

Consulting and professional fees - $33,749 vs. $39,780.

The decrease of approximately $6,000 during the period is due to higher audit fees in the comparative period.

General and administrative - $204,096 vs. $214,056.

The decrease of $9,960 for the period is attributable to reduced administrative fees at the Company's subsidiary.

Investor relations - $27,168 vs. $24,427.

The increase of $2,741 is attributable to increased convention activities during the nine month period.

Share-based compensation - $nil vs. $156,839.

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 - $15,862 vs. $19,250.

The decrease of $3,388 is mainly attributed to regulatory fees incurred early in the comparative period.

Exploration and evaluation expenditures

	Three months ended		**Nine months ended**		Cumulative to March 31, 2014
	March 31, 2014	March 31, 2013	**March 31, 2014**	March 31, 2013	
	$	$	**$**	$	$
Acquisition costs	**-**	-	**-**	356,463	1,963,104
Exploration costs:					
Drilling	**-**	(63,063)	**-**	156,637	426,185
Environmental and community relations	**-**	4,843	**-**	22,248	233,416
Assaying and sampling	**-**	1,039	144	39,185	111,809
Field and camp supplies	**-**	11,705	**-**	143,682	567,215
Consulting and professional fees	**4,293**	5,092	**5,693**	42,205	589,382
General exploration expenditures	**7,565**	60,180	**26,019**	258,029	1,639,779
	11,858	19,796	**31,856**	661,986	3,567,786
Recovery from option agreement (see below)	**-**	-	**(15,464)**	-	(258,968)
Total exploration and evaluation expenditures	**11,858**	19,795	**16,392**	918,449	5,271,922

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Summary of quarterly results

	Quarter ended Mar.31, 2014	Quarter ended Dec.31, 2013	Quarter ended Sep. 30, 2013	Quarter ended Jun. 30, 2013
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(210,788)	(185,885)	(221,039)	19,061
Basic and diluted net loss per share	–	–	–	–
Total assets	786,003	1,017,223	1,078,513	1,309,656
Long-term debt	–	–	–	–
Deficit	(8,083,405)	(7,884,468)	(7,686,732)	(7,465,693)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Mar. 31, 2013	Quarter ended Dec. 31, 2012	Quarter ended Sept. 30, 2012	Quarter ended Jun. 30, 2012
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(257,908)	(762,616)	(778,440)	(1,083,210)
Basic and diluted net loss per share	(0.01)	(0.01)	(0.02)	(0.03)
Total assets	1,335,077	1,577,756	2,280,024	2,976,493
Long-term debt	–	–	–	–
Deficit	(9,122,642)	(8,864,733)	(8,102,118)	(7,323,678)
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 March 31, 2014, the Company had cash and cash equivalents of $703,675 and working capital of $613,885 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 Qualifying Transaction, 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.

Following the termination of the option agreement by IC in October 2013, the Company will be required to provide more cash for its exploration activities. 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

- **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.

Transactions with related parties

During the 3 months ended March 31, 2014, RG Mining Investments Inc. ("RGMI") charged the Company $110,550 (2013 - $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. As the agreement was not terminated on April 1, 2014, it has been renewed for a further 12 months. The Company's CEO and CFO beneficially own RGMI.

During the 3 months ended March 31, 2014, the Company incurred board of directors' fees of $25,000 (2013 - $17,500).

During the 3 months ended March 31, 2014, the fair value of vested stock options issued to directors and officers of the Company amounted to $nil (2013 - $22,639).

During the 9 months ended March 31, 2014, RGMI charged the Company $331,650 (2013 - $331,650) for management and administrative fees.

During the 9 months ended March 31, 2014, the Company incurred board of directors' fees of $52,500 (2013 - $52,500).

During the 9 months ended March 31, 2014, the fair value of vested stock options issued to directors and officers of the Company amounted to $nil (2013 - $106,426).

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 May 27, 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.