Caracara Silver Inc.

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

for the year ended June 30, 2014

October 22, 2014

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This management discussion and analysis ("MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at October 22, 2014. The MD&A of the operating results and financial condition of the Company for the year ended June 30, 2014, should be read in conjunction with the Company's audited annual consolidated financial statements (the "Financial Statements") and the related notes as at and for the years ended June 30, 2014 and 2013. 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 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. (the "Company" or "Caracara") was incorporated under the laws of British Columbia on December 3, 2009.

The principal business activity of the Company is the acquisition, exploration and development of mineral properties in Peru. The Company's main and registered office is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, Canada, M5H 1T1.

The Financial Statements were approved for issuance by the Board of Directors on October 21, 2014.

Project update

The Company controls two groups of claims located within Puno and Cusco regions at approximately 1,000 kilometers to the southeast from Lima, the capital of Peru. In Puno, the Company holds the Princesa-Pilunani project which consists of eleven (2013 – thirty) mineral claims. This lead-zinc-silver project has been the focus of most of the exploration work carried out by the Company. The second group is the Cullquimayo project which consists of three (2013 – three) claims located within the Cusco region. As of June 30, 2014, all of the Company's claims were in good standing and were being held by Solex Del Peru SAC ("Solex"), 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 National Instrument 43-101 ("NI 43-101") inferred resources of 4.6 million tonnes grading 90.88 g/t Ag, 1.69% Zn and 1.66% Pb.

Princesa property

During the year ended June 30, 2013, Inversiones Collodi ("IC") completed a 16-holes drill program with the objectives of testing the lateral and vertical extensions of the Princesa structure and as infill drilling to increase the inferred resources of Princesa Zone. The program was completed in September 2013 and 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

IC concluded that the results of this drilling phase, mainly the lack of continuity of the Princesa Zone at depth, did not justify further drilling and they terminated the option agreement on October, 4, 2013. Since then, the Company has put the Princesa property on care and maintenance.

Pilunani property

On February 27, 2014, the Company presented to the Peruvian authorities a Semi-Detailed Environmental Impact Study ("EIAsd") in order to obtain a drilling permit at the Pilunani mining concession. The program was planned to begin in early August 2014 and aimed to test the extensions of the sub-surface mineralization occurring at the old Sosa Mine and as follow-up drilling on the NW and NE zones where previous drill holes returned tens of metres low grade Pb-Zn values (1-2% Zn equivalent). As of June 30, 2014, the Company has not yet received the approval of the EIAsd from the Peruvian authorities. The Company answered all the observations contained in the initial report including those from a new environmental law that came into effect on April 5, 2014, where the EIAsd has to include a new section related to "New Standards for Environmental Quality" for monitoring air, soil, water and noise qualities.

The old 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 within a mixture of limonite-goethite-jarosite-hematite. Previous surface work by South American Goldfields prior to 2005 included mapping, ground geophysics and five 25m-spaced trenches were dug over the old Sosa Mine area. The most significant values in the trenches were as follows:

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

Solex acquired the property in 2006 and drilled an additional 9 short diamond drill holes to test the depth and lateral extent of the Sosa Mine mineralization. These holes cut a shallow sub-horizontal Pb-Zn manto 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	0.0	20.2	20.2	6.05	5.60	6.40
PIL-3	0.0	7.35	7.35	1.23	1.39	5.15
PIL-4	0.0	7.1	7.1	1.05	2.05	4.63
PIL-6	0.0	15.6	15.6	3.4	1.71	5.14
PIL-7	0.0	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 induced polarization ("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 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 continues its monitoring of the EIAsd and will plan the drilling program only once the permit is officially delivered.

The Company is pleased for the full support and understanding of the Picotani community while the permitting process has taken more time than normally. The Company is maintaining continuous dialogue with all members of this community.

Results of operations

Years ended June 30, 2014 and 2013

During the year ended June 30, 2014, the Company incurred net losses of $740,328 (or, $0.01 per share) compared to a net loss for the year ended June 30, 2013, of $1,779,903 (or, $0.03 per share). The decrease in net losses for the year ended June 30, 2014, is due to reduced corporate and exploration activities. Details of the expenditures follow:

Consulting and professional fees $32,914 (2013 - $57,780)

Decreased costs of $24,866 are mainly the result of reduced audit fees for the year ended June 30, 2014.

General and administrative costs $199,032 (2013 - $218,873)

General and Administrative Costs decreased $19,841 due to reduced cost in Peru's administrative expenses. In May 2013, the Company restructured the subsidiary offices in Peru and replaced the Country Manager which will result in further savings of administrative expenditures in the future.

Directors' fees and expenses $71,470 (2013 - $81,565)

Directors' fees and expenses decreased $10,095 due to reduced Board expenses in the current year.

Investor relations costs $29,596 (2013 - $28,551)

Investor relations costs for the current year are consistent with the prior year's spending.

Management fees and salaries $442,200 (2013 – $442,200)

Billing for management fees by RG Mining Investment Inc is consistent with 2013 and per the contracted agreement.

Share-based payments $nil (2013 - $162,329)

The Company did not incur any share-based payments during the year ended June 30, 2014, as there were no grants of new options.

Shareholder and public company costs $16,721 (2013 - $21,529)

Filing fee costs during the year ended June 30, 2014, reflect reduced reporting activities.

Interest and other income $112,087 (2013 - $16,333)

Other income for the current year included a payment by IC of $107,030 toward the renewal of licence fees in 2014, therefore fulfilling all its obligations pursuant to the option agreement. Slightly offsetting the increase, the Company received $5,057 of interest in the current year versus $16,333 during the year ended June 30, 2013.

Exploration and evaluation expenditures

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

	Year ended June 30, 2014	Year ended June 30, 2013	Cumulative form June 1, 2011 to June 30, 2014
	$	$	$
Acquisition costs	**-**	352,190	1,963,104
Exploration costs:			
Drilling	**-**	129,576	426,185
Environmental and community relations	**-**	11,376	233,416
Assaying and sampling	**144**	18,795	111,809
Field and camp supplies	**-**	117,561	567,215
Consulting and professional fees	**8,752**	57,195	592,441
General exploration expenditures	**68,536**	332,032	1,682,296
Total exploration costs	**77,432**	666,535	3,613,362
Recovery due to option agreement	**(15,464)**	(243,504)	(258,968)
Total exploration and evaluation expenditures	**61,968**	775,221	5,317,498

Selected Annual Information

Following is selected annual information for each of the three most recently completed financial years:

	June 30, 2014	**June 30, 2013**	**June 30, 2012**
	$	$	$
Total revenues	-	-	-
Net loss	(740,328)	(1,779,903)	(5,186,014)
Basic and diluted net loss per common share	(0.01)	(0.03)	(0.12)
Total assets	543,670	1,309,656	2,976,493
Long-term debt	-	-	-
Retained deficit	(8,206,021)	(7,465,693)	(7,323,678)
Cash dividends declared per common share	-	-	-

Summary of quarterly results

Following is selected quarterly information for each of the eight most recently completed financial quarters:

	Quarter ended Jun.30, 2014	Quarter ended Mar.31, 2014	Quarter ended Dec.31, 2013	Quarter ended Sep. 30, 2013
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(122,616)	(210,788)	(185,885)	(221,039)
Basic and diluted net loss per share	(0.00)	(0.00)	(0.00)	(0.01)
Total assets	543,670	786,003	1,017,223	1,078,513
Long-term debt	–	–	–	–
Deficit	(8,206,021)	(8,083,405)	(7,884,468)	(7,686,732)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Jun. 30, 2013	Quarter ended Mar. 31, 2013	Quarter ended Dec. 31, 2012	Quarter ended Sept. 30, 2012
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	19,061	(257,908)	(762,616)	(778,440)
Basic and diluted net loss per share	(0.00)	(0.00)	(0.01)	(0.02)
Total assets	1,309,656	1,335,077	1,577,756	2,280,024
Long-term debt	–	–	–	–
Deficit	(7,465,693)	(9,122,642)	(8,864,733)	(8,102,118)
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, 2014, the Company had cash and cash equivalents of $467,006 and working capital of $491,269 compared to cash and cash equivalents of $1,278,565 and working capital of $1,231,597 at June 30, 2013. The Company has not participated in any financing activities during the year ended June 30, 2014.

Cash and cash equivalents decreased in the current year by $811,559 primarily due to operating expenditures of $740,328 and by increases in accounts receivable of $45,573 and decreases in accounts payable of $25,658. The Company had no financing or investing activities during the current year.

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

During the year ended June 30, 2014, the Company received $15,464 (2013 - $242,370) in option payments. Under the terminated option agreement, the Company was expected to receive US$300,000 during the year ended June 30, 2014. As this payment has not been received, the Company will continue to monitor its cash resources against expenditure forecasts to assess its financing requirements.

Adoption of new and revised standards and interpretations

The International Accounting Standards Board issued new and revised International Accounting Standards, IFRS, and amendments that are effective for the Company's financial year as indicated.

IFRS 9 *Financial Instruments* (2014)

This is a finalized version of IFRS 9, which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment**. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognized
- **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
- **Derecognition**. The derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is applicable to the Company's annual periods beginning on July 1, 2018.

Significant accounting policies

Continuance of operations

The Financial Statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at June 30, 2014, the Company has not generated any revenues from operations and used $811,559 (2013 - $1,650,960) for operating activities for the year. 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 short-term commitments as they become due. 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, for longer term obligations. The 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 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; amortization and depreciation on 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.

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 and cash equivalents 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 June 30, 2014, the Company has not classified any financial liabilities as FVTPL.

Transactions with related parties

During the year ended June 30, 2014, RG Mining Investments Inc. ("RGMI") charged the Company $442,200 (2013 - $442,200) 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 had a term of 1 year and expired May 31, 2013. It was automatically renewed for a successive 12-month period and 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 year ended June 30, 2014, the Company incurred board of directors' fees and expenses of $71,470 (2013 – $81,565) and $1,470 (2013 - $11,565) of expenses.

During the year ended June 30, 2014, the fair value of vested stock options issued to directors, officers and employees of the Company amounted to $nil (2013 - $150,734).

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

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 October 22, 2014, the Company had 51,895,835 common shares outstanding, 2,933,333 options outstanding and no 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.