Management's Discussion and Analysis

of the Financial Condition and Results of Operations

Three and six months ended December 31, 2014

February 27, 2015

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 27, 2015. The MD&A of the operating results and financial condition of the Company for the three and six months ended December 31, 2014, should be read in conjunction with the Company's unaudited interim consolidated financial statements and the related notes as at and for the three and six months ended December 31, 2014 and 2013 and the Company's audited consolidated financial statements for the years ended June 30, 2014 and 2013 (altogether, the "Financial Statements"). 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. (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 February 26, 2015.

Project update

The Company's Princesa-Pilunani project consists of 11 (2013 – 30) mineral claims totaling 6,900 hectares, located within the Puno region 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. In July 2014, the Company did not renew the licenses of the remaining 3 claims that comprising the Cullquimayo Project (December 31, 2013 – 3). As of December 31, 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 occurrences which are associated with cross cutting structures and diatreme breccia. As of today, Potoni and Princesa remain inactive while at Pilunani, a drilling permit is pending for approval.

The most significant mineralization found on the Company' claims is at 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.

Pilunani property

The approval for a drilling permit presented by the Company to the Peruvian authorities in February 2014 is still pending. The Company has hired an environmental consulting firm to help with the application and re-submitted a revised version of the Semi Detailed Environmental Impact Study ("EIAsd") in October 2014. The drilling program which was originally planned to start in August 2014 has now been re-scheduled to April 2015. The first phase of drilling will test the extensions of the sub-surface mineralization occurring at the old Sosa Mine and if results are positive, a second phase will probe the NW and NE zones where previous drill holes returned tens of metres of low grade Pb-Zn values (1-2% Zn equivalent).

The old Sosa Mine had been 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 included mapping, ground geophysics and five 25m-spaced trenches which returned impressive results such as 71 meters grading 5.73% Zn and 1.46% Pb (T-4).

Solex acquired the property in 2006 and drilled 9 short diamond drill holes to test the 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

In 2007, Solex completed a second drill program consisting of 8 diamond drill holes ("DDHs") which tested the geochemical and geophysical anomalies surrounding the mine area. Most of these holes 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 has a good potential to host a Zn-Pb carbonate replacement or a structurally controlled sedimentary deposit ttaking into account the high grade Pb-Zn mineralisation of the old Sosa Mine and the wide zones of low grade Pb-Zn mineralization associated to the IP anomalies.

The Company is pleased with the 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

Net loss for 3 months ended December 31, 2014 and 2013 – $164,286 vs. $197,736.

During the 3 months ended December 31, 2014, the Company incurred net losses of $164,286 compared to a net loss for the same period in 2013 of $197,736. The reduction in net loss for the quarter ended December 31, 2014, is mainly due to reduced office expenditures in Peru as well as reduction in investor relations activities during the current period.

Consulting and professional fees - $4,480 vs. $10,287.

The decrease is mainly due to reduced audit fees accruals for this period. In addition, there were no legal expenses during the current period (2013 – $2,007).

General and administrative - $22,291 vs. $35,301.

The decrease of $23,150 this period is attributable to reduced administrative fees incurred at the project level.

Investor relations - $146 vs. $7,581.

The decrease of $7,425 is attributable to reduced convention and investor relations activities.

Shareholder and public company expenses – $2,786 vs. $7,048.

The decrease of $4,262 is attributable to reduced public relations activities.

Net loss for 6 months ended December 31, 2014 and 2013 – $363,807 vs. $418,775.

During the 6 months ended December 31, 2014, the Company incurred net losses of $363,807 compared to a net loss for the same period in 2013 of $418,775. The reduction in net loss for the 6 months ended December 31, 2014, is mainly due to reduced office expenditures in Peru as well as reduction in investor relations activities during the current period.

Consulting and professional fees - $10,480 vs. $23,749.

The decrease is mainly due to reduced audit fee accruals for this period. In addition, there were no legal expenses during the current period (2013 – $5,469).

General and administrative - $55,682 vs. $91,287.

The decrease of $35,605 this period is attributable to reduced administrative fees incurred at the project level.

Investor relations - $3,682 vs. $35,783.

The decrease of $32,101 is attributable to reduced convention and investor relations activities.

Shareholder and public company expenses – $3,562 vs. $8,201.

The decrease of $4,639 is attributable to reduced public relations activities.

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Exploration and evaluation expenditures

	Three months ended		Six months ended		Cumulative
	Dec. 31, 2014	Dec. 31, 2013	**Dec. 31, 2014**	Dec. 31, 2013	Dec. 31, 2014
	$	$	**$**	$	$
Acquisition costs	**-**	-	**-**	-	1,963,104
Exploration costs:					
Drilling	**-**	-	**-**	-	426,185
Environmental and community relations	**-**	-	**-**	-	233,416
Assaying and sampling	**-**	144	**-**	144	111,809
Field and camp supplies	**-**	-	**-**	-	567,215
Consulting and professional fees	**-**	400	**2,054**	1,400	594,495
General exploration expenditures	**7,307**	11,310	**34,390**	18,454	1,716,686
	7,307	11,854	**36,444**	19,998	3,649,806
Recovery from option agreement (see below)	**-**	-	**-**	(15,464)	(258,968)
Total exploration and evaluation expenditures	**7,307**	11,854	**36,444**	4,534	5,353,942

Summary of quarterly results

	Quarter ended Dec. 31, 2014	**Quarter ended Sep. 30, 2014**	**Quarter ended Jun. 30, 2014**	**Quarter ended Mar. 31, 2014**
	$	$	$	$
Total revenues	–	–	–	–
Net Income/(Loss)	(164,286)	(199,521)	(122,616)	(210,788)
Basic and diluted net loss per share	0.00	0.00	0.00	0.00
Total assets	196,738	336,076	543,670	786,003
Long-term debt	–	–	–	–
Deficit	(8,569,828)	(8,405,542)	(8,206,021)	(8,083,405)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Dec. 31, 2013	**Quarter ended Sept. 30, 2013**	**Quarter ended Jun. 30, 2013**	**Quarter ended Mar. 31, 2013**
	$	$	$	$
Total revenues	–	–	–	–
Net loss	(185,885)	(221,039)	19,061	(257,908)
Basic and diluted net loss per share	0.00	0.01	0.00	(0.01)
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	–	–	–	–

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, 2014, the Company had cash and cash equivalents of $135,096 and working capital of $127,462 compared to cash and cash equivalents of $467,006 and working capital of $491,269 at June 30, 2014. The Company has not participated in any financing activities during the six months ended December 31, 2014.

Cash and cash equivalents decreased in the current period by $331,910, entirely due to operating activities consisting of a net loss of $363,807, decreases in accounts receivable of $15,022 and increases in accounts payable of $16,875. The Company had no financing or investing activities during the current period.

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

Adoption of new and revised standards and interpretations

A final version of IFRS 9, which contains accounting requirements for financial instruments is 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 requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 9 is applicable to the Company's annual periods beginning July 1, 2018. The Company has not yet adopted this Standard.

Transactions with related parties

During the 3 months ended December 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 had a term of 1 year and expired on May 31, 2013. It has automatically renewed for successive 12-month periods and will continue to do so 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, 2014, the Company incurred board of directors' fees and expenses of $18,549 (2013 - $18,549).

During the 6 months ended December 31, 2014, RGMI charged the Company $221,100 (2013 - $221,100) for management and administrative fees. During the same 6-month period, the Company incurred board of directors' fees and expenses of $37,097 (2013 - $37,097).

As at December 31, 2014, the Company's accounts payable included amounts owed to related parties for $18,548 (June 30, 2014 - $nil).

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 27, 2015, 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.