



**Management's Discussion and Analysis  
of the Financial Condition and Results of Operations  
Three and nine months ended March 31, 2015**

**Caracara Silver Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended March 31, 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 June 1, 2015. The MD&A of the operating results and financial condition of the Company for the three and nine months ended March 31, 2015, 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 nine months ended March 31, 2015 and 2014 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](http://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 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**.

**Caracara Silver Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended March 31, 2015**

---

**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 May 29, 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.

All of the Company's projects in Peru have been put on care and maintenance and have been maintained in good standing pending an improvement in the financing environment for mineral exploration projects.

**Pilunani property**

Solex acquired the property in 2006 and drilled 9 short diamond drill holes to test the extent of the mineralization. These holes cut a shallow sub-horizontal lead-zinc manto with an average thickness of 11.5 meters. The following table shows the best results of the 2006 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 lead-zinc carbonate replacement or a structurally controlled sedimentary deposit taking into account the high grade lead-zinc mineralisation of the old Sosa Mine and the wide zones of low grade Pb-Zn mineralization associated to the IP anomalies.

The approval for a drilling permit presented by the Company to the Peruvian authorities in February 2014 was denied on May 5<sup>th</sup>, 2014 due to the introduction of more stringent environmental laws which require

**Caracara Silver Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended March 31, 2015**

---

additional air, water and soil base line testing prior to the issuance of drill permits. The Company 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. Each reapplication of the revised EIASd was met with requests for additional revisions. By February, 2015, with no successful outcome for the EIASd application, the Company decided to put the project on care and maintenance pending an improvement in the financing environment.

***Results of operations***

**Net loss for 3 months ended March 31, 2015 and 2014 – \$165,957 vs. \$219,017**

Significant changes over the quarter are detailed below:

**Consulting and professional fees - \$6,000 vs. \$10,000**

The decrease is due to reduced legal fees in the current quarter.

**General and administrative - \$20,026 vs. \$55,722**

The decrease of \$35,696 this period is attributable to reduced administrative fees incurred at the project level.

**Investor relations - \$340 vs. \$3,236**

The decrease of \$2,896 is attributable to reduced convention and investor relations activities.

**Net loss for 9 months ended March 31, 2015 and 2014 – \$529,454 vs. \$617,712**

Significant changes over the period are detailed below:

**Consulting and professional fees - \$16,480 vs. \$33,749**

The decrease is mainly due to reduced audit fee accruals for this period. Insurance and legal fees have also been reduced.

**General and administrative - \$74,660 vs. \$147,047**

The decrease of \$72,387 is mainly due to reduced administrative fees incurred at the project level. Corporate travel has also be reduced.

**Investor relations - \$4,022 vs. \$27,168**

The decrease of \$23,146 is attributable to reduced convention and show participation by the Company.

**Shareholder and public company expenses – \$9,596 vs. \$15,862**

The decrease of \$6,266 is attributable to reduced public relations activities.

*Remainder of page left blank intentionally.*

**Caracara Silver Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended March 31, 2015**

**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
	\$	\$	\$	\$	\$
<b>Acquisition costs</b>	-	-	-	-	1,963,104
<b>Exploration costs:</b>					
Drilling	-	-	-	-	426,185
Environmental and community relations	-	-	-	-	233,416
Assaying and sampling	-	-	-	144	111,809
Field and camp supplies	-	-	-	-	567,215
Consulting and professional fees	-	4,293	<b>2,054</b>	5,693	594,494
General exploration expenditures	<b>6,438</b>	7,565	<b>40,828</b>	20,019	1,723,124
	<b>6,438</b>	11,858	<b>42,882</b>	31,856	3,656,244
Recovery from option agreement (see below)	-	-	-	(15,464)	(258,968)
<b>Total exploration and evaluation expenditures</b>	<b>6,438</b>	11,858	<b>42,882</b>	16,392	5,360,380

**Summary of quarterly results**

	Quarter ended Mar. 31, 2015	Quarter ended Dec. 31, 2014	Quarter ended Sep. 30, 2014	Quarter ended Jun. 30, 2014
	\$	\$	\$	\$
Total revenues	-	-	-	-
Net Income/(Loss)	(165,647)	(164,286)	(199,521)	(122,616)
Basic and diluted net loss per share	0.00	0.00	0.00	0.00
Total assets	94,397	196,738	336,076	543,670
Long-term debt	-	-	-	-
Deficit	(8,735,475)	(8,569,828)	(8,405,542)	(8,206,021)
Cash dividends declared per common share	-	-	-	-

*Remainder of page left blank intentionally.*

**Caracara Silver Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended March 31, 2015**

	Quarter ended Mar. 31, 2014	Quarter ended Dec. 31, 2013	Quarter ended Sep. 30, 2013	Quarter ended Jun. 30, 2013
	\$	\$	\$	\$
Total revenues	–	–	–	–
Net loss	(210,788)	(185,885)	(221,039)	19,061
Basic and diluted net loss per share	0.00	0.00	0.01	0.00
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	–	–	–	–

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, 2015, the Company had cash and cash equivalents of \$35,267 and working capital deficit of \$38,185 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 nine months ended March 31, 2015.

Cash and cash equivalents decreased in the current period by \$431,739, entirely due to operating activities consisting of a net loss of \$529,454, offset by decreases in accounts receivable balances of \$17,534 and increases in accounts payable balances of \$80,181. 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***

At the date of authorization of the Financial Statements, the IASB and IFRIC have issued the following revised Standards which are not yet effective for the relevant reporting periods and for which the Company has not early adopted. However, the Company is currently assessing what impact the application of these Standards or amendments will have on the consolidated financial statements of the Company.

- 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.
- IFRS 15 – '*Revenue from Contracts with Customers*' – this Standard will replace IAS 11, Construction Contracts and IAS 18, Revenue. The mandatory effective date of IFRS 15 is January

**Caracara Silver Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended March 31, 2015**

---

1, 2017. The objective of IFRS 15 is to establish a single, principles based five-step model to be applied to all contracts with customers in determining how and when revenue is recognized. IFRS 15 also requires entities to provide users of financial statements with more informative and relevant disclosures.

***Transactions with related parties***

During the 3 months ended March 31, 2015, 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 March 31, 2015, the Company incurred board of directors' fees and expenses of \$17,500 (2014 - \$25,000).

During the 9 months ended March 31, 2015, RGMI charged the Company \$331,650 (2014 - \$331,650) for management and administrative fees. During the same 9-month period, the Company incurred board of directors' fees and expenses of \$52,500 (2014 - \$52,500).

As at March 31, 2015, the Company's accounts payable included amounts owed to related parties for \$89,151 (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

**Caracara Silver Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended March 31, 2015**

---

**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 June 1, 2015, the Company has 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](http://www.sedar.com) and on its website [www.caracarasilver.com](http://www.caracarasilver.com).