Caracara Silver Inc.

Annual

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

for the year ended June 30, 2016

October 20, 2016

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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 20, 2016. The MD&A of the operating results and financial condition of the Company for the year ended June 30, 2016, 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, 2016 and 2015. The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") 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, nor has it completed such an evaluation. Inherent limitations on the ability of the certifying officers to design and implement on a cost effective bases DC&P and ICFR for the issuer may result in additional risks of quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation. 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 20, 2016.

At the annual general and special meeting of its shareholders (the "AGSM") held on August 29, 2016, the shareholders of the Company approved, among other items, amending the Company's articles to allow the directors of the Company to approve the subdivision or consolidation of any or all of its shares without further shareholder approval as well as the option agreement of the Company's Princesa-Pilunani mineral concessions (the "Option Agreement").

As the Option Agreement constitutes the Company's main asset, the TSXV has advised Caracara that it no longer met the continued listing requirements of the TSXV. As of October 17, 2016, the Company has been migrated to the NEX market and its trading symbol changed to CSV.H.

In September 2015, the Company completed a loan financing for gross proceeds of $60,000, for which the Company issued a promissory note (the "Note") accruing interest at 12% per annum. The principal and any accrued and unpaid interest owing will become due and be paid in full on the completion of any private placement completed by Caracara.

The Option Agreement and Princesa-Pilunani project

During the year ended June 30, 2016, the Company was not able to maintain all of its concessions within its Princesa-Pilunani project, allowing 8 to lapse but retaining 3 of the core claims of its Princesa sub-project. As at June 30, 2016, the Company's Princesa project consists of 3 mineral claims (2015 – 11, for Princesa and Pilunani sub-projects), located within the Puno region southeast from Lima, the capital of Peru.

On August 31, 2016, the Company executed the Option Agreement with Alcon Exploration Corp. ("Alcon"), whereby Alcon has the option to earn a 100% interest in the Company's Princesa silver concessions located in Peru (the "Property").

Alcon can exercise the option by paying the Caracara an aggregate of $250,000 (of which $50,000 has been paid to the Company upon the execution of the Agreement) in various installments over a three-year period and issuing 2,000,000 common shares of Alcon to Caracara upon closing of a going-public transaction in accordance with the terms of the Agreement. If the option is exercised, Caracara shall retain a 1.5% net smelter returns royalty in the Property, subject to the right of Alcon to purchase 1% of the royalty for a payment to Caracara of USD$1,000,000.

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

	Year ended June 30, 2016	Year ended June 30, 2015	Cumulative to June 30, 2016
	$	$	$
Acquisition costs	**-**	-	1,963,104
Exploration costs:			
Drilling	**-**	-	426,185
Environmental and community relations	**-**	-	233,416
Assaying and sampling	**-**	-	111,809
Field and camp supplies	**-**	-	567,215
Consulting and professional fees	**-**	2,054	594,495
General exploration expenditures	**42,157**	69,471	1,769,302
Total exploration costs	**42,157**	71,525	3,702,422
Recovery	**-**	-	(258,968)
Total exploration and evaluation expenditures	**42,157**	71,525	5,406,558

Results of operations

Years ended June 30, 2016 and 2015

During the year ended June 30, 2016, the Company incurred net losses of $132,074 (or, $0.00 per share) compared to a net loss for the year ended June 30, 2015, of $529,136 (or, $0.01 per share). The decrease in net loss for the year ended June 30, 2015, is due primarily to reduced administrative expenses.

Details of the expenditures below reflect a marked reduction in activity as the Company affected its austerity program due to a limited cash position:

Consulting and professional fees $21,393 (2015 - $15,480)

Increased costs of $5,913 are mainly the result of legal fees regarding the Note.

Directors' fees and expenses $nil (2015 - $25,617)

In fiscal 2016, the Board of Directors agreed to waive directors' fees until the financial condition of the Company improved.

General and administrative costs $11,670 (2015 - $127,801)

General and Administrative Costs decreased by $116,131 as a direct result of the Company's austerity program put in place in response to the Company's limited cash resources and poor financial condition.

Investor relations costs $741 (2015 - $5,516)

Investor relations costs decreased by $4,775, the result of fewer trade shows.

Management fees $34,000 (2015 – $299,800)

Costs for management fees provided by RG Mining Investments Inc. ("RGMI") have decreased by $265,800, as a result of an agreement between the Company and RGMI to reduce management fees to $3,000 per month, effective November, 2015.

Shareholder and public company expenses $17,079 (2015 - $13,582)

Filing fee costs during the year ended June 30, 2016, reflect slightly increased regulatory and TSXV activity as a result of the Note.

Interest and other Income (expenses) $(6,060) (2015 – income of $447)

Interest and other income (expense) for the comparative year included interest income of $477, not occurring in the current year. In the current year, the Company incurred interest from the Note of $6,060.

Selected Annual Information

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

	June 30, 2016	June 30, 2015	June 30, 2014
	$	$	$
Total revenues	-	-	-
Loss	(132,074)	(529,136)	(740,328)
Basic and diluted net loss per common share	(0.00)	(0.01)	(0.01)
Total assets	4,631	10,961	543,670
Long-term debt	-	-	-
Deficit	(8,811,231)	(8,779,157)	(8,206,021)
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:

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	Quarter ended Jun.30, 2016	Quarter ended Mar.31, 2016	Quarter ended Dec.31, 2015	Quarter ended Sep. 30, 2015
	$	$	$	$
Total revenues	–	–	–	–
Loss	(58,526)	(26,509)	(29,766)	(17,273)
Basic and diluted net loss per common share	0.00	0.00	0.00	0.00
Total assets	4,631	4,778	8,241	28,967
Long-term debt	–	–	–	–
Deficit	(8,811,231)	(8,752,705)	(8,726,196)	(8,696,430)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Jun. 30, 2015	Quarter ended Mar. 31, 2015	Quarter ended Dec. 31, 2014	Quarter ended Sept. 30, 2014
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	318	(165,647)	(164,286)	(199,521)
Basic and diluted net loss per common share	0.00	0.00	0.00	0.00
Total assets	10,961	94,397	196,738	336,076
Long-term debt	–	–	–	–
Deficit	(8,779,157)	(8,735,475)	(8,569,828)	(8,405,542)
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.

Adoption of new and revised standards and interpretations

Issued by IASB July 2014; effective for the Company's annual period beginning July 1, 2018.

IFRS 9 will replace IAS 39 Financial *Instruments: Recognition and Measurement* and IFRIC 9 *Reassessment of Embedded Derivatives*. The final version of this new standard supersedes the requirements of earlier versions of IFRS 9.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

- **Classification and measurement of financial assets.** Debt instruments are classified and measured on the basis of the entity's business model for managing the asset and its contractual cash flow characteristics as either: "amortized cost", "fair value through other comprehensive income", or "fair value through profit or loss" (default). Equity instruments are classified and measured as "fair value through profit or loss" unless upon initial recognition elected to be classified as "fair value through other comprehensive income".

- **Classification and measurement of financial liabilities.** When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the entity's own credit risk is recognized in other comprehensive income (as opposed to previously profit or loss). This change may be adopted early in isolation of the remainder of IFRS 9.
- **Impairment of financial assets.** An expected credit loss impairment model replaced the incurred loss model and is applied to financial assets at "amortized cost" or "fair value through other comprehensive income", lease receivables, contract assets or loan commitments and financial guarantee contracts. An entity recognizes twelve-month expected credit losses if the credit risk of a financial instrument has not increased significantly since initial recognition and lifetime expected credit losses otherwise.
- **Hedge accounting:** Hedge accounting remains a choice, however, is now available for a broader range of hedging strategies. Voluntary termination of a hedging relationship is no longer permitted. Effectiveness testing now needs to be performed prospectively only. Entities may elect to continue to applying IAS 39 hedge accounting on adoption of IFRS 9 (until the IASB has completed its separate project on the accounting for open portfolios and macro hedging).

The Company is currently assessing the implications IFRS 9 will have on the Financial Statements.

IFRS 15 *Revenue from Contracts with Customers*

Issued by IASB May 2014; effective for the Company's annual period beginning July 1, 2018.

This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue — Barter Transactions Involving Advertising Services*.

The main features introduced by this new standard compared with predecessor IFRS are as follows:

Revenue is recognized based on a five-step model:

1. Identify the contract with customer;
2. Identify the performance obligations;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations; and,
5. Recognize revenue when (or as) the performance obligations are satisfied.

New disclosure requirements on information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

The Company is currently assessing the implications IFRS 15 will have on the Financial Statements.

Annual Improvements 2012-2014 Cycle

Issued by IASB September 2014; effective for the Company's annual period beginning July 1, 2016.

The following standards have been revised to incorporate amendments issued by the IASB:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Clarifies the application of guidance when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution (or vice versa), and the circumstances in which an asset (or disposal group) no longer meets the criteria for held for distribution.
- IFRS 7 *Financial Instruments: Disclosures* – Clarifies guidance on servicing contracts and the applicability of the amendments to IFRS 7 regarding offsetting financial assets and financial liabilities to interim financial statements.
- IAS 19 *Employee Benefits* – Clarifies the application of the discount rate requirements for currencies for which there is no deep market in high quality corporate bonds.
- IAS 34 *Interim Financial Reporting* – Clarifies the meaning of disclosure of information "elsewhere in the interim financial report".

The Company does not expect these amendments will have a significant impact on the Financial Statements.

IFRS 16 Leases

Issued by IASB January 2016: effective for the Company's annual period beginning July 1, 2019.

Earlier application permitted for entities that also apply IFRS 15 *Revenue from Contracts with Customers.*

This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease.

The main features of the new standard are as follows:

- An entity identifies as a lease a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- A lessee recognizes an asset representing the right to use the leased asset, and a liability for its obligation to make lease payments. Exceptions are permitted for short-term leases and leases of low-value assets.
- A lease asset is initially measured at cost, and is then depreciated similarly to property, plant and equipment. A lease liability is initially measured at the present value of the unpaid lease payments.
- A lessee presents interest expense on a lease liability separately from depreciation of a lease asset in the statement of profit or loss and other comprehensive income.
- A lessor continues to classify its leases as operating leases or finance leases, and to account for them accordingly.
- A lessor provides enhanced disclosures about its risk exposure, particularly exposure to residual-value risk.
- The new standard supersedes the requirements in IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

The Company is currently assessing the implications IFRS 16 will have on the Financial Statements.

Disclosure Initiative (Amendments to IAS 7 *Statement of Cash Flows*)

Issued by IASB January 2016; effective for the Company's annual period beginning July 1, 2017.

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The Company is currently assessing the implications Amendments to IAS 7 will have on the Financial Statements.

Liquidity and capital resources

As at June 30, 2016, the Company had cash and cash equivalents of $3,006, and working capital deficit of $169,941, compared to cash and cash equivalents of $9,275 and working capital deficit of $37,867 at June 30, 2015. The Company's only financing activities during the year, were the issuance of the Note, for proceeds of $60,000 and advances from related parties of $21,500. However, as previously noted, the Company executed the Option Agreement, which netted proceeds of $50,000, in August 2016.

Cash and cash equivalents decreased in the current year by $6,269, with cash used in operating activities of $87,769, offset by the above-mentioned financing activities of $81,500. The Company had not investing activities for the year.

The Company is a junior mining company having issued only the Note and related-party debt noted above. Other than these debts, the Company has relied entirely on equity financings up to June 30, 2016. The Company will require additional financing to continue to fund its exploration programs and fulfill short-term expense commitments.

Significant accounting judgements and estimate

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

The key areas of judgement applied in the preparation of the Financial Statements that could result in a material adjustment to the carrying amounts of assets and liabilities are as follows:

- The going concern assumption

  The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay for its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

- Recognition of deferred tax assets and liabilities

  In assessing the probability of realizing income tax assets and liabilities, management makes estimates related to expectations of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and likelihood that tax positions taken will be sustained upon examination by applicable tax authorities.

- The determination of the Company's functional currency

  The functional currency of the Company is the currency of the primary economic environment which has been determined to be Canadian dollars. The Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

Transactions with related parties

During the year ended June 30, 2016, RG Mining Investments Inc. ("RGMI") charged the Company $34,000 (2015 - $299,800) 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, 2016, the Company incurred board of directors' fees and expenses of $nil (2015 – $25,617).

As at June 30, 2016, amounts owing to a director is $18,000 (2015 - $5,000) and to RGMI is $27,500 (2015 - $5,000) of which, $3,500 is related to a demand loan payable and $24,000 is related to the administration and personnel fees payable. The amounts owing are unsecured, interest-free and have no fixed terms of repayment.

Risks and uncertainties

Continuance of operations and going concern

The annual consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business. The Company had a working capital deficit of $169,941 as at June 30, 2016 (2015 - $37,867), and an accumulated deficit of $8,811,231 (2015 - $8,679,157).

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration and development of its mineral properties, is dependent on the Company's ability to attain profitable operations and/or obtain the necessary financing. Management is currently assessing alternatives to raising additional funding, which may include additional equity offerings. The outcome of these matters cannot be predicted at this time. If the Company is unable to obtain additional financing, management will continue to curtail even limited Company operations. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The business of mining exploration involves a high degree of risk and there is no assurance that current or future exploration projects will result in future profitable mining operations. The Company has no source of revenue, but continues to have cash requirements to meet its administrative overhead and pay its debts and liabilities.

The annual consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going concern, which could be material.

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 20, 2016, the Company had 51,895,835 common shares outstanding.

General

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