Caracara Silver Inc.

Annual Management's Discussion and Analysis

of the Financial Condition and Results of Operations

for the year ended June 30, 2018

October 24, 2018

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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 24, 2018. The MD&A of the operating results and financial condition of the Company for the year ended June 30, 2018, 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, 2018 and 2017. 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.

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 23, 2018.

The Company's only property has been optioned (see *Option Agreement and Proposed Amendmen*t section of this MD&A), and as such, the Company trades on the NEX market of the TSX Venture Exchange ("**TSXV**"). On April 30, 2018, the Company completed a 1-for-10 consolidation (note 12 of the Consolidated Financial Statements) and changed its symbol to "SILV.H".

Business Combination with Xtraction Services, Inc. ("Xtraction")

On August 13, 2018, the Company and Xtraction entered into a binding letter of intent setting out the conditions of a proposed business combination between Caracara and Xtraction by way of an amalgamation, arrangement, share purchase of share exchange agreement or other similar form of transaction (the "**Transaction**") pursuant to which the Company will acquire all of the issued and outstanding common shares of Xtraction. It is currently contemplated that the Transaction will be structured as a "reverse triangular merger" between Xtraction, Caracara and a wholly-owned subsidiary of Caracara to be incorporated under the laws of Delaware.

Upon completion of the Transaction, the parties intend that the Company's shares will be delisted from the NEX and listed on the Canadian Securities Exchange or the NEO Exchange. The Transaction is subject to TSXV and shareholder approval of both Xtraction and Caracara shareholders.

Option Agreement and Proposed Amendment

On August 31, 2016, the Company executed an option agreement (the "**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**"). Currently, Alcon can exercise the option by paying the Caracara an aggregate of $250,000 (of which $100,000 was paid to the Company during the years ended June 30, 2017 and 2018 (the "**Option Receipts**")) and by 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.

As at the date of this MD&A, the Company and Alcon are in discussions to amend the Agreement in order to facilitate an earlier transfer of title of the Property that will satisfy the Transaction. Details of the proposed amendment and the Transaction will be disclosed in the Information Circular to be distributed to Shareholders for the Company's upcoming Annual and Special Meeting of Shareholders, to be held on December 14, 2018.

Exploration and evaluation expenditures (recoveries)

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

	Year ended June 30, 2018	Year ended June 30, 2017	Cumulative to June 30, 2018
	$	$	$
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	**-**	-	594,495
General exploration expenditures	**-**	500	1,769,802
Total exploration costs	**-**	-	3,702,922
Recovery due to option agreement	**(50,000)[1]**	(50,000)[1]	(358,968)
Total exploration and evaluation expenditures	**(50,000)**	(49,500)	5,307,058

[1]Reflects the Option Receipts noted above.

Results of operations

Years ended June 30, 2018 and 2017

During the year ended June 30, 2018, the Company incurred net losses of $109,504 ($0.01 per share) compared to a net loss for the year ended June 30, 2017, of $75,925 ($0.01 per share). The significant causes of the increase of $33,579 in net loss for the year ended June 30, 2018, are detailed below:

Exploration recovery $50,000 (2017 - $49,500)

2017 net recovery reflects miscellaneous costs of $500.

Consulting and professional fees $114,252 (2017 - $12,990)

Increased costs of $101,262 reflect an increase for business valuation fees of $104,000, completed for the financings closed in fiscal 2018 less reductions to audit fees of $3,000.

Directors' fees and expenses $10,000 (2017 - $20,000)

The reduction for the current year reflects the agreement between the Company and its directors on the final amount due prior to the Transaction.

General and administrative costs $4,047 (2017 - $31,404)

General and Administrative Costs decreased by $27,357, mainly the result of Solex minimal operations during fi~~scal 2018.~~

Gain on retirement of promissory note $19,860 (2017 – $nil)

The gain is a result of the settlement of the Company's promissory note (see note 11 in the Consolidated Financial Statements).

Gain on forgiveness of accounts payable $23,868 (2017 – $nil)

The gain is a result of a portion of the Company's Peruvian subsidiary's accounts payable.

Selected Annual Information

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

	June 30, 2018	June 30, 2017	June 30, 2016
	$	$	$
Total revenues	-	-	-
Net loss	(109,504)	(75,925)	(132,074)
Basic and diluted net loss per common share	(0.01)	(0.01)	(0.00)
Total assets	1,135,713	5,753	4,631
Long-term debt	-	-	-
Deficit	(7,769,092)	(7,659,588)	(8,811,231)
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, 2018	Quarter ended Mar.31, 2018	Quarter ended Dec.31, 2017	Quarter ended Sep. 30, 2017
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(108,872)	(21,039)	38,379	(17,972)
Basic and diluted net loss per share	(0.01)	(0.00)	0.00	(0.00)
Total assets	1,135,713	90,070	111,326	3,046
Long-term debt	–	–	–	–
Deficit	(7,769,092)	(7,660,220)	(7,639,181)	(7,677,560)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Jun. 30, 2017	Quarter ended Mar. 31, 2017	Quarter ended Dec. 31, 2016	Quarter ended Sept. 30, 2016
	$	$	$	$
Total revenues	–	–	–	–
Income/(loss)	(47,273)	(19,170)	(26,435)	16,953
Basic and diluted net loss per share	0.00	0.00	0.00	0.00
Total assets	5,753	11,349	10,940	26,903
Long-term debt	–	–	–	–
Deficit	(7,659,588)	(8,839,883)	(8,820,713)	(8,794,278)
Cash dividends declared per common share	–	–	–	–

The Company's operations are not generally subject to seasonal variations. The timing of any 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

IFRS 9 *Financial Instruments*

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 has assessed the implications of IFRS 9 and does not expect there to be a substantial impact to the Consolidated 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 has assessed the implications of IFRS 15 and does not expect there to be a substantial impact to the Consolidated 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 Company is currently assessing the implications IFRS 16 will have on the Consolidated Financial Statements.

Liquidity and capital resources

As at June 30, 2018, the Company had cash of $1,121,383, and working capital of $976,750, compared to cash of $2,733 and working capital deficit of $245,866 at June 30, 2017. The Company's financing activities during the year consisted of the completion of 2 non-brokered private placements (in November 2017 and June 2018) raising a total of $1,332,120. This was offset by the repayment of the Company's promissory note of $60,000. As noted above, the Company also received the Option Receipts (in the amount of $50,000 for the current year) from Alcon, with such amount reflected as a credit against cash used in operating activities.

Cash increased in the current year by $1,118,650 with cash used in operating activities of $121,330, offset by the above-mentioned financing activities of $1,272,120. The Company had no investing activities for the year.

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 judgments 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 judgment applied in the preparation of the Consolidated 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 and the Company reconsiders the functional currency if there is a change in events and conditions, which determined the primary economic environment.

- The determination of the fair value of derivative instruments (warrants, units and finders' units)

  As noted above, the Company estimates the fair value of derivative instruments for any issued share purchase warrants and units using the Black-Scholes option pricing model and the fair value of compound instruments (such as finders' units exercisable into a common share and share purchase warrant) using the Geske option pricing model. Use of both of these models requires management to make subjective assumptions and use variables that it deems appropriate in the circumstances, including expected price volatility, expected life, interest rates and forfeiture rates. Changes in the inputted assumptions and variables could have a material affect on the estimated fair value and the Company's contributed surplus.

Transactions with related parties

During the year ended June 30, 2018, RG Mining Investments Inc. ("RGMI") charged the Company $36,500 (2017 - $36,000) for management and administrative fees. RGMI provides management and administrative services to the Company. The agreement providing the services had a term of 1 year and expired May 31, 2013. The Company's CEO and CFO beneficially own RGMI.

During the year ended June 30, 2018, the Company incurred board of directors' fees and expenses of $10,000 (2017 – $20,000).

As at June 30, 2018, amounts owing to related parties consists of director fees of $30,000 (2017 - $20,000), management fees to RGMI of $14,860 (2017 - $57,000). The amounts owing are unsecured, interest-free and have no fixed terms of repayment.

Risks and uncertainties

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.

Continuance of operations and going concern

The Consolidated Financial Statements are 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 working capital of $976,750 as at June 30, 2018 (2017 - $245,866), and an accumulated deficit of $7,769,092 (2017 - $7,659,588).

As disclosed above, in August 2018, the Company and Xtraction entered into a binding letter of intent setting out the conditions of the Transaction. However, should the Transaction not complete, 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 continues to assess 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 be required 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 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 stated in this section of the MD&A 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

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 24, 2018, the Company had the following capitalization:

Security	Number
Common shares	24,402,901
Warrants	19,213,333
Finders' Units	451,743

General

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