Caracara Silver Inc.

Interim MD&A -

Quarterly Highlights

Three months ended December 31, 2018

February 21, 2019

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This interim management discussion and analysis - quarterly highlights ("Interim MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at February 21, 2019. This Interim MD&A updates disclosure previously provided in the Company's Annual MD&A, up to the date of this Interim MD&A and 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, 2018 and 2017, the Company's audited consolidated financial statements for the years ended June 30, 2018 and 2017 (together, the "Financial Statements"), and the Company's Annual MD&A for the year ended June 30, 2018. 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 Interim 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 or on its website at www.caracarasilver.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.

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 evaluation, design, establishment and/or maintenance of disclosure controls and procedures ("DC&P) 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 may contain or may refer 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.

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 401 Bay Street, Suite 2702, Toronto, Ontario, Canada, M5H 2Y4.

The unaudited interim financial statements as at and for the 3 and 6 months ended December 31, 2018 and 2017, were approved for issuance by the Board of Directors on February 21, 2019.

The Company's only property has been optioned (see *"Option Agreement and Proposed Amendment"* section, below) and as such, the Company trades on the NEX market of the TSX Venture Exchange ("**TSXV**") under the symbol "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.

In concert with the Property transfer and in anticipation of the closing of the Transaction, the Company commenced the wind-up and dissolution of Solex del Peru S.A.C. (its Peruvian subsidiary) and on January 31, 2019, the Company received the final certificate of dissolution from the Superintendent of National Registrations for Peru.

Option Agreement and 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 (all of which was paid to the Company during the 3-year period ended November 30, 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 Interim MD&A, the Company and Alcon completed an amendment to the Agreement in order to facilitate an earlier transfer of title of the Property to Alcon. The amendment changed the requirements of Alcon in settlement of the third anniversary option payment (see note 13 of the Consolidated Financial Statements) as follows:

(i) $75,000, settled with the issuance of 800,000 common shares of Alcon (see note 9 of the Consolidated Financial Statements); and
(ii) $61,611, settled in cash; and
(iii) $13,389 (US$10,000), settled in cash to Solex as consideration for the transfer of the Property to a Peruvian subsidiary of Alcon.

Selected significant accounting policies

Basic earnings (loss) per share

Basic earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted average number of common shares outstanding during the period. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the 6 months ended December 31, 2018 and 2017, all the outstanding stock options and warrants were anti-dilutive.

Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company’s cash is classified as FVTPL.

Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost. The Company has no financial assets classified as loans and receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for losses in value that are considered other than temporary. The Company has classified its investment in Alcon Exploration Corp. (“Alcon”) as available-for-sale (see *“Option Agreement and Amendment”* section of this Interim MD&A).

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

The category determines subsequent measurement and whether any resulting income and expense is recognized in profit or loss or in other comprehensive income. All financial assets, except for those at FVTPL, are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets. The Company’s investment in Alcon is classified as available-for-sale and is measured at inceptions at fair value with revaluation gains and losses included in other comprehensive loss until the asset is removed from the statements of financial position.

Fair value determination is classified within a three-level hierarchy, based on observability of significant inputs, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the asset or liability. Inputs into the determination of the fair value require management judgment or estimation.

If different levels of inputs are used to measure a financial instrument's fair value, the classification within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Changes to valuation methods may result in transfers into or out of an investment's assigned level.

Financial condition

During the quarter ended December 31, 2018, the Company's net assets increased by $143,164, with increases to cash and HST recoverable of $29,825 and investments of $75,000, complemented by net decreases to current liabilities of $38,339.

The Company's cash balance increased by $28,379, as a result of cash provided from operations of $103,379, offset by investing activities of $75,000.

Commitments, liquidity and capital resources

The Company does not currently have any project commitments nor space-rental commitments. Its head office and administration is provided by RG Mining Investments Inc. as disclosed in its Annual MD&A (see "*Related-party transaction and balances*" section of this Interim MD&A).

As at December 31, 2018, the Company had cash balances totalling $1,060,515 and working capital of $1,027,109.

Related-party transactions and balances

During the quarter, the Company incurred and paid management fees to RGMI in the amount of $30,000.

As at December 31, 2018, there are no amounts due to related parties.

Outstanding Share Data

As at February 21, 2019, the Company had the following capitalization:

Security	Number
Common shares	24,402,901
Warrants	16,213,333