



(formerly Ansue Capital Corp.)

**Management's Discussion and Analysis
of the Financial Condition and Results of Operations
Three months ended September 30, 2012**

Caracara Silver Inc.,
(formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

This management discussion and analysis ("MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at November 13, 2012. The MD&A of the operating results and financial condition of the Company for the quarter ended September 30, 2012, should be read in conjunction with the Company's unaudited interim consolidated financial statements (the "Financial Statements") and the related notes as at and for the three months ended September 30, 2012 and 2011 and the Company's audited consolidated financial statements for the years ended June 30, 2012 and 2011. 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 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.,
(formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

Corporate

The Company is the continuing entity of Ansue Capital Corp. ("Ansue"), which was incorporated under the laws of British Columbia on December 3, 2009. Ansue was a capital pool company ("CPC") as defined by the rules of the TSX Venture Exchange ("TSXV") in Policy 2.4 of the TSXV. On July 18, 2011, Ansue announced that at the Annual Meeting of the shareholders of Ansue, all matters regarding a Qualifying Transaction with Southern Andes Energy Inc. ("Southern Andes") were approved including the proposed name change of Ansue to Caracara Silver Inc. On August 19, 2011, the Company closed on a qualifying transaction and completed the Corporate Merger (see note 4 of the Financial Statements). Based on the relative ownership percentages of the combined Company by the shareholders of Southern Andes prior to the transaction, former Ansue shareholders and the composition of the Board of Directors of the newly-combined Company, from an accounting perspective, Solex del Peru S.A.C. ("Solex") (a former Southern Andes subsidiary) is considered to be the accounting acquirer and therefore the Qualifying Transaction has been accounted for as a reverse takeover. For financial reporting purposes, the Company is considered a continuation of Solex, a legal subsidiary, except with regard to authorized and issued share capital, which is that of Ansue, the legal parent.

The head office, principal address and registered and records office of the Company is located at 120 Adelaide Street West, Suite 2400, Toronto, Ontario, M5H 1T1.

The Financial Statements were approved for issuance by the Board of Directors on November 12, 2012.

Project update (Q1-2013, 3 months ended September 30, 2012)

The Company controls two groups of claims located in the southeast part of Peru. The most important group is the Princesa-Pilunani Project which consists in 30 claims totaling 20,700 hectares located within the Puno Department at approximately 1,000 kilometers from Lima, the capital of Peru. The Princesa-Pilunani lead-zinc-silver project has been the focus of all exploration work carried out by the Company from the Ansue merger. The second property is the Cullquimayo Project consisting of 13 claims covering 8400 hectares within the Cusco Department. There has been no exploration work done on the Cullquimayo Project since 2011. As of September 30th, 2012, all of these claims were in good standing with the Peruvian authorities.

The Pilunani-Princesa project is divided into three sub-groups named Princesa, Pilunani and Potoni, all located within a 45 km long metallogenic belt underlined by several lead-zinc+/-silver showings and old mines which are associated with cross cutting structures and diatreme breccias. Twenty of these base metals occurrences are located within the Company's claims including the Princesa mineralized zone which hosts a NI 43-101 inferred resources of 4.6 million tonnes grading 90.88 g/t Ag, 1.69% Zn and 1.66% Pb.

During the three months ended September 30, 2012, the Company continued advancing its exploration program at the Pilunani and Princesa sub-groups including detailed geological mapping supported by geochemical sampling and notably, diamond drilling of the Marcia and Princesa showings. The ongoing work program is closely supervised by the Company's experienced professionals. Exploration work requires permitting from the Peruvian authorities and the local communities, the latter is a crucial step for the Company in order to acquire access rights and use of the lands to conduct its field program. The negotiations with these communities are always conducted in a professional and harmonious manner by the Company's community relations team (the "Team") that makes every effort to participate in economic, educational and social development by encouraging local community involvement. The Team has been successful in negotiating the required agreements with different communities located within the Pilunani

Caracara Silver Inc.,
(formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

and Princesa sub-groups in order to complete our exploration work. The Company has strict corporate policies enforcing the mandate respecting the inhabited land, the residents and the environment.

The Company used the services of a professional consulting firm to prepare and present permitting applications to the Peruvian authorities with respect to the official drilling permits. In April 2012, the Ministry of Energy and Mines of Peru granted the Company two drilling permits; the Toma drilling permit (DIA: Declaracion Impacto Ambiental) was approved on April 4th 2012 for a drilling program comprising nine holes for 1,499 meters which was completed between May 15 and July 9, 2012 and the Princesa drilling permit (EIA's: Estudio Impacto Ambiental semi-detallada) that was approved by the Peruvian authorities in April, 2012. This latter allows the Company to build up to 34 drill setups where approximately 4,000 meters would be drilled.

After having completed the Toma drilling program in early July, the Company decided to resume drilling operations at Princesa in the first week of August and has notified the Peruvian authorities of its decision. The Company began drilling operations on August 9th but, one week later, it received a notification from the Peruvian authorities asking the Company to comply with a new Supreme Decree published on June 6, 2012. The Company decided voluntarily to temporarily stop the drilling operations to allow careful review of these new requirements. As of the date of this MD&A, the Company fulfilled all the requirements of this new regulation and is expecting to receive the final authorization to resume the work at any day.

List of accomplishments of the Company's exploration team during the 3 months ended September 30, 2012:

- Detailed re-interpretation of the Princesa mineralized system leading to recommendations to drill the lateral and down-dip extensions of the Princesa vein.
- Re-interpretation of all previous work at Pilunani that revealed two wide areas where previous exploratory work identified potential for low grade Pb-Zn deposit associated with calcite-barite-quartz-pyrite-galena-sphalerite veinlets and disseminations. DDH PIL-13, drilled in 2007, intersected the edge of an IP anomaly and cut 63.15 meters at 0.62% Pb and 1.2% Zn.
- The 2011 surface exploration program outlined two favorable areas, Marcia and Nilda, for drilling. The Marcia target consisted of untested geophysical IP anomalies located close to the Marcia # 1 and 2 showings. The Marcia #1 showing yielded impressive results such as 1.01% Pb and 3.78% Zn over 16 meters in Trench-1; 0.70% Pb and 3.07% Zn over 4.9 m in Trench-2 and 2.29% Pb and 22.21% Zn over 1.70 m in Channel C-3.

Five holes totalling 767 metres were drilled at Marcia: two targeted the Marcia #2 showing (MAR12-01 and 02), two other holes (MAR12-03 and 04) probed the IP anomaly on L 42E and finally DDH MAR12-05 tested the down dip extension on the Marcia #1 showing below Trench #1. The most significant drill intersections are listed below:

DDH MAR12-01: No significant values
DDH MAR12-02: 0.08% Pb and 0.26% Zn over 8.20 m from 4.00 to 12.20 m
DDH MAR12-03: 0.26% Zn over 18.20 m from 23.50 to 41.70 m
DDH MAR12-04: 0.23% Zn over 21 m from 9.20 to 30.20 m
DDH MAR12-05: 0.09% Pb and 0.39% Zn over 89.10 m from 4.30 to 93.40 m

- Nilda had two drilling targets: an untested IP anomaly and the Nilda mineralized structure where previous trenching and shallow drilling cut high grades Ag-Pb-Zn mineralization (trench: 6.9 g/t Ag, 5.2% Pb and 31.5% Zn over 2.4 m, 21.8 g/t Ag, 8.9% Pb and 24.4% Zn over 1.4 meter in drill hole NIL07-01 and 2.33 g/t Ag, 0.38% Pb and 8.9% Zn over 6.0 metres in drill hole NIL07-02.

Caracara Silver Inc.,
(formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

Four holes totalling 732 meters were drilled on the Nilda property. Holes NIL12-01 and 03 which targeted the down dip extension of the Nilda mineralized structure intersected barren sediments and all assay values were negligible. The IP anomalies probed by DDH NIL12-02 and NIL12-04 are explained by the presence of up to 3% pyrite as dissemination and hairline veinlets. Hole NIL12-04 intersected a 18 metre wide interval (from 75.5 to 93.5 m) of disseminated pyrite-galena-sphalerite hosted by a brecciated polymictic conglomerate that yielded lead values ranging from 45 to 19800 ppm, zinc values from 117 to 32000 ppm and silver values from traces to 19 ppm.

- At the Princesa property, two DDH were drilled in August 2012 to verify the mineralization cut between holes PRIN-61 and 62 drilled in 2007 and to test its down dip extension. DDH PRIN12-01 and 02 cut the Princesa structure where it was interpreted. Mineralization consisted in fine disseminations and hairline veinlets of pyrite-galena-sphalerite and is geochemically characterized by an enrichment of barium and manganese. Here are the best results of these two holes:

DDH PRIN12-01: 1.1% Zn, 1.47%Pb and 47.4 g/t Ag over 9.20 m from 63.80 to 73.0 m
Inc: 1.75% Zn, 1.6% Pb and 87.8 g/t Ag over 2.2 m
DDH PRIN12-02: 0.38% Zn, 0.34% Pb and 9.2 g/t Ag over 33.7 m from 163.5 to 197.2 m
Inc: 0.74% Zn, 0.90% Pb and 32.5 g/t Ag over 3 m from 191.2 to 194.2 m.

The Company is currently analyzing the results of this current exploration program and is planning to resume drilling at Princesa in late October. The Company reported no accidents in the period of the drilling operations.

Results of operations

Restatement

Comparative amounts for the 3 months ended September 30, 2011, have been restated for accounting modifications and adjustments resulting from the Company's recently completed audit for the years ended June 30, 2012 and 2011 (the "Audited Financial Statements"). The Audited Financial Statements reflected an adjustment to the previously reported listing fee that the Company incurred in completion of the Corporate Merger (as defined in note 4 of the Financial Statements) with Ansue and for a shareholders' equity reallocation of broker options. The listing fee was increased by \$367,604 representing loans due and paid to SAE pursuant to the transaction and broker options with a fair value of \$316,898 were reallocated to reserve for options from reserve for warrants.

Net loss for 3 months ended September 30, 2012 and 2011 – \$778,440 vs. \$1,760,253, as restated.

During the 3 months ended September 30, 2012, the Company incurred net losses of \$778,440 compared to a net loss for the same period in 2011 of \$1,760,253, as restated. The reduction in net loss for the quarter ended September 30, 2012, is due mainly to the completion of the Qualifying Transaction and Corporate Merger in Q1-2011, which included one-time legal, regulatory and listing fees.

Consulting and professional fees - \$8,460 vs. \$202,991.

Current quarter costs reflect normalized expense patterns for operations. Whereas Q1-2011 costs reflect one-time extraordinary costs to affect and close the Qualifying Transaction and Corporate Merger.

Caracara Silver Inc.,
 (formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

General and administrative - \$50,347 vs. \$28,569.

The majority of the increase of \$21,778 over last year is attributable to legal fees and general manager payroll costs that did not exist during the same quarter last year.

Investor relations - \$10,644 vs. \$15,009.

The current reduction of \$4,365 is attributable to fees that were refunded in the quarter from the Company's transfer agent.

Listing costs - \$nil vs. \$751,984, as restated.

Listing fees were non-cash charges that the Company incurred last fiscal year regarding its go-public transaction.

Management fees and salaries – \$128,050 vs. \$110,550.

The increase of \$17,500 is attributed entirely to directors' fees incurred for the current quarter. Upon having its shares listed on the TSXV, the Company adopted a directors' fee compensation plan.

Share-based compensation - \$90,115 vs. \$263,324.

No new options were issued for the current quarter and the difference in share-based compensation from last year is entirely due to the vesting of previously issued options.

Shareholder and public company expenses - \$884 vs. \$40,084.

The decrease of \$39,199 is entirely attributable to one-time costs incurred last year regarding the Company's go-public transaction costs in this category.

Exploration and evaluation expenditures

Three months ended	September 30, 2012	September 30, 2011	Cumulative to September 30, 2012
	\$	\$	\$
Acquisition costs	-	120,000	1,610,914
Exploration costs:			
Drilling	191,267	-	487,876
Environmental and community relations	1,409	-	139,397
Assaying and sampling	18,436	1,113	55,195
Field and camp supplies	77,290	4,810	471,224
Consulting and professional fees	22,292	33,635	323,049
General exploration expenditures	179,001	86,605	608,524
	489,696	126,162	2,085,265

Caracara Silver Inc.,
 (formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

Total exploration and evaluation expenditures	489,696	246,162	3,696,179
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Summary of quarterly results

	Quarter ended Sept. 30, 2012	Quarter ended Jun. 30, 2012	Quarter ended Mar. 31, 2012	Quarter ended Dec. 31, 2011
	\$	\$	\$	\$
Total revenues	-	-	-	-
Net loss	(778,440)	(1,450,814)	(775,786)	(1,566,765)
Basic and diluted net loss per share	(0.02)	(0.03)	(0.02)	(0.03)
Total assets	2,280,024	2,976,493	3,931,058	4,670,866
Long-term debt	-	-	-	-
Retained earnings (deficit)	(8,102,118)	(7,337,211)	(5,506,676)	(4,730,890)
Cash dividends declared per common share	-	-	-	-

	Quarter ended Sept. 30, 2011	Quarter ended June 30, 2011	Quarter ended Mar. 31, 2011	Quarter ended Dec. 31, 2010
	\$	\$	\$	\$
	<i>(Restated)</i>			
Total revenues	-	-	-	-
Net gain (loss)	(1,760.253)	3,861	772	515
Basic and diluted net loss per share	(0.94)	0.39	0.08	0.05
Total assets	5,138,702	-	-	-
Long-term debt	-	-	-	-
Shareholders' equity (deficit)	(3,532,729)	(1,771,476)	(1,767,615)	(1,766,843)
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.

Caracara Silver Inc.,
(formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

Liquidity and capital resources

As at September 30, 2012, the Company had cash of \$2,198,896 and a working capital surplus of \$2,087,747 compared to cash of \$2,929,525 and a working capital surplus of \$2,776,071 at June 30, 2012. The positive cash and working capital position are attributed to the completion of the Qualifying Transaction in 2011 that included a financing done by Ansue that garnered net proceeds (after issuance costs) of \$5,971,897. In addition, the Company acquired \$127,239 of cash from Ansue upon completion of the Corporate Merger. During the 3 months ended September 30, 2012, the Company used \$730,629 (2011 - \$1,016,301) for operating activities.

Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, and amendments that are effective for the Company's financial year beginning on or after July 1, 2013 with early adoption permitted.

- **IFRS 9 'Financial Instruments: Classification and Measurement'** – introduces new requirements for the classification and measurement of financial instruments.
- **IFRS 10 'Consolidated Financial Statements'** – establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- **IFRS 11 'Joint Arrangements'** - provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- **IFRS 12 'Disclosure of Interests in Other Entities'** - requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- **IFRS 13 'Fair Value Measurement'** - provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

The Company has not early adopted these standards, amendments and interpretations, however the Company is currently assessing what impact the application of these standards or amendments will have on the Financial Statements.

Transactions with related parties

During the 3 months ended September 30, 2012, RG Mining Investments Inc. ("RGMI") charged the Company \$110,550 (2011 - \$87,500) for management and administrative fees and \$nil (2011 - \$\$7,500) for investor relations and Company web-based set-up costs. RGMI provides management and administrative services to the Company and provides the services of the Company's personnel. The agreement providing the services has a term of 1 year and expires May 31, 2013. It 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 3 months ended September 30, 2012, the fair value of vested stock options issued to directors, officers and employees of the Company amounted to \$90,115 (2011 - \$163,442).

Caracara Silver Inc.,
(formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

During the quarter ended September 30, 2012, the Company incurred board of directors' fees of \$17,500 (2011 - \$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,

Caracara Silver Inc.,
(formerly Ansue Capital Corp.)
Management's Discussion and Analysis
Three months ended September 30, 2012

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 November 13, 2012, the Company had 51,895,835 common shares outstanding, 2,933,333 outstanding options and 7,975,800 warrants outstanding.

General

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