Caracara Silver Inc.

(formerly Ansue Capital Corp.)

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

Three and six months ended December 31, 2012

February 26, 2013

This management discussion and analysis ("MD&A") has been prepared based on information available to Caracara Silver Inc. ("Caracara" or the "Company") as at February 26, 2013. The MD&A of the operating results and financial condition of the Company for the three and six months ended December 31, 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 and six months ended December 31, 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 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 of this MD&A entitled ***Risks and uncertainties***.

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. ("SAE") 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 February 26, 2013.

Project update

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 of 30 claims totaling 20,699 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 group 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 its acquisition in 2011. As of December 31, 2012, all of these clams 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 six months ended December 31, 2012, the Company continued advancing its exploration program at the Princesa Group by completing two diamond drill holes ("DDH") for a total of 344.60 meters. 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 agreements with different communities located within the Pilunani 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.

Following new Peruvian regulations regarding drilling permits that entered in force in June 2012, the Company decided voluntarily to temporarily stop the drilling operations at Princesa to fulfill the new requirements of this law. The following is the chronology of the events surrounding this issue:

- April 9, 2012, the Company received the approval of the Princesa drilling permit (EIAsd) from the Ministry of Energy and Mines ("MEM").
- June 5, 2012, the Company signed a working agreement with the community of Cullco Belen in order to drill at Princesa.
- August 3, 2012, the Company sent a letter to MEM announcing that the Princesa drilling program will commence on August 14th.
- August 15, 2012, the Company received a letter from MEM asking the Company to fulfil all new requirements of the D.S 020-2012 EM before initiating its drilling activities.
- August 24, 2012, the Company presented to MEM a report where all these requirements were covered.
- August 26, 2012, the Company halted temporarily its drilling program.
- October 19, 2012, the Company received observations from MEM with respect to the report presented on August 24th.
- October 23, 2012, the Company answered all the observations received on October 19th.
- November 20, 2012, the Company sent to MEM additional information with respect to private land owners of the area.
- November 27, 2012, the Company received a ''Favorable Technical Report'' from MEM. However the project name was incorrectly described as Alicias instead Princesa.
- December 11, 2012, the Company received an amended ''Favorable Technical Report'' and was authorized to resume its drilling operation.

The Company had no choice but to postpone the drilling operations until March 2013 as the drilling equipment were withdrawn from the drilling site and the month of December marked the beginning of the rainy season in the mountains. During this season, risk of injuries are high as rivers may flood due to abundant amounts of rain falling daily, unpredictable weather conditions, lightening and roads become impracticable. This would generally result in poor drilling performance and consequently higher costs.

Before halting the Princesa drilling program, two DDH totalling 344.6 were completed to verify the mineralization cut between holes PRIN-61 and 62 drilled in 2007 and to test it's 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 preparing its 2013 exploration program which will see further drilling at Princesa, Pilunani and at Parcuyo if the geological mapping confirmed the existing mineralization

Results of operations

Restatement

Comparative amounts for the 6 months ended December 31, 2011, have been restated for accounting modifications and adjustments resulting from its 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 December 31, 2012 and 2011 – $762,616 vs. $1,566,765.

During the 3 months ended December 31, 2012, the Company incurred net losses of $762,616 compared to a net loss for the same period in 2011 of $1,566,765. The reduction in net loss for the quarter ended December 31, 2012, is mainly due to reduced exploration work in the field after the postponement of the diamond drilling activities (see *Project Update* section of this M&A).

Consulting and professional fees - $24,321 vs. $19,550.

The current quarter costs show an increase of $4,771 or 24%. The amounts reflect normalized expense patterns for operations.

General and administrative - $58,668 vs. $39,622.

The majority of the increase of $19,046 over the comparative period last year is attributable to administrative fees and general manager payroll costs that did not exist during the comparative period.

Investor relations - $11,911 vs. $13,933.

The current reduction of $2,022 is attributable to reduced fees charged by the Company's investor relations firm and reflect the Company's overall cash management scrutinization.

Management fees and salaries – $128,050 vs. $73,700.

The increase of $54,350 is attributed entirely to management and directors' fees incurred for the current quarter. Upon completion of the Corporate Merger (see the Financial Statements, note 4), the Company adopted a directors' fee compensation plan and entered into an agreement with the Company's external management company, RG Mining Investments Inc. ("RGMI") (see the *Transactions with related Parties* section of this MD&A).

Share-based compensation - $33,362 vs. $221,483.

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

Shareholder and public company expenses - $3,808 vs. $28,110.

The decrease of $24,302 is entirely attributable to one-time costs incurred during the comparative period regarding the Company's go-public transaction costs in this category.

Net loss for 6 months ended December 31, 2012 and 2011 – $1,541,055 vs. $3,327,018, as restated.

During the 6 months ended December 31, 2012, the Company incurred net losses of $1,541,055 compared to a net loss for the same period in 2011 of $3,327,018, as restated. The reduction in net loss for the six months ended December 31, 2012, is due mainly to the completion of the Corporate Merger in Q1-2011, which included one–time legal, regulatory and listing fees as well as reduced exploration activities after the postponement of the diamond drilling activities.

Consulting and professional fees - $32,780 vs. $222,541.

Current costs reflect normalized expense patterns for operations. Whereas, the comparative period reflects one-time costs to affect and close the Corporate Merger.

General and administrative - $109,015 vs. $61,316.

The majority of the increase of $47,699 over the comparative period is attributable to administrative fees and general manager, site-payroll costs that did not exist during the comparative period.

Investor relations - $22,555 vs. $28,942.

The current reduction of $6,387 is attributable to reduced fees charged by the Company's investor relations firm and reflect the Company's overall cash management scrutinization.

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

Listing fees were non-cash charges that the Company incurred during the comparative period regarding its go-public transaction.

Management fees and salaries – $256,100 vs. $191,125.

The increase of $64,975 is attributed entirely to management fees and directors' fees incurred for the current quarter. Upon completion of the Corporate Merger, the Company adopted a directors' fee compensation plan and entered into an agreement with RGMI.

Share-based compensation - $123,477 vs. $484,807.

No new options were issued for the current period with the difference in share-based compensation entirely due to the vesting of previously-issued options.

Shareholder and public company expenses - $4,692 vs. $68,194.

The large decrease of $63,501 is entirely attributable to one-time costs incurred during the comparative period regarding the Company's go-public transaction costs.

Exploration and evaluation expenditures

	Three months ended December 31, 2012	Three months ended December 31, 2011	**Six months ended December 31, 2012**	Six months ended December 31, 2011	Cumulative to December 31, 2012
	$	$	**$**	$	$
Acquisition costs	**356,560**	851,400	**356,560**	971,400	1,967,474
Exploration costs					
Drilling	**28,336**	104,105	**219,603**	104,105	516,212
Environmental and community relations	**15,995**	-	**17,404**	-	239,444
Assaying and sampling	**19,710**	15,500	**38,147**	16,613	131,017
Field and camp supplies	**54,687**	27,500	**131,977**	32,310	581,631
Consulting and professional fees	**14,821**	265,169	**37,113**	298,804	563,607
General exploration expenditures	**18,849**	75,900	**197,850**	162,504	1,479,578
	152,398	488,174	**642,094**	614,336	3,511,489
Exploration and evaluation expenditures	**508,958**	1,339,574	**998,654**	1,585,736	5,478,963

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Summary of quarterly results

	Quarter ended Dec. 31, 2012	Quarter ended Sept. 30, 2012	Quarter ended Jun. 30, 2012	Quarter ended Mar. 31, 2012
	$	$	$	$
Total revenues	–	–	–	–
Net loss	(762,616)	(778,440)	(1,450,814)	(775,786)
Basic and diluted net loss per share	(0.01)	(0.02)	(0.03)	(0.02)
Total assets	1,577,756	2,280,024	2,976,493	3,931,058
Long-term debt	–	–	–	–
Retained deficit	(8,864,733)	(8,102,118)	(7,337,211)	(5,506,676)
Cash dividends declared per common share	–	–	–	–

	Quarter ended Dec. 31, 2011	Quarter ended Sept. 30, 2011	Quarter ended Jun. 30, 2011	Quarter ended Mar. 31, 2011
	$	$	$	$
		(Restated)		
Total revenues	–	–	–	–
Net loss	(1,566,765)	(1,760,253)	3,861	772
Basic and diluted net loss per share	(0.03)	(0.94)	0.39	0.08
Total assets	4,670,866	5,138,702	–	–
Long-term debt	–	–	–	–
Retained deficit	(4,730,890)	(3,532,729)	(1,771,476)	(1,767,615)
Cash dividends declared per common share	–	–	–	–

The Company's operations are not generally subject to seasonal variations. The timing of exploration activities is influenced primarily by the availability of funds and the identification of suitable exploration targets, however, due to either their location or nature the exploration of some properties may be restricted during certain times of the year due to climatic conditions.

Liquidity and capital resources

As at December 31, 2012, the Company had cash and cash equivalents of $1,540,273 and working capital of $1,431,593 compared to cash and cash equivalents of $2,929,525 and working capital of $2,776,071 at June 30, 2012. The positive cash and working capital position are attributed to the completion of the Corporate Merger in 2011, that included a financing completed 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 transaction. During the 6 months ended December 31, 2012, the Company used $1,462,352 (2011 - $1,500,236) 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 it is currently assessing what impact the application of these standards or amendments will have on the Financial Statements.

Transactions with related parties

6 months ended December 31, 2012 and 2011

During the 6 months ended December 31, 2012, RGMI charged the Company $221,100 (2011 - $184,250) 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 6 months ended December 31, 2012, the fair value of vested stock options issued to directors and officers of the Company amounted to $87,513 (2011 - $317,632).

During the 6 months ended December 31, 2012, the Company incurred board of directors' fees of $35,000 (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.

3 months ended December 31, 2012 and 2011

During the 3 months ended December 31, 2012, RGMI charged the Company $110,550 (2011 - $110,550) for management and administrative fees and $nil (2011 - $$7,500) for investor relations and Company web-based set-up costs

During the 3 months ended December 31, 2012, the fair value of vested stock options issued to directors, officers and employees of the Company amounted to $26,364 (2011 - $145,110).

During the 3 months ended December 31, 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, 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 February 26, 2013, 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.