Caracara Silver Inc.

(formerly Ansue Capital Corp.)

Management's Discussion and Analysis

of the Financial Condition and Results of Operations

for the three and nine months ended March 31, 2012

May 25, 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 May 25, 2012. The MD&A of the operating results and financial condition of the Company for the quarter and nine-month period ended March 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 nine months ended March 31, 2012. 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 entitled ***Risks and uncertainties***.

Corporate

Ansue Capital Corp. ("Ansue") 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 the Qualifying Transaction. 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.

Project update

The Company controls 36,900 hectares of lead-zinc-silver claims located in the Puno and Cusco Department, south Peru. During the three month period ended March 31, 2012, the Company continued advancing its Princesa-Pilunani silver project which covers 24,600 hectares. This project is located within the Pilunani-Princesa metallogenic belt, a-45 km long belt underlined my more than 50 lead-zinc+/-silver showings and old mines that are associated with cross cutting structures and diatreme breccias. Twenty of these base metals occurrences are located within the Company's claims including notably the Princesa showing which hosts 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 month period ended March 31, 2012, the Company resumed its exploration program on several claims of the Pilunani Grouping including reconnaissance, detailed geological surveys and trenching. Results are pending,

In April 2012, the Company received two drilling permits from the Peruvian authorities. The Toma drilling permit will enable the Company to perform 20 drill setups for approximately 3,000 meters. The Company reached an agreement with the community of Toma for its 2012 drilling program which is scheduled to commence in May this year. The Princesa drilling permit accounts for 34 drill setups for approximately 4,000 meters. Negotiations with the community of Cullco Belen are currently ongoing. That Company plans to start the drilling operations at Princesa once the Toma drilling program is completed.

The Princesa-Pilunani Project is divided into three sub-groups named Princesa, Pilunani and Potoni. Exploration work on these areas requires intensive negotiation with the communities that reside in these areas for the right access and to explore the concessions. The negotiations are conducted in professional and harmonious manner by the Company's Community Relations team which makes every effort to participate in economic, social, and educational development by encouraging local community involvement. The Company has a strict Corporate Policy that mandates respect for the inhabited land, the residents and the environment. The Company's Community Relations team has been successful in reaching several agreements with different communities located within the Pilunani and Princesa regions; notably, the community of Cullco Belen which covers the entire Princesa mineralized zone.

At Princesa, our team completed a detailed re-interpretation of the Princesa mineralized vein system with recommendations to test drill the lateral and down-dip extensions of the Princesa vein, especially where high grade ddh intersection where cut in the previous programs (PRIN-61: 12 meters at 189.8 g/t Ag, 5.47% Pb and 1.92% Zn). They concluded that the mineralized system is structurally controlled and is of replacement type. The Induced Polarization survey, which was completed in 2011, identified a-800 meter chargeability anomaly that may represent the eastern extension of the Princesa vein.

As for the Toma drilling program, untested geophysical located close to known high grade surface showings (Nilda and Marcia showings) have been defined at the Marcia, Rica Miel and Nilda grids. At Nilda, a trench dug over the old mine area returned 6.9 g/t Ag, 5.2% Pb and 31.5% Zn over 2.4 m and two short ddh drilled en 2007 undercut the structure at very shallow depth (< 10 m vertical) that returned 21.8 g/t Ag, 8.9% Pb and 24.4% Zn over 1.4 meter (ddh NIL07-01 located at 150 m NW of the old mine) and 2.33 g/t Ag, 0.38% Pb and 8.9% Zn over 6.0 meters (ddh NIL07-02 underneath the mine area).

At Marcia #1 showing, the most impressive results came from Trench T-1 (1.01% Pb and 3.78% Zn over 16 meters); Trench T-4 located 200 meters SE of T-1(0.70% Pb and 3.07% Zn over 4.9 m) and Channel C-3 (2.29% Pb and 22.21% Zn over 1.70 m). It is to be noted that the mineralization cut in the trenches and channels does not respond to IP surveys even though it extends for more than 16 meters in width and 250 m in length. The geophysical survey has however showed an impressive untested sub-flat IP chargeability anomaly which extends for almost 800 meters along L42E and 40E. Indeed, the southern extremity of the anomaly would coincide with the NW extension of the mineralization corresponding to the Marcia 1 showing while the northern extremity would coincide with the NW extension of the Marcia 2 showing. This promising target will be drill tested in 2012.

Results of operations

3 months ended March 31, 2012 and 2011

During the third quarter ended March 31, 2012, the Company incurred net losses of $775,786 compared to a net loss for the same period in 2011 of $34,727. The increase in net loss for the quarter ended March 31, 2012, is a result of company operations, including corporate expenditures (not in place last year) since the completion of the Corporate Merger together with increased exploration activity now that the Company's work-plan has been put into action. Details of the increased expenditures follow:

General and administrative costs (no comparative costs from 2011)

Costs of $41,755 during the current quarter are a result of corporate and administrative infrastructure set-up as the Company commences its work plan on its Princesa project.

Management fees and salaries (no comparative costs from 2011)

Expenses of $152,251 are a result of the administrative management agreement entered into with RG Mining Investments Inc. ("RGMI") of $110,55 (see related-party disclosure in this MD&A) directors' fees of $41,701. RGMI provides the corporate administrative and accounting services along with the services of the Company's CEO, CFO, VP Exploration, VP Finance and Corporate Secretary.

Consulting and professional fees (no comparative costs from 2011)

Costs of $35,587 during the current quarter are mainly the result of legal fees regarding the Corporate Merger.

Shareholder, public company costs and investor relations costs (no comparative costs from 2011)

Costs incurred for the quarter of $14,381 are in regards to the Company's go-public transaction, regulatory fees and shareholder reporting during this process.

Share-based compensation (no comparative costs from 2011)

For the quarter ended March 31, 2012, the Company incurred share-based compensation of $204,616 (2011 - $nil) regarding the vesting costs of previously issued options.

Exploration and evaluation expenditures

Princesa project, Peru	**3 months ended March 31, 2012**	**3 months ended March 31, 2011**
	$	$
Acquisition Costs	-	-
Exploration Costs:		
Drilling	-	-
Database	-	-
Environmental and community relations	21,409	-
Assaying and sampling costs	25,674	-
Field Supplies	22,548	-
Consulting and professional fees	81,802	-
General exploration expenses	145,535	32,689
	296,969	32,689
Total	**296,969**	**32,689**

9 months ended March 31, 2012 and 2011

During the 9 months ended March 31, 2012, the Company incurred net losses of $3,735,200 compared to a net loss for the same period in 2011, of $85,814. The increase in net loss for the 9-month period is a result of Company operations, including corporate expenditures (not in place last year) since the completion of the Corporate Merger together with increased exploration activity now that the Company's work-plan has been put into action. Details of the increased expenditures follow:

General and administrative costs (no comparative costs from 2011)

Costs of $58,514 during the current year are a result of corporate and administrative infrastructure set-up as the Company commences its work plan on its Princesa project.

Management fees and salaries (no comparative costs from 2011)

Expenses of $343,376 of which $301,675 are a result of the administrative management agreement entered into with RG Mining Investments Inc. ("RGMI") (see related-party disclosure in this MD&A). RGMI provides the corporate administrative and accounting services along with the services of the Company's CEO, CFO, VP Exploration, VP Finance and Corporate Secretary. The remaining amount of $41,701 is attributed to Board fees and expenses.

Consulting and professional fees (no comparative costs from 2011)

Costs of $258,128 during the current period are mainly the result of legal fees regarding the Corporate Merger.

Shareholder, public company costs and investor relations costs (no comparative costs from 2011)

Costs incurred for the 9 months ended March 31, 2012, of $82,575 are in regards to the Company's go-public transaction, regulatory fees and shareholder reporting during this process. Of this amount, $7,500 was paid to RGMI pursuant to its agreement with the Company (see related-party disclosure in the MD&A).

Share-based compensation (no comparative costs from 2011)

For the 9-month period ended March 31, 2012, the Company incurred share-based compensation of $689,423 (2011 - $nil).

Exploration and evaluation expenditures

Princesa project, Peru	**9 months ended March 31, 2012**	**9 months ended March 31, 2011**	**Cumulative to March 31, 2012**
	$	$	$
Acquisition Costs	**971,400**	-	1,569,638
Exploration Costs:			
Drilling	**104,105**	-	104,105
Database	**-**	-	20,000
Environmental and community relations	**21,409**	-	123,266
Assaying and sampling costs	**42,287**	-	110,284
Field Supplies	**54,758**	-	122,293
Consulting and professional fees	**380,606**	-	654,160
General exploration expenses	**308,139**	78,453	1,320,861
	911,305	78,453	2,454,970

Total	**1,882,705**	**78,453**	**4,024,608**

Summary of quarterly results:

	Quarter ended Mar. 31, 2012	Quarter ended Dec. 31, 2011	Quarter ended Sept. 30, 2011	Quarter ended June 30, 2011
	$	$	$	$
Total revenues	–	–	–	–
Net loss	(775,786)	(1,566,765)	(1,392,649)	(57,211)
Basic and diluted net loss per common share	(0.02)	(0.03)	(0.04)	(5.72)
Total assets	3,931,058	4,670,866	5,138,702	–
Long-term debt	-	-	–	–
Retained earnings (deficit)	(5,506,676)	(4,730,890)	(3,164,125)	(1,771,476)
Cash dividends declared per common share	-	-	-	-

	Quarter ended Mar. 31, 2011	Quarter ended Dec. 31, 2010	Quarter ended Sept. 30, 2010	Quarter ended June 30, 2010
	$	$	$	$
Total revenues	–	–	–	–
Net loss	(34,726)	(21,454)	(29,634)	(59,270)
Basic and diluted net loss per common share	(3.47)	(2.15)	(2.96)	(5.93)
Total assets	–	–	–	-
Long-term debt	–	–	–	-
Shareholders' equity (deficit)	(1,714,265)	(1,679,539)	(1,658,085)	(1,628,451)
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 March 31, 2012, the Company had cash of $3,815,801 and a working capital surplus of $3,786,831 compared to cash of $nil and a working capital deficiency of $1,767,503 at June 30, 2011. The increase in the Company's cash and working capital position is attributed to the completion of the Corporate Merger that included a financing done by Ansue that garnered net proceeds (after issuance costs) of $5,971,896.

Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial year beginning on or after July 1, 2011. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has (or will) consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of the Financial Statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- **IFRS 9 *'Financial Instruments: Classification and Measurement'*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. The Company will adopt beginning July 1, 2013.

- **IFRS 10 '*Consolidated Financial Statements'*** – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The Company will adopt on July 1, 2013.

- **IFRS 11 '*Joint Arrangements'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. The Company will adopt on July 1, 2013.

- **IFRS 12 '*Disclosure of Interests in Other Entities'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, 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. The Company will adopt on July 1, 2013.

- **IFRS 13 '*Fair Value Measurement'*** - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy. The Company will adopt on July 1, 2013.

As noted, 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 consolidated financial statements of the Company.

Significant accounting policies

Continuance of operations

The Financial Statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. As at March 31, 2012, the Company has not generated any revenues from operations and used $2,283,334 (2011 - $78,453) funds for operating activities for the 9 months there-ended. The continued operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management is of the opinion that it has sufficient working capital to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing may be required but will not be available on a timely basis or on terms acceptable to the Company. The Financial Statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

Management estimates

The preparation of Financial Statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates are the assessment of impairment of value of mineral properties, equity component of the convertible debenture, the assumptions used in determining stock based compensation and future income tax asset valuation allowances. Actual results could differ from those estimates.

Basis of consolidation

The preparation of the Financial Statements requires management to make judgements and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgements and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgements and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates, when applicable, relate to asset retirement obligations; property, plant and equipment, recoverability of accounts receivable, valuation of deferred income tax amounts, impairment testing and the calculation of share-based payments. The most significant judgements, when applicable, relate to recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

The Financial Statements contain management's judgement and estimates regarding the recoverability of its accounts receivable and the calculation of share-based payments.

Mineral properties

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into Property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

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 earnings. 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's trade and other receivables are classified as loans-and-receivables and its related-party loan receivable is classified as held-to-maturity.

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.

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.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. As at March 31, 2012, the Company has not classified any financial liabilities as FVTPL.

Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

Available-for-sale

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

Transactions with related parties

During the 9 months ended March 31, 2012, RG Mining Investments Inc. ("RGMI") charged the Company $307,675 (2011 - $nil) for management and administrative fees and $7,500 (2011 - $nil) 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, 2012. 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 9 months ended March 31, 2012, the fair value of vested stock options issued to directors, officers and employees of the Company amounted to $689,423 (2011 - $nil).

During the 9 months ended March 31, 2012, the Company incurred board of directors' fees of $41,701.

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 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 of which 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 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 May 25, 2012, the Company had 50,921,168 common shares outstanding, 3,033,333 outstanding options and 8,022,467 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.