

**ARMADILLO RESOURCES LTD.**  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND NINE MONTHS ENDED FEBRUARY 29, 2012

**GENERAL**

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This Management Discussion and Analysis (the “MD&A”) provides relevant information on the operations and financial condition of Armadillo Resources Ltd (the “Company”) for the three and nine months ended February 29, 2012. This MD&A has been prepared as of April 20, 2012.

The MD&A should be read in conjunction with the accompanying interim financial statements for the three and nine months ended February 29, 2012 and the Company’s audited financial statements and notes thereto for the year ended May 31, 2011 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

The interim financial statements are prepared in accordance with International Financial Reporting Standard (“IFRS”). All monetary amounts in this MD&A and in the financial statements are expressed in Canadian dollars, unless otherwise stated.

The financial information in this MD&A is derived from the Company’s interim financial statements prepared by Management in accordance with IFRS. This MD&A may contain forward looking statements based on assumptions and judgments of Management regarding events or results that may prove to be inaccurate as a result of risk factors beyond its control. Actual results may differ materially from the expected results.

The Company is a reporting issuer in each of the Provinces of British Columbia, Alberta and Ontario. Its head and principal office is located at 411 - 470 Granville Street Vancouver, British Columbia, V6C 1V5.

On February 8, 2011, the Company officially began trading on the Canadian National Stock Exchange (“CNSX”). The trading symbol is CNSX: ARO.

**OVERALL PERFORMANCE**

In order to better understand the Company’s financial results, it is important to gain an appreciation for the significant events, transactions and activities on mineral properties which have occurred to the date of this MD&A.

**Waverley–Tangier Property**

The Company holds an option to earn a 60% interest in the Waverley-Tangier gold/silver/lead/zinc property located in east-central British Columbia. The following description is taken from a Technical Report by J. Turner, P. Geo. (2009). The Technical Report has been filed on SEDAR and may also be viewed on our website, [www.armadilloresources.com](http://www.armadilloresources.com). The property is considered to be prospective for carbonate-hosted silver-gold-lead-zinc deposits.

**Property Description**

The Waverley-Tangier property is situated at the head of the North Fork of Downie Creek, about 1 ½ km below the summit flats separating that creek from the North Fork of the Illecillewaet River. The coordinates of the claims are 51° 27’ 04” N latitude and 117° 58’ 05” W longitude and are located on NTS Map Sheet 82 N/5W BC.

The property forms a continuous block of 25 un-patented claims totaling 11,344 hectares and is located in the Revelstoke Mining Division of central British Columbia. Access to the property is via paved and dirt road from the nearest town, which is Revelstoke.

The lower portions of the property are covered with a dense forest of fir, spruce, cedar, pine, and alder. The underbrush is mostly willow, alder and devil’s club. Very few outcrops occur in the area, which is covered by thick layers (up to 200 m) of drift and glacial till. Thin overburden occurs on the higher elevations and above tree line of the claims.

The topography in the area of the Waverley Workings is fairly steep, consisting of ridges trending roughly northwest, generally parallel to the drainage pattern. Relief is of the order of 1500 m vertically with the highest mountains approaching 2500 m. Steep faced cirques, knife-edge ridges, and cliffs over 90 m are common above 2000 m. The Tangier Workings are at a lower elevation, below treeline near the saddle of two valleys.

The area is within the Interior Wet Belt where precipitation exceeds an average of 40 metric per year. Winters in the area are usually severe and bring several feet of snow-pack. The highest average temperatures occur in July at 23° C and average lowest temperatures occur in January at -30° C (night).

The field season lasts from early June to the latter part of October.

### History

Earliest exploration on the claims commenced in the latter portion of the 19<sup>th</sup> century. Limited production and underground exploration took place during this period and continued sporadically through until 1921. Very minor exploration work was carried out from then until 1987, when Mandella Resources carried out line-cutting and geological mapping.

### Land Tenure

The Company acquired an option to earn a 60% interest in the Waverley-Tangier property from Silver Phoenix Resources Inc. The Agreement was submitted to the TSX Venture Exchange ("Exchange") as the Company's Qualifying Transaction. The Exchange accepted the transaction for filing, i.e. approved the closing of the transaction – effective March 24, 2009.

The Option Agreement and its terms are as follows:

To maintain, satisfy and exercise the First Option the Company must:

1.
  - (a) within 10 days from March 24, 2009 pay \$75,000 and issue 175,000 Shares to the Optionor (paid and issued);
  - (b) within one year before March 24, 2010 pay \$75,000 and issue 150,000 Shares to the Optionor;(paid and issued)
  - (c) within two years before March 24, 2011 pay \$100,000 and issue 150,000 Shares to the Optionor; (paid and issued, \$50,000 cash payment outstanding)
  - (d) within three years before March 24, 2012 pay \$100,000 and issue 150,000 Shares to the Optionor; being a total of \$350,000 and 625,000 Shares.
2. incur \$3,000,000 of Expenditures on the property in the following amounts on or before the following dates:
  - (a) \$200,000 before March 24, 2010 (completed);
  - (b) an aggregate total of \$500,000 before March 24, 2011;
  - (c) an aggregate total of \$1,500,000 before March 24, 2012; and
  - (d) an aggregate total of \$3,000,000 before March 24, 2013.
3. pay 100% of all of the costs required to have a feasibility study done with respect to the property and have the Feasibility Report prepared and delivered to the Joint Venture not later than December 31, 2015. With respect to this obligation:
  - (a) the work which the Optionor must fund 100% shall include all of the work on or in relation to the property, and all of the related costs and expenses whatsoever that will be necessary to have a feasibility study with respect to commercial production of ore from the property performed by independent qualified geological and mining experts;
  - (b) the Feasibility Report will have to be based on the feasibility study done and will have to satisfy the requirements and definition of "feasibility study" contained in Canadian Securities National Instrument 43-101.

The Company, if it satisfies all of the foregoing provisions, will have exercised the First Option and earned a 60% interest in the property. At that point the Company and Silver Phoenix will be constituted a joint venture – of which the Company will be the Operator. The Company and Silver Phoenix will, forthwith after the creation of the joint venture, bona fide negotiate the terms of a joint venture agreement.

If the Company exercises the First Option it must, within 30 days thereafter, give an Election Notice to the Optionor that it will proceed to attempt the exercise of the Second Option or will not attempt to exercise the Second Option to earn an additional 10% interest in the property. If it gives a notice electing to attempt to exercise the Second Option it must, to exercise the Second Option:

- (a) lend Silver Phoenix, at the most attractive interest rate available and in no case great than LIBOR plus $\frac{1}{2}$ %, all of the amounts that will be payable by Silver Phoenix under the Joint Venture Agreement; and
- (b) cause the Joint Venture to put the claims into commercial production.

Silver Phoenix is entitled, notwithstanding the exercise of the Options described above, to receive a 3.0% Net Smelter Return Royalty (“NSR”), which shall be calculated quarterly, and the following provisions will apply:

- (a) If the First Option is exercised the Joint Venture shall pay Advance Royalty payments to the Optionor of \$150,000 per year, commencing January 1, 2015 and such \$150,000 Advance Royalty payment shall be made on January 1 of each year thereafter until the Commencement of Commercial Production;
- (b) On the date of the Commencement of Commercial Production the total amount paid to the Optionor as Advance Royalty payments shall be calculated and the amount thereof shall be withheld from subsequent NSR payments to the Optionor until the total amount has been recovered by the Joint Venture from the NSR payments that would otherwise be payable to the Optionor;
- (c) The NSR royalty payments that would otherwise be paid or credited to Silver Phoenix must be a minimum of \$150,000 per year.

Silver Phoenix may, at any time prior to the exercise of the Second Option, elect to sell or deal with three of the claims comprising the property – covering approximately 863.3 hectares and known as the “George Prospect”. In such case the Company will have a first right of refusal with respect to the Optionor’s proposal.

#### Geology and Mineralization

The property is underlain by Proterozoic to Lower Paleozoic Kootenay Arc metamorphosed and deformed sedimentary and volcanic rocks, which have been intruded by Cretaceous-aged monzonite to granodiorite stocks. Meta-sedimentary and meta-volcanic units have been divided into four principal units (from oldest to youngest):

- Horsethief Creek Group (Neoproterozoic)
- Hamill Group (Lower Cambrian)
- Badshot Formation (Lower Cambrian)
- Lardeau Group-Index Formation (lower Paleozoic)

Kootenay rocks are host to a variety of mineral occurrences including vein silver-lead-zinc, gold-quartz vein, carbonate-hosted sedimentary exhalative, manto replacement, porphyry, and volcanogenic massive sulphide deposits. Among the most important of these are the sediment-hosted deposits such as the Sullivan, Bluebell, Reeves-MacDonald, and HB.

Silver, lead, and zinc with some gold values occur on the property in both sulphide vein and carbonate-replacement deposits. Mineralization at Waverley consists of highly oxidized veins and replacement bodies of galena, sphalerite, and tetrahedrite in a gangue of calcite and quartz. Accessory minerals include pyrite and pyrrotite; and in oxidized zones anglesite, smithsonite, cerussite, malachite, azurite, and limonite. At Tangier, the mineralization comprises lenticular bodies of pyrite and tetrahedrite in veins along with accessory quartz-carbonate.

#### Work Completed to Date

Exploration work conducted by Armadillo has been comprised of road refurbishment and bridge building, geophysical surveying, and diamond drilling.

In June 2009, Armadillo completed a multi-sensor airborne geophysical survey over the Waverley-Tangier property. The survey was carried out by Precision GeoSurveys Inc., of Vancouver, and encompassed 1317 line-km of magnetometer and multi-channel spectrometer, flown over the core claims of the property. After a preliminary review of the data, the Company increased its mineral claims holdings by 6,895 ha from 4,449 hectares to 11,344 ha.

In September 2009, Armadillo carried out a diamond drilling program on the Tangier showing, completing seven holes (plus one hole lost due to caving) with an aggregate drilled length of 761.6 m. High-grade gold-silver-lead-zinc intersections were obtained in three of the holes (see Table 1 below).

## Waverley - Tangier Drill Sample Results

| Hole No  | From<br>(m) | To<br>(m) | Interval<br>(m) | Gold<br>(g/t) | Silver<br>(g/t) | Lead<br>(%) | Zinc<br>(%) |
|----------|-------------|-----------|-----------------|---------------|-----------------|-------------|-------------|
| 2        | 50.90       | 62.48     | 11.58           | 1.66          | 148.7           | 0.36        | 1.37        |
| includes | 54.41       | 60.20     | 5.79            | 2.42          | 245.2           | 0.63        | 2.64        |
| 5        | 49.53       | 62.03     | 12.50           | 2.45          | 145.4           | 0.62        | 0.90        |
| includes | 51.82       | 53.34     | 1.52            | 6.80          | 162.5           | 2.01        | 2.70        |
| and      | 59.58       | 62.03     | 2.44            | 5.30          | 567.9           | 0.56        | 0.64        |
| 8        | 62.48       | 71.02     | 8.53            | 3.20          | 190.3           | 0.28        | 1.92        |
| includes | 63.28       | 71.02     | 6.22            | 4.37          | 261.1           | 0.38        | 2.55        |
| includes | 67.82       | 68.58     | 0.76            | 22.30         | 1310.0          | 1.50        | 0.34        |

### Notes:

1. Downhole distances represent apparent widths, although the orientation of the interpreted mineralized zone is such that they are close to true widths.
2. Holes #1, 3, 6 and 7 had no significant results. Hole # 4 was not sampled.

The Company exceeded the \$200,000 first phase of the work commitment, with expenditures in excess of \$430,000, which completed a large portion of our second year commitment. Additional work is planned to gain access to Waverley workings, develop additional drill targets, and continue drilling on the Tangier zone in order to explore for extensions to the known mineralization.

In 2010, due to heavy rain, the Company engaged in and completed reconstruction of the roads to maintain accessibility to the Tangier workings.

In 2011, the Company upgraded road access and installed a bridge across Sorcerer Creek to assist with road access to various locations including the Tangier dump and ore tailings. In addition, a pad was built to accommodate a rock crusher.

## **LD Property**

### Property Description

The LD property is located 12 km southeast of Atlin, British Columbia, at approximate latitude 59° 31' N, longitude 133° 28' E. Access to the property is via Surprise Lake Road for 5 km and then Spruce Creek Road for 5 km. An all terrain road runs parallel to Dominion Creek and provides easy access to the property. The town of Atlin lies on the eastern shore of Atlin Lake, the largest natural lake in British Columbia, at an elevation of 670 m.

The claims comprise 12 two-post claims totaling 300 ha, straddling the headwaters of the McKee and Dominion Creeks, major placer gold producing creeks in the area. Dominion Creek is one of the main tributaries to Spruce Creek, a prolific placer gold producer. The main placer gold deposits on Spruce Creek lie immediately below its confluence with Dominion Creek at the site of the historic Nolan Mine in the Atlin Mining District.

Relief in the area is moderately rugged with slopes of up to 30° rising from the Pine Creek Valley at an elevation of 915 m to peaks well over 1800 m. The topography is characterized by wide U-shaped, glacial valleys. The valley bottoms are covered by thick accumulations of glacial till, which gives way to felsenmeer and outcrop at higher elevations. Treeline is at an approximate elevation of 1400m.

A Canadian Government website ([climate.weatheroffice.gc.ca](http://climate.weatheroffice.gc.ca)) reports that for the period 1971 to 2000 in Atlin, the highest daily average temperatures occurred during the month of July, with a maximum of 18.6°C. The lowest average winter temperature was -19.3°C during the month of January. Total annual precipitation averaged 347.3 mm.

The LD Property is in good standing until February 4, 2017. This gives the Company time to review all aspects of the property without have to spend funds until we have funds available specifically for the project. The Company has discussed the property with the Geo (Ms. Linda Dandy) who wrote the report prior to acquisition and we are in discussion as to what she believes is the priority program.

## Exploration History

Gold was first discovered in the Atlin area in 1897 during the Dawson Creek Gold Rush. The first workings were on Pine Creek and by the end of 1898 more than 3,000 people were camped in the Atlin area.

Placer mining has been the economic mainstay for the town of Atlin. Reported placer gold production between 1898 and 1946 (the last year for which government records were kept) from creeks in the Atlin area totaled 634,147 ounces (19,722 kilograms) (Holland, 1950).

A number of the larger placer deposits, including those on Otter, Wright, Boulder, Birch, Ruby, Spruce and Pine Creeks, continued to produce significant quantities of gold into the late 1980s. Although the total placer gold production from the area to date is not available, it probably exceeds one million ounces (Ash, 2001).

From 1983 to 1986, Standard Gold Mines Ltd. worked the western portion of the LD property and the eastern portion of the property was worked by Claymore Resources Ltd. Both companies conducted soil geochemical, geophysical surveys, followed by small trenching and diamond drilling programs. In 1987, Placer Dome Inc. optioned the area containing the LD property but no work was conducted in the vicinity of the LD claims. No additional exploration work has been done on the property from 1987 until now.

Assessment reports filed with B.C. Ministry of Energy, Mines and Petroleum Resources (EMR) state that from 1983 to 1986 Standard Gold Mines Ltd. (Standard) and Claymore Resources Ltd. (Claymore) worked the west and east portions of the LD gold property, respectively. Both Claymore and Standard reported very high gold grades over relatively narrow zones of quartz veining in trenches, grab samples, and diamond drill core. On the western portion of the LD claims, Standard reported high grade gold values from numerous quartz veins in trenches along a shear structure. (EMR Assessment 11511). Several samples returned values in excess of 50 g/t gold including assays of 330.3 g/t gold (9.635 oz/T) and 426.5 g/t gold (15.116 oz/T) from 15kg bulk samples collected from the trenching.

Gold mineralization previously reported by Claymore was found in a trench grab sample of quartz veining in felsic rocks, which assayed 9.39 g/t gold. The best drill intersection was from Hole 1 and returned 0.274 gram gold over 3.05 m.

## Property Tenure

Armadillo Resources agreed to purchase a 100% interest in the LD gold property from a privately held group. The Company has to make payments totalling \$260,000 with a final payment of \$240,000 due on the completion of the next flow-through/non flow-through private placement to be participated in by associated parties. There will be a 3% NSR and the Company has the option of purchasing 1% of the NSR for \$1,000,000.

## Geology & Mineralization

The Atlin region is located in the northwestern corner of the northern Cache Creek (Atlin) Terrane. It contains a fault-bounded package of late Paleozoic and early Mesozoic dismembered oceanic lithosphere, intruded by post-collisional Middle Jurassic, Cretaceous and Tertiary felsic plutonic rocks. Mixed graphitic argillite and pelagic sedimentary rocks that contain minor pods and slivers of metabasalt and limestone dominate the terrane. Remnants of oceanic crust and upper mantle lithologies are concentrated along the western margin. Dismembered ophiolitic assemblages have been described at three localities along this margin: from north to south they are the Atlin, Nahlin and King Mountain assemblages. Each area contains imbricated mantle harzburgite, crustal plutonic ultramafic cumulates, gabbros and diorite, together with hypabyssal and extrusive basaltic volcanic rocks. Thick sections of late Paleozoic shallow-water limestone dominate the western margin of the terrane and are associated with alkali basalts. These are interpreted to be carbonate banks constructed on ancient ocean islands within the former Cache Creek ocean basin. (reproduced from Ash, 2001)

Gold and silver mineralization occurs as quartz stockworks and quartz-filled tension gashes along with minor pyrite, chalcopyrite, galena, and sphalerite. Visible free gold is disseminated throughout the quartz veins, and often occurring with limonite as a dusting or coating on drusy quartz. Auriferous quartz veins are erratically distributed within ultramafic host rocks, principally as fracture-fillings. Vein widths range in the order of four to 90 cm in width.

## **RESULT OF OPERATIONS**

The Company has not earned any revenues since inception.

### **The Third Quarter, Three Months Ended February 29, 2012 Compared to Three Months ended February 28, 2011**

The Company's operating results for the three months ended February 29, 2012, for the three months ended February 28, 2011 and the changes between those periods for the respective items are summarized as follows:

|  | <b>Three Months Ended<br/>February 29, 2012</b> | <b>Three Months Ended<br/>February 28, 2011</b> | <b>Change between Three Months<br/>Ended February 29, 2012 and 2011</b> |
|--|---|---|---|
| Total revenue                            | Nil   | Nil   | Nil   |
| Management fees                          | 19,500  | 19,500  | -   |
| Consulting fees                          | 22,150  | 116,300   | (94,150)  |
| Office                                   | 7,167   | 9,812   | (2,645)   |
| Accounting and audit fees                | 6,750   | 6,000   | 750   |
| Rent                                     | 8,879   | 8,189   | 690   |
| Legal                                    | 3,366   | 10,500  | (7,134)   |
| Filing and transfer agent fees           | 4,869   | 21,755  | (16,886)  |
| Wages and benefits                       | 10,018  | 10,363  | (345)   |
| Investor relations                       | 13,187  | 73,467  | (60,280)  |
| Travel                                   | 15,123  | 1,630   | 13,493  |
| Amortization                             | 1,698   | 480   | 1,218   |
| Loss for foreign exchange                | 124   | 13,630  | (13,506)  |
| Interest expense (income)                | (4)   | -   | (4)   |
| <b>Net loss &amp; comprehensive loss</b> | <b>(112,827)</b>                                | <b>(291,626)</b>                                | <b>178,799</b>  |

During the third quarter, the Company incurred a net loss & comprehensive loss of \$112,827 for the three months ended February 29, 2012 compared to a net loss & comprehensive loss of \$291,626 for the three months ended February 28, 2011. Our losses have decreased primarily as a result of a decrease of \$178,799 in consulting fees, legal, filing and transfer agent fees, investor relations and loss for foreign exchange although an increase of amortization for fixed assets and travel expenses for property acquisition. All other expenses are in the normal course of doing business.

### **The Third Quarter, Nine Months Ended February 29, 2012 Compared to Nine Months ended February 28, 2011**

The Company's operating results for the nine months ended February 29, 2012, for the nine months ended February 28, 2011 and the changes between those periods for the respective items are summarized as follows:

|  | <b>Nine Months Ended<br/>February 29, 2012</b> | <b>Nine Months Ended<br/>February 28, 2011</b> | <b>Change between Nine Months<br/>Ended February 29, 2012 and 2011</b> |
|--|--|--|--|
| Total revenue                            | Nil  | Nil  | Nil  |
| Management fees                          | 58,500   | 58,500   | -  |
| Consulting fees                          | 76,165   | 136,550  | (60,385)   |
| Office                                   | 23,974   | 23,008   | 966  |
| Accounting and audit fees                | 33,000   | 13,900   | 19,100   |
| Rent                                     | 26,310   | 24,257   | 2,053  |
| Legal                                    | 10,236   | 15,140   | (4,904)  |
| Filing and transfer agent fees           | 12,913   | 42,865   | (29,952)   |
| Stock based compensation                 | 157,379  | 27,155   | 130,224  |
| Wages and benefits                       | 30,665   | 27,799   | 2,866  |
| Investor relations                       | 51,237   | 101,428  | (50,191)   |
| Travel                                   | 24,794   | 3,258  | 21,536   |
| Amortization                             | 5,443  | 1,114  | 4,329  |
| Loss on foreign exchange                 | 124  | 13,630   | (13,506)   |
| Interest income                          | (224)  | -  | (224)  |
| <b>Net loss &amp; comprehensive loss</b> | <b>(510,516)</b>                               | <b>(488,604)</b>                               | <b>(21,912)</b>  |

During the three quarters, the Company incurred a net loss & comprehensive loss of \$510,516 for the nine months ended February 29, 2012 compared to a net loss & comprehensive loss of \$488,604 for the nine months ended February 28, 2011. Our losses have increased primarily as a result of an increase of \$21,912 in accounting and audit fees, amortization expenses for the fixed assets, travel expenses for property acquisition, stock based compensation due to 3,200,000 options granted to consultants of the Company although a decrease in consulting fees, investor relations, filing and transfer agent fees and loss on foreign exchange. All other expenses are in the normal course of doing business.

There are no other significant events or items that affect the Company's financial condition, cash flow or results of operation.

### **SUMMARY OF QUARTERLY RESULTS**

The following selected financial data have been prepared in accordance with Canadian generally accepted accounting principles and should be read in conjunction with the Company's Audited Financial Statements. The following is a summary of selected financial data for the Company for its eight completed financial quarters ending February 29, 2012. Each quarter of each financial year is shown on a quarterly basis:

|  | IFRS<br>Quarter<br>ended<br>Feb.<br>29/11<br>\$ | IFRS<br>Quarter<br>ended<br>Nov.<br>30/11<br>\$ | IFRS<br>Quarter<br>ended<br>Aug.<br>31/11<br>\$ | IFRS<br>Quarter<br>ended<br>May<br>31/11<br>\$ | IFRS<br>Quarter<br>ended<br>Feb.<br>28/11<br>\$ | IFRS<br>Quarter<br>ended<br>Nov.<br>30/10<br>\$ | IFRS<br>Quarter<br>ended<br>Aug.<br>31/10<br>\$ | IFRS<br>Quarter<br>ended<br>May<br>31/10<br>\$ |
|--|---|---|---|--|---|---|---|--|
| (a) net sales or total revenues            | Nil   | Nil   | Nil   | Nil  | Nil   | Nil   | Nil   | Nil  |
| (b) Gain (Loss) before Extraordinary items | (112,827)                                       | (122,887)                                       | (274,802)                                       | (650,486)                                      | (291,626)                                       | (101,222)                                       | (92,576)  | (72,364)                                       |
| (c) net Loss                               |   |   |   |  |   |   |   |  |
| - total                                    | (0.00)  | (0.00)  | (0.01)  | (0.01)   | (0.02)  | (0.01)  | (0.00)  | (0.01)   |
| - Per share diluted                        |   |   |   |  |   |   |   |  |

### **LIQUIDITY AND CAPITAL RESOURCES**

#### **Cash Flows**

|  | Nine Months Ended |                   |
|--|-------------------|-------------------|
|  | February 29, 2012 | February 28, 2011 |
| Net cash used in operating activities              | \$ (190,195)      | \$ (542,298)      |
| Net cash provided from financing activities        | 801,000           | 2,796,359         |
| Net cash used in investing activities              | (706,761)         | (1,978,346)       |
| Cash increase (decrease) in cash during the Period | \$ (95,913)       | \$ 275,715        |

As of February 29, 2012, the Company's current assets were \$24,042 and total current liabilities were \$569,745. The Company had a working capital deficit of \$545,703 (May 31, 2011 - \$291,414 deficit). The Company had a net loss and comprehensive loss of 510,516 for the nine months ended February 29, 2012 and a net loss and comprehensive loss of \$2,461,492 since inception. The Company has limited financial resources and has financed its operations primarily through the sale of its common shares. For the foreseeable future, the Company will need to rely on the sale of such securities for sufficient working capital and to finance its mineral property acquisition and exploration activities, and /or enter into joint venture agreements with third parties. As the Company does not generate any revenue from operations, the long-term profitability of the Company will be directly related to the success of its mineral property acquisition and exploration activities.

Working capital deficit, which was current assets less current liabilities, was \$545,703 at February 29, 2012 compared to a working capital deficit of \$291,414 at May 31, 2011. Current assets at February 29, 2012 included cash of \$6,776, receivables of \$9,576 and prepaid of \$7,690.

As at February 29, 2012, the Company's total current liabilities increased to \$569,745 from \$477,020 as at May 31, 2011. This increase of \$92,725 primarily resulted from the increase of promissory notes payable, accrued interests and due to related parties.

The Company's cash flow used by operating activities is \$190,195 and \$542,298 for the periods ended at February 29, 2012 and 2011, respectively. The decrease was primarily attributed to the increase of larger net loss due to an increase of stock based compensation recorded for 3,200,000 stock options granted to the consultants of the Company during the period ended February 29, 2012, and the increase of accounts payable and accrued liabilities and due to related parties.

The decrease in the Company's cash flow provided by financing activities from \$2,796,359 for the nine months ended February 28, 2011 to \$801,000 for the nine months ended February 29, 2012 was through to the increase in proceeds from share issued for cash, share subscription and purchase warrants exercised and proceeds from promissory notes (see note 9, financial statements) for the nine months ended February 28, 2011.

The decrease in the Company's cash flow used in investing activities from \$1,978,346 for the nine months ended February 28, 2011 to \$706,718 for the nine months ended February 29, 2012 was primarily due to record larger amounts of the acquisition and exploration of mineral properties deposits and advances and purchase of acquisition and exploration of mineral properties in 2011.

As a result of the increase, the Company recorded a larger net loss and comprehensive loss for the nine months ended February 29, 2012 compared to the nine months ended February 28, 2011. Therefore the Company has limited capital resources and will have to rely upon the issuance of common stock to fund our planned operations. Cash and cash equivalents from inception to date have been sufficient to cover expenses involved in starting the business. The Company will require additional funds to continue to implement its business plan during the next twelve months. The Company has no long-term debt obligations.

## **SHARE CAPITAL**

### Capital stock

As of the date of this MD&A, the Company has issued and outstanding common shares as follows. The authorized share capital is unlimited no par value common shares:



|   | Number of<br>Common Shares | Share Capital |
|---|----------------------------|---------------|
| Balance May 31, 2009                            | 8,707,500                  | 1,169,599     |
| Issued for cash                                 |                            |               |
| Agent warrants exercised                        | 70,000                     | 10,500        |
| Private placement                               | 1,535,000                  | 153,500       |
| Share issued for mineral interest               | 150,000                    | 14,250        |
| Finder's fee                                    | 63,000                     | -             |
| Fair value on exercise of agent warrants        | -                          | 5,201         |
| Balance, May 31, 2010                           | 10,525,500                 | \$ 1,353,050  |
| Mineral property option payments (Note 5)       | 150,000                    | 16,500        |
| Private placements, net of share issuance costs | 23,796,421                 | 2,835,751     |
| Shares issued for deferred acquisition (Note 4) | 39,750,000                 | 6,757,500     |
| Warrants exercised                              | 1,933,000                  | 272,620       |
| Shares issued for consulting services           | 268,000                    | 67,200        |
| Share-based payments                            | -                          | -             |
| Flow-through share renunciation                 | -                          | (51,250)      |
| Flow-through share renunciation                 | -                          | 51,250        |
| Balance, May 31, 2011 and February 29, 2012     | 76,422,921                 | 11,302,621    |
| Balance, April 20, 2012                         | 76,422,921                 | 11,302,621    |

On December 14, 2011, the Company announced to arrange a private placement of \$1,000,000Cdn, subject to regulatory approval. The offering consists of 20,000,000 units at \$0.05 per unit. Each consists of one common share and one purchase warrant. Each purchase warrant entitles the holder to purchase one additional share of the Company at a price of \$0.05 for a period of 48 months from closing of the offering. These funds will be used to explore and develop to be acquired mineral claims in Brazil, the further development of the Waverley-Tangier and LD properties in B.C. AND corporate use. As of February 29, 2012, the Company received \$765,000 of share subscription advance. There will be a finder's fee of 7% payable in stock or cash in connection with some or all of this private placement.

During the nine months ended February 29, 2012 and as of the filing date of this MD&A, the Company received share subscription advance of \$765,000.

The private placements announced July 5 and September 15, 2011 have been cancelled.

#### Escrow shares

As at February 29, 2012, 247,500 (May 31, 2010 - 990,000) shares were held in escrow. Under the escrow agreement, 10% of the shares were released (165,000) on the issuance of the Final Exchange Bulletin on March 24, 2009, and an additional 15% (247,500) will be released every nine months thereafter for a period of 36 months. As at April 20, 2012, the filing date of this MD&A, no share has been held in escrow.

#### Stock Options

As of the date of this MD&A the Company had the following incentive stock options outstanding:

| Expiry Date        | Exercise Price | Outstanding May 31, 2010 | Granted   | Exercised | Expired     | Outstanding May 31, 2011 | Outstanding April 20, 2012 |
|--------------------|----------------|--------------------------|-----------|-----------|-------------|--------------------------|----------------------------|
| March 31, 2014     | \$0.20         | 780,000                  | -         | --        | -           | 780,000                  | 780,000                    |
| September 11, 2014 | \$0.20         | 50,000                   | -         | --        | -           | 50,000                   | 50,000                     |
| July 9, 2015       | \$0.10         | -                        | 480,000   | --        | -           | 480,000                  | 480,000                    |
| March 4, 2016      | \$0.17         | -                        | 1,500,000 | --        | (50,000)    | 1,450,000                | 1,450,000                  |
|                    |                |                          | 1,890,000 | --        | (50,000)    | 2,760,000                |                            |
| June 9, 2016       | \$0.15         | -                        | 100,000   | --        | --          | -                        | 100,000                    |
| June 9, 2016       | \$0.13         | -                        | 50,000    | --        | --          | -                        | 50,000                     |
| August 18, 2012    | \$0.08         | -                        | 3,000,000 | --        | (3,000,000) | -                        | -                          |
| August 18, 2012    | \$0.10         | -                        | 50,000    | --        | --          | -                        | 50,000                     |
|                    |                |                          |           |           |             |                          | 2,960,000                  |

a) On June 9, 2011, the Company granted 100,000 and 50,000 stock options at respective exercise prices of \$0.15 and \$0.13 with five years expiry periods.

b) On August 18, 2011, the Company granted 3,000,000 and 50,000 stock options at respective exercise prices of \$0.08 and \$0.10 with a one year expiry period.

During the nine months ended February 29, 2012, the Company recorded share-based payments of \$157,379 for the above 3,200,000 stock options granted and no option were granted during the third quarter. However, on April 18, 2012, 3,000,000 stock options were canceled and expired due to termination of the agreement dated August 18, 2011.

#### Warrants

As of the date of this MD&A the Company had the following share purchase warrants, enabling the holder to acquire further common shares as follows:

| Expiry Date        | Exercise Price | Outstanding May 31, 2011 | Issued     | Exercised   | Expired   | Outstanding April 20, 2012 |
|--------------------|----------------|--------------------------|------------|-------------|-----------|----------------------------|
| March 25, 2011     | \$0.30         | 750,000                  | -          | -           | (750,000) | -                          |
| February 23, 2012  | \$0.14         | 370,000                  | -          | (220,000)   | -         | 150,000                    |
| May 21, 2011       | \$0.14         | 1,165,000                | -          | (1,050,000) | (115,000) | -                          |
| June 28, 2012 (**) | \$0.14         | -                        | 2,500,000  | (400,000)   | -         | 2,100,000                  |
| October 4, 2012    | \$0.15         | -                        | 1,025,000  | (100,000)   | -         | 925,000                    |
| October 24, 2012   | \$0.15         | -                        | 5,533,000  | (100,000)   | -         | 5,433,000                  |
| March 29, 2013     | \$0.20         | -                        | 13,525,997 | -           | -         | 13,525,997                 |
|                    |                | 2,285,000                | 22,583,997 | (1,870,000) | (865,000) | 22,133,997                 |
| March 29, 2012(*)  | \$0.20         | -                        | 453,833    | -           | -         | 453,833                    |
| April 20, 2012     |                |                          |            |             |           | 22,587,830                 |

(\*) On March 29, 2011, the Company completed a private placement and granted 453,833 broker warrants at an exercise price of \$0.20 as funder's fees with warrants assessment value of \$47,971.

(\*\*) On June 27, 2011, the warrants priced at \$0.14 from the private placement dated June 24, 2010 had the expiry date extended one year from June 28, 2011 to June 28, 2012.

## **RELATED PARTY TRANSACTIONS**

The Company has identified its Directors and certain senior Officers as its key Management personnel. The compensation costs for key Management personnel for the nine months period ended February 29, 2012 and 2011 as follows:

|                                | February 29, 2012 |        | February 28, 2011 |         |
|--------------------------------|-------------------|--------|-------------------|---------|
| Management and consulting fees | \$                | 84,965 | \$                | 76,550  |
| Share-based payments           |                   | -      |                   | 24,295  |
| Total                          | \$                | 84,965 | \$                | 100,845 |

During the period ended February 29, 2012, the Company incurred \$58,500 and \$26,465 (2010 - \$68,550 and \$8,000) in management and consulting fee expenses for Officers of the Company and a company owned by an Officer of the Company and paid share-based payments of \$Nil (2010 - \$24,295) to Officers and Directors of the Company.

The Company paid consulting fees of \$8,000 (2010 - \$6,000) to a company controlled by a former Director and Officer of the Company.

As of February 29, 2012, the amount due to related parties consists of \$11,337 (May 31, 2011 - \$Nil; and June 1, 2010 - \$20,973) owing to an Officer and Director and corporations controlled by Officers and a Director.

All related party transactions were in the normal course of operations and were measured at the exchange amount, which is an amount of consideration established and agreed to by the related parties.

## **PROPOSED TRANSACTION**

During fiscal 2011 the Company entered into an acquisition agreement (the "Acquisition") to acquire 99% of the outstanding shares of Amazonia Capital E Participacoes Ltd. ("Amazonia"). As at February 29, 2012 the Acquisition of Amazonia has not closed and pre-closing payments made in cash and shares of the Company are recorded as deferred acquisition costs as follows:

|                                 | February 29, 2012 |
|---------------------------------|-------------------|
| Cash payments                   | \$ 2,490,223      |
| Shares issued as consideration  | 6,375,000         |
| Shares issued for finders' fees | 382,500           |
| Interest and finance costs      | 210,923           |
| Deferred acquisition costs      | \$ 9,458,646      |

As at February 29, 2012 the Company has made cumulative cash payments of \$2,490,223 and issued 37,500,000 shares as consideration for the Acquisition. The Company also accrued interest and finance costs of \$210,923 on note promissory related to the transaction and recorded as deferred acquisition costs deposits. An additional 2,250,000 shares of the Company were issued as finders' fees. On December 4, 2011, the ownership transfer of the Amazonia shares to the Company has been received by the Company.

Upon closing the Company assumes the responsibility for 100% of all costs and expenses related to Amazonia, including property taxes, ongoing exploration, preparation and filing of NI 43-101 report, as well as Management and consulting fees and expenses payable to John Young and other approved third party Management or consultant fees and expenses; specifically a US\$10,000 per month consulting agreement payable to John Young with a term from March 1, 2011 to February 28, 2013.

Additionally upon closing the Company assumes the responsibility for \$1,420,000 of Amazonia's loans payable and will issue a two-year convertible promissory note with an interest rate at 3% per annum paid annually. The principal amount and any unpaid interest amount at the time of conversion are convertible, after one year, into common shares of the Company at Company's discretion, at a conversion price equal to the average closing price of common shares of the Company in the ten trading days prior to notice of intent to convert.

If at any time the Company acquires mining permits in respect of Amazonia's properties and commences production, such production is subject to a 2.5% net smelter return royalty to the vendor of Amazonia on precious and semi-precious metals produced from the property and a 2.5% gross over-riding royalty on diamonds and all non-smelter products produced from the property. 1.5% of the royalty, such that the vendor shall then have a 1% royalty, can be purchased by the Company for an additional cash payment of US\$1,000,000.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Financial Instruments**

As at February 29, 2012, the Company's financial instruments consist of \$6,776 in cash, \$9,576 in amounts receivable, \$7,690 in prepaid expenses, \$143,107 in accounts payable and accrued liabilities, \$10,337 in due to related parties and \$414,255 in promissory notes.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk Management framework. The Company's financial instruments consist of cash and cash equivalents, receivable, conservation bond and, promissory note, accounts payable and accrued liabilities and due to related parties.

At February 29, 2012, the carrying and fair value amounts of the Company's financial instruments related to cash, receivable, reclamation bond, accounts payable and accrued liabilities and due to related parties are the same due to promissory notes.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

#### *Credit risk*

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's concentration of credit risk is primarily attributable to cash and advances made to Amazonia. The Company places its cash with high credit quality financial institutions and monitor Amazonia to minimize credit risk.

#### *Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of February 29, 2012 the Company had cash balance of \$6,776 (May 31, 2011 - \$102,689) to settle current liabilities of \$569,745 (May 31, 2011 - \$477,020). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company manages its capital (see Note 14) to meet its financial obligations.

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices, which are described below.

#### *Interest rate risk*

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term investments issued by its banking institutions. The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by major Canadian financial institutions.

#### *Foreign currency risk*

The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars ("US\$"), however US\$ balances are insignificant as at February 29, 2012 and in Management's opinion the Company's foreign currency risk is immaterial.

#### *Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of mineral resources, individual equity movements and the stock market to determine the appropriate course of action to be taken by the

Company. Fluctuations in value may be significant.

## **CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral property interests. The Board of Directors does not establish quantitative return on capital criteria for Management, but rather relies on the expertise of the Company's Management to sustain future development of the business. The Company considers capital to consist of shareholders' equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital Management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

## **NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE**

Certain new standards, interpretations and amendments to existing standards are not yet effective as of May 31, 2011 and have not been applied in preparing these Interim consolidated Financial Statements. None of these are expected to have a material effect on the financial statements of the Company.

Accounting standards effective January 1, 2012

### *Financial instruments disclosure*

In October 2010, the IASB issued amendments to IFRS 7 – Financial Instruments: Disclosures that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed consolidated financial statements.

### *Income taxes*

In December 2010, the IASB issued an amendment to IAS 12 – Income taxes that provide a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed consolidated financial statements.

Accounting standards anticipated to be effective January 1, 2013

### *Joint ventures*

The IASB issued IFRS 11 – Joint Arrangements on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company is currently evaluating the impact IFRS 11 is expected to have on its consolidated financial statements.

### *Consolidation*

On September 29, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standards on consolidation, IAS 27 - Consolidated and Separate Financial Statements and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

### *Financial instruments*

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. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

#### *Fair-value measurement*

IFRS 13, Fair Value Measurement: effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

#### **ADOPTION OF IFRS**

On January 1, 2011, the Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises, with a transition date of January 1, 2010. IFRS represents standards and interpretations approved by the IASB and are comprised of IFRSs, IASs, and interpretations issued by IFRICs or the former SICs.

The Company has adopted IFRS with a transition date of June 1, 2010. The Company's IFRS accounting policies are disclosed in Note 2 to the interim consolidated financial statements. Reconciliation between the Company's financial statements as previously reported under Canadian GAAP and current reporting under IFRS is detailed in Note 3 of the interim consolidated financial statements.

#### **MATERIAL EVENTS**

On December 1, 2011, the Company held an Annual General Meeting (the "AGM") and appointed Anthony Pickett, a businessman residing in Australia to the Board of Directors of the Company.

#### **APPROVAL**

The Board of Directors of Armadillo Resources Ltd. has approved the disclosures in this MD&A.

#### **FORWARD LOOKING STATEMENTS**

All statements in this report that do not directly and exclusively relate to historical facts constitute forward-looking statements. These statements represent the Company's intentions, plans, expectations and belief, and are subject to risk, uncertainties, and other factors of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, as a result of new information, future events or otherwise. Additional information on the Company available through the following source: [www.sedar.com](http://www.sedar.com).