

**ARMADILLO RESOURCES LTD.**  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE THREE AND SIX MONTHS ENDED NOVEMBER 30, 2012

**GENERAL**

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This Management Discussion and Analysis (the “MD&A”) provides relevant information on the consolidated operations and financial condition of Armadillo Resources Ltd (the “Company”) for three and six months ended November 30, 2012. This MD&A has been prepared as of January 23, 2013.

The MD&A should be read in conjunction with the accompanying audited consolidated financial statements for the three and six months ended November 30, 2012 and the Company’s audited consolidated financial statements and notes thereto for the year ended May 31, 2012 which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

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

The consolidated financial information in this MD&A is derived from the Company’s audited consolidated 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.

On October 5, 2012, the Company was cease traded by the Ontario Securities Commission for failure to file the audited annual consolidated financial statements for the year ended May 31, 2012 in a timely manner. October 25, 2012, the Company filed the annual consolidated financial statements and on October 29, 2012, the Company filed the interim consolidated financial statements and MD&A. The Company’s stock resumed trading November 1, 2012.

**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 held an option to earn a 60% interest in the Waverley-Tangier gold/silver/lead/zinc property located in east-central British Columbia. The option agreement is not in good standing as significant payments were not made during 2012. Accordingly the property has been fully written off.

**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) 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 having to spend funds until we have funds available specifically for the project. The Company has discussed the property with the Geologist (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 had to make payments totalling \$500,000, which have been paid. 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.

### **Amazon Basin Property – Brazil**

On November 28, 2011, the Company closed its acquisition agreement to acquire 99% of the outstanding shares of Amazonia for cumulative cash payments of \$2,210,790 and issued 37,500,000 shares as consideration. An additional 2,250,000 shares of the Company were issued as finder's fees. As part of the acquisition, the Company is to issue a promissory note for \$1,420,000US to Brazil Gold Corp. As at November 30, 2012, an accrued liability of \$1,410,912 (November 28, 2011 and May 31, 201 - \$1,466,434 (\$1,420,000US)) was recorded as the promissory note has yet to be issued. The balances in acquisition costs for the mineral properties represent the estimated fair value of these properties at the time of the acquisition.

The following is a summary of the acquisition cost allocation at the date of purchase based upon the estimated fair values of the assets acquired and liabilities assumed:

Cash payments	\$ 2,210,790
Shares issued as consideration	6,375,000
Shares issued for finders' fees	382,500
Borrowing costs	197,018
<b>Acquisition cost</b>	<b>\$ 9,165,308</b>
Acquisition cost allocation:	
Equipment	\$ 59,245
Mineral properties in Brazil	10,665,076
Accrued liabilities	(1,466,434)
Net assets	\$ 9,257,887
Non-controlling interest	(92,579)
	<b>\$ 9,165,308</b>

The Amazon Basin property, a gold project located in Brazil was acquired through the November 2011 acquisition. This property is located south of the city of Manaus and encompasses mineral claims in the states of Amazonas, Mato Grosso and Rondonia.

If at any time the Company acquires mining permits in respect to the Amazon Basin Property 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.

Property obligations, approximately \$44,000.00Cdn., were due September 21, 2012. If these obligations are not paid by mid November, a heavy fine may be levied on Amazonia Capital, Armadillo's Brazilian subsidiary and may put the concessions in default.

### **Flagstaff Mine in Baker City, Oregon**

On November 29, 2012, the Company entered into a Letter of Intent to be extended to an exploration agreement with Dimari Enterprises LLC of Pasco, Washington for the acquisition of the Flagstaff Gold Mine located east of Baker City, Baker County, Oregon. The Company agreed to pay US\$10,000 upon signing the LOI and US\$15,000 on signing of the Exploration Agreement. The Company is to complete an initial program of sampling, trenching, and drilling including an upgrade to the existing tunnels to gain access and verify the existing orebody. After verification, Armadillo will pay: US\$50,000.00 and issue Dimari 500,000 common shares of the Company. A further payment of, US \$50,000 per anniversary date or a 25% royalty from production, whichever is the greatest to a maximum total payable of US\$5,000,000 will also be required. As of November 30, 2012, the Company had a \$10,000 outstanding payment which has been paid..

## SELECTED ANNUAL INFORMATION

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 table sets forth selected financial data for the Company for and as of the end of the last three completed financial years to the year ended May 31.

<b>Financial Years Ended</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Total revenue	Nil	Nil	Nil
Loss before extraordinary items	(1,606,603)	(1,238,589)	(268,193)
Loss per share – basic and diluted	(\$0.06)	(\$0.06)	(\$0.03)
Net loss	(1,606,603)	(1,238,589)	(268,193)
Net loss per share – basic and diluted	(\$0.02)	(\$0.06)	(\$0.03)
Total assets	11,578,609	10,316,208	1,003,716
Total long term financial liabilities	4,473	5,642	Nil
Cash dividends declared – per share	Nil	Nil	Nil

On November 28, 2011, the Company closed its acquisition agreement to acquire 99% of the outstanding shares of Amazonia Capital E Participacoes Ltd. With the acquisition of control of Amazonia, the Company became consolidated Amazonia's financials with the Company in 2012.

## RESULT OF OPERATIONS

The Company has not earned any revenues since inception.

### Three Months Ended November 30, 2012 Compared to Three Months ended November 30, 2011

Our operating results for the three months ended November 30, 2012, for the three months ended November 30, 2011 and the changes between those periods for the respective items are summarized as follows:

	<b>Three Months Ended November 30, 2012</b>	<b>Three Months Ended November 30, 2011</b>	<b>Change between Three Months Ended November 30, 2012 and 2011</b>
Total revenue	Nil	Nil	Nil
Accounting and audit fees	21,000	20,250	750
Consulting fees	15,925	33,215	(17,290)
Depreciation expenses	4,318	1,811	2,507
Filing and transfer agent fees	10,793	4,991	5,802
Investor relations	305	10,580	(10,275)
Legal	2,661	5,300	(2,639)
Management fees	19,500	19,500	-
Office	3,196	6,411	(3,215)
Rent	9,957	8,715	1,242
Travel	928	2,052	(1,124)
Wages and benefits	5,974	10,282	(4,308)
Income for foreign exchange	122,252	-	122,252
Impairment of mineral property	4,810	-	4,810
Interest expense (income)	(179)	220	399
<b>Net loss &amp; comprehensive loss</b>	<b>(221,441)</b>	<b>(123,327)</b>	<b>(98,114)</b>

During the second quarter, the Company incurred a net loss of \$221,441 for the three months ended November 30, 2012 compared to a net loss of \$123,327 for the three months ended November 30, 2011. Our losses have increased primarily as a result of an increase of \$750 in accounting and audit fees, \$2,507 in depreciation expenses, \$5,802 in filing and transfer agent fees, \$4,810 in impairment of mineral property and \$122,252 in foreign exchange due to loan from subsidiary although a decrease of consulting fees, investor relations, office, travel and wages and benefits. All other expenses are in the normal course of doing business.

Six Months Ended November 30, 2012 Compared to Six Months ended November 30, 2011

Our operating results for the three months ended November 30, 2012, for the three months ended November 30, 2011 and the changes between those periods for the respective items are summarized as follows:

	<b>Six Months Ended November 30, 2012</b>	<b>Six Months Ended November 30, 2011</b>	<b>Change between Six Months Ended November 30, 2012 and 2011</b>
Total revenue	Nil	Nil	Nil
Accounting and audit fees	27,000	26,250	750
Consulting fees	36,425	54,015	(17,590)
Depreciation expenses	8,727	3,745	4,982
Filing and transfer agent fees	13,308	8,044	5,264
Investor relations	610	38,050	(37,440)
Legal	36,181	6,870	29,311
Management fees	39,000	39,000	-
Office	7,940	16,807	(8,867)
Rent	19,864	17,431	2,433
Stock-based payments	-	157,379	(157,379)
Travel	1,825	9,671	(7,846)
Wages and benefits	15,640	20,647	(5,007)
Income for foreign exchange	55,523	-	55,523
Impairment of mineral property	6,311	-	6,311
Interest expense (income)	(179)	220	(399)
<b>Net loss &amp; comprehensive loss</b>	<b>(268,177)</b>	<b>(398,129)</b>	<b>129,952</b>

The Company incurred a net loss of \$268,177 for the six months ended November 30, 2012 compared to a net loss of \$398,129 for the six months ended November 30, 2011. Our losses have decreased primarily as a result of a decrease of \$17,590 in consulting fees, \$37,440 in investor relations, \$8,867 in office expenses, \$7,846 in travel, \$5,007 in wages and benefits and no stock-based compensation expense was recorded due to no stock option granted for six months ended November 30, 2012 but \$157,379 recorded in the same period ended November 30, 2011, although an increase of accounting and audit fees, filing and transfer agent fees, legal fees and depreciation expenses, rent and foreign exchange loss and impairment of mineral property. All other expenses are in the normal course of doing business. 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

	Quarter ended Nov. 31/12 \$	Quarter ended Aug. 31/12 \$	Quarter ended May. 31/12 \$	Quarter ended Feb. 29/12 \$	Quarter ended Nov. 30/11 \$	Quarter ended Aug. 31/11 \$	Quarter ended May 28/11 \$	Quarter ended Feb. 28/11 \$
(a) net sales or total revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
(b) Gain (Loss) before Extraordinary items	(221,441)	(46,736)	(1,096,087)	(112,827)	(122,887)	(274,802)	(749,985)	(291,626)
(c) net Loss								
- total	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.01)	(0.03)	(0.02)
- Per share diluted								

## LIQUIDITY AND CAPITAL RESOURCES

	Six Months Ended	
	November 30, 2012	November 30, 2011
Net cash used in operating activities	\$ 397	\$ (46,155)
Net cash provided from financing activities	110,000	368,500
Net cash used in investing activities	(110,312)	(412,091)
Cash increase (decrease) in cash during the Period	\$ 85	\$ (89,746)

As of November 30, 2012, the Company's current assets were \$81,384 and total current liabilities were \$2,519,871. The Company had a working capital deficit of \$2438,487 (May 31, 2012 - \$2,169,643 deficit). The Company had a net loss and comprehensive loss of \$268,177 for the six months ended November 30, 2012 and a net loss and comprehensive loss of \$3,825,551 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.

As at November 30, 2012, the Company's total current liabilities increased to \$2,519,871 from \$2,186,194 as at May 31, 2012. This increase of \$333,677 primarily resulted from the assumption of accrued liabilities from the Amazonia acquisition and increase of accounts payable and accrued liabilities, promissory notes payable, accrued interests and due to related parties.

### Three Months ended November 30, 2012 and 2011

#### *Cash Flows Used in Operating Activities*

The Company's cash flow used by operating activities is \$79,548 and \$35,204 for the three months ended at November 30, 2012 and 2011, respectively. The decrease was primarily attributed to the decrease of expenses and increase of accounts payable and accrued liabilities and due to related parties.

#### *Cash Flows Used in Investing Activities*

The decrease in the Company's cash flow used in investing activities from \$296,349 for the six months ended November 30, 2011 to \$78,811 for the six months ended November 30, 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.

### *Cash Flows from Financing Activities*

The decrease in the Company's cash flow provided by financing activities from \$340,000 for the three months ended November 30, 2011 to \$Nil for the three months ended November 30, 2012 was through to the increase in proceeds from share issued for cash (see note 10, interim consolidated financial statements) for the six months ended November 30, 2011.

### **Six Months ended November 30, 2012 and 2011**

#### *Cash Flows Used in Operating Activities*

The Company's cash flow used by operating activities is \$398 and \$46,155 for the six months ended at November 30, 2012 and 2011, respectively. The decrease was primarily attributed to the decrease of expenses and increase of accounts payable and accrued liabilities and due to related parties.

#### *Cash Flows Used in Investing Activities*

The decrease in the Company's cash flow used in investing activities from \$368,500 for the six months ended November 30, 2011 to \$110,000 for the six months ended November 30, 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.

#### *Cash Flows from Financing Activities*

The decrease in the Company's cash flow provided by financing activities from \$368,500 for the six months ended November 30, 2011 to \$110,000 for the six months ended November 30, 2012 was through to the increase in proceeds from share issued for cash (see note 10, interim consolidated financial statements) for the six months ended November 30, 2011.

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:

Balance, May 31, 2012	76,422,921		11,302,621
Private placements, net of share issuance costs	17,740,000		887,000
Share issuance for finder's fee	119,000		5,950
Share issued cost	-		(5,950)
Balance, November 30, 2012			
Balance, January 23, 2013	94,281,921	\$	12,189,621

On August 3, 2012, the Company closed a private placement and issued 17,740,000 units at \$0.05 per unit for gross proceeds of \$887,000. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire additional common share at \$0.10 for a period of one year from closing. A finder's fee of 119,000 common shares was issued with fair valued of \$5,950 in connection with this private placement. As of November 30, 2012 and the filing date of this interim consolidated financial statements, there is \$12,000 share issuance receivable outstanding.

As of November 30, 2012 and the filing of this MD&A, there is 94,281,921 common shares issued outstanding.

#### Escrow shares

As at November 30, 2012, 82,500 (May 31, 2012 – 247,500) 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 January 31, 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 November 30, 2012	Outstanding January 23, 2013
March 31, 2014	\$0.20	780,000	780,000
September 11, 2014	\$0.20	50,000	50,000
July 9, 2015	\$0.10	480,000	480,000
March 29, 2016	\$0.17	1,450,000	1,450,000
June 9, 2016	\$0.15	100,000	100,000
June 9, 2016	\$0.13	50,000	50,000
		2,910,000	2,910,000

### Warrants

As of the filing 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, 2012	Issued (Expired)	Outstanding November 30, 2012 and January 23, 2013
June 28, 2012	\$0.14	2,100,000	(2,100,000)	-
October 24, 2012	\$0.15	6,358,000	(6,358,000)	-
March 29, 2013	\$0.20	13,525,997	-	13,525,997
August 3, 2013	\$0.10	17,740,000	-	17,740,000
<b>November 30, 2012</b>		<b>39,723,997</b>	<b>8,458,000</b>	<b>31,265,997</b>

### RELATED PARTY TRANSACTIONS

The Company has identified its Directors and certain officers as its key management personnel. The compensation costs for key management personnel for six months ended November 30, 2012 and 2011 as follows:

	November 30, 2012	November 30, 2011
Management and consulting fees	\$ 57,925	\$ 57,315

During the six months ended November 30, 2012, the Company incurred \$39,000 and \$18,925 (2012 - \$39,000 and \$18,315) in management and consulting fees for Officers of the Company and a company owned by an Officer of the Company.

As of November 30, 2012, the amount due to related parties consists of \$109,222 (May 31, 2012 - \$46,018) owing to Officers and Directors and companies controlled by Officers and a Director. All amounts are due on demand, non-interest bearing and are unsecured.

A management consulting agreement was entered on May 27, 2011, whereby in exchange for management services, the Company agreed to pay \$10,000 per month for a period of two years ending on February 28, 2013. The agreement can be terminated upon written notice.



The Company accrued management fees of \$60,000 (2012 - \$120,000) to shareholder with significant influence, in which \$60,000 (2012 - \$60,000) was capitalized as mineral property. As at November 30, 2012, the amount due to related parties consist of \$118,511 (May 31, 2012 - \$55,000) owing to this party. All amounts are due on demand, non-interest bearing and are unsecured.

## **FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

### **Financial Instruments**

As at November 30, 2012, the Company's financial instruments consist of \$2,022 in cash, \$12,868 in amounts receivable, \$66,494 in prepaid expenses, \$1,833,247 in accounts payable and accrued liabilities, \$277,732 in due to related parties and \$455,970 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 measured at fair value on a recurring basis consist of: cash and equivalents and restricted investment.

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. The Company places its cash with high credit quality financial institutions 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 November 30, 2012 the Company had cash balance of 2,022 (May 31, 2012 - \$1,937) to settle current liabilities of \$2,519,871 (May 31, 2012 - \$2,186,194). 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 to meet its financial obligations, however the Company requires significantly more cash.

#### *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. 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\$"). A 5% strengthening (weakening) of US\$ will increase (decrease) total liability by approximate \$55,523 Canadian dollars respectively. The Company currently does not use any foreign exchange contract to hedge this currency risk.

#### *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.

Risk management is the responsibility of the corporate finance function. Material risks are identified and monitored and are discussed by senior management and with the audit committee of the Board of Directors.

## **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**

### **New Standards, Amendments and Interpretations Not Yet Effective**

#### **Accounting standards effective June 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 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 consolidated financial statements.

#### **Accounting standards anticipated to be effective June 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***

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. IFRS 10 replaces IAS 27 Consolidation – Special Purpose Entities and part of IAS 27 Consolidated and Separate Financial Statements. The Company is currently evaluating the impact of IFRS 10 is expected to have on its consolidated financial statements.

##### ***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. The Company is currently evaluating the impact IFRS 13 is expected to have on its consolidated financial statements.

#### Accounting standards anticipated to be effective June 1, 2015

##### ***Financial instruments***

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. The Company is currently evaluating the impact IFRS 9 is expected to have on its consolidated financial statements.

##### **ADOPTION OF IFRS**

Effective June 1, 2011, the Company prepares its consolidated financial statements in accordance with IFRS. The comparative financial information of 2011 in the MD&A should also be restated to conform with IFRS. This MD&A should be read in conjunction with Note 3 “Adoption of IFRS” of the Company’s audited consolidated financial statements for the year ended May 31, 2012.

##### **MATERIAL EVENT**

Subsequent to the quarter ended November 30, 2012, the board of directors the Company approved to appoint James Turner, P. Geo to the Board of Directors. James has classifications as a Qualified Person and with forty years field experience, James will bring valuable knowledge and expertise to the Company.

##### **OFF-BALANCE SHEET ARRANGMENT**

The Company has no off-balance sheet arrangement.

##### **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).