

# **AFRASIA MINERAL FIELDS INC.**

MANAGEMENT DISCUSSION AND ANALYSIS

May 31, 2012

# AFRASIA MINERAL FIELDS INC.

Management Discussion & Analysis

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## 1.1 Date

This Management Discussion and Analysis ("MD&A") of Afrasia Mineral Fields Inc. ("Afrasia" or the "Company") has been prepared by management as of September 25, 2012 and should be read in conjunction with the audited financial statements and related notes thereto of the Company for the years ended May 31, 2012 and 2011, which were prepared in accordance with International Accounting Standards.

This MD&A may contain "forward-looking statements" which reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Issuer. The Issuer has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect" and similar expressions. The statements reflect the current beliefs of management of the Company, and are based on currently available information. Accordingly, these statements are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Issuer to differ materially from those expressed in, or implied by, these statements.

The Company undertakes no obligation to publicly update or review the forward-looking statements whether as a result of new information, future events or otherwise.

## 1.2 Over-all Performance

The Company was incorporated on June 24, 1986 under the laws of British Columbia. The Company was listed on the TSX Venture Exchange ("TSX-V") under the symbol "AFS" and on September 29, 2008 the Company's listing was transferred from the TSX-V to the NEX board of the TSX-V. Effectively, the trading symbol for the Company changed from "AFS" to AFS.H".

The Company is in the process of identifying, evaluating and negotiating business opportunities in the resource industry.

## 1.3 Selected Annual Information

May 31,	2012	2011	2010
	(IFRS)	(IFRS)	(IFRS)
Total interest and other income	\$ 1,275	\$ 1,087	\$ 2
Net Loss	\$ (159,784)	\$ (157,726)	\$ (308,465)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)
Total assets	\$ 118,127	\$ 235,217	\$ 737,097
Total long term liabilities	\$ Nil	\$ Nil	\$ Nil
Cash dividends declared per share for each class of share	\$ Nil	\$ Nil	\$ Nil

The Company's transition to IFRS did not result in adjustments of prior periods financial results.

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## 1.4 Results of Operations

During the year ended May 31, 2012, the Company incurred a loss of \$159,784 or \$0.008 per share as compared to a loss of \$157,726 or \$0.008 per share in fiscal 2011, an increase in loss by \$2,058. The increase in loss resulted from an increase in general and administrative expenses of \$4,059 offset by increase in interest income accrued on a short-term guaranteed investment certificate ("GIC")

Total general and administration expenses increased by \$4,059 due to increases in amortization of office equipment of \$618, consulting fees of \$10,687, rent of \$2,749, travel and promotion of \$13,028 and wages and benefits of \$1,246, which were offset by decreases in office and administration costs of \$8,835, professional fees of \$14,859 and regulatory and transfer agent fees of \$575.

The increase in consulting fees of \$10,687 resulted from geological consulting services retained to evaluate an investment opportunity in the mining industry, which the Company subsequently decided not to pursue. No such costs were incurred during the same period in fiscal 2011.

The increase in travel and promotion of \$13,028 was a result of the Company's directors and consultants visit to a mining site for their due diligence process. No such costs were incurred during the same period in fiscal 2011.

The Company recorded a decrease in costs for the following:

- Professional fees by \$14,859 due to fewer legal services provided during the current year. In fiscal 2011, the Company incurred higher legal costs in connection with a proposed acquisition, which was terminated in August 2010 by mutual consent of the parties.
- Office and administrative costs by \$8,835 due to decreased business activities; and
- Regulatory and transfer agent fees by \$575 due to fewer transfer agent and shareholders services provided during the period. The Company also received a refund of regulatory fees of \$560 from the TSX-V for fees paid in fiscal 2011.

## 1.5 Summary of Quarterly Results

The following is a summary of certain financial information concerning the Company for each of the last eight reported quarters:

Quarter ended	Interest and other income	Loss	Loss per share
May 31, 2012	\$ 239	\$ (38,419)	\$ (0.01)
February 29, 2012	216	(29,968)	(0.00)
November 30, 2011	272	(40,471)	(0.00)
August 31, 2011	548	(50,926)	(0.00)
May 31, 2011	488	(39,670)	(0.01)
February 28, 2011	599	(30,502)	(0.00)
November 30, 2010	–	(37,806)	(0.00)
August 31, 2010	–	(49,748)	(0.01)

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There have been no significant trends or variations over the past eight fiscal quarters

The Company's transition to IFRS did not result in adjustments of prior periods financial results.

## **1.6/1.7 Liquidity and Capital Resources**

The Company reported working capital of \$54,112 at May 31, 2012 compared to working capital \$217,480 at May 31, 2011, representing a decrease in working capital of \$163,368.

As at May 31, 2012, the Company had net cash and cash equivalents on hand of \$104,211 compared to \$227,806 as at May 31, 2011, a decrease of \$123,595.

During the year ended May 31, 2012, the Company:

- (a) used \$118,937 of its cash in operating activities, consisting primarily of general and administrative expenditures and change in non-cash working capital items; and
- (b) used \$4,658 for the purchase of office equipment and office renovations.

Current assets excluding cash as at May 31, 2012 consisted of receivables of \$9,348, which consisted of HST credits of \$8,492, interest receivable of \$456 and other receivables of \$400. Current assets excluding cash as at May 31, 2011 consisted of receivables of \$6,427, which consisted of HST credits of \$5,003, interest receivable of \$1,067 and other receivables of \$357.

Current liabilities as at May 31, 2012 consisted of trades payable of \$199, accrued liabilities of \$16,128 and amounts due to related parties of \$43,120. Current liabilities as at May 31, 2011 consisted of trades payable of \$609, accrued liabilities of \$16,013 and amounts due to related parties of \$131.

The Company may continue to have capital requirements in excess of its currently available resources. In the event the Company's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Company may be required to seek additional financing. Although the Company has been successful in raising the funds, there can be no assurance that the Company will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Company in the future.

The Company has not had a history of operations or earnings and the overall success of the Company will be affected by its current or future business activities.

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## **Risk and Uncertainties**

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

### *Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company's primary exposure to credit risk is on its cash and cash equivalents, which consist of bank deposits of \$4,211 and a GIC of \$100,000. The Company limits its exposure to credit loss by placing its cash and cash equivalents with a Canadian Chartered bank. While there is concentration of risk by holding all funds with one institution, management assesses credit risk of cash and cash equivalents as very low due to the high credit quality rating the institution has with rating agencies.

The Company's secondary exposure to risk is on its receivables. This risk is minimal as receivables consist primarily of refundable HST from the Canadian Federal Government, and accrued interest on its GIC from a Canadian Chartered Bank.

### *Liquidity and funding risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its cash requirements at any point in time. The Company achieves this by maintaining sufficient cash and short-term investments. As at May 31, 2012, the Company had cash and cash equivalents on hand of \$104,211, which is sufficient to cover its current liabilities of \$59,447. However, significant additional funding will be required to fund operations for the next 12 months and in the future. There is a risk of failure to raise adequate capital when needed.

Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk are assessed as high.

### *Market Risk*

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

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## *Currency Risk*

Currency risk is the risk that exposes the Company to financial risk related to the fluctuation of foreign exchange rates. The Company operates in Canada and is currently not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

## *Interest Rate Risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company is exposed to interest rate risk as its bank deposits and short term GIC earn interest income at variable rates and are subject to the movements in interest rates. The redeemable GIC was earning a variable interest rate of 0.95% at May 31, 2012 and matures on December 6, 2012.

The Company has no debt and is not subject to any externally imposed capital requirements.

## **1.8 Off-Balance Sheet Arrangements**

The Company did not enter into any off-balance sheet arrangements during the year ended May 31, 2012.

## **1.9 Related Party Transactions**

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors and officers. Key management personal compensation comprised:

	2012	2011
Administrative services (a)	\$ 36,000	\$ 36,000
Management services (a)	30,000	30,000
	\$ 66,000	\$ 66,000

- (a) On February 1, 2009, the Company entered into a management and administrative agreement with Varshney Capital Corp. ("VCC"), a company controlled by two common directors, whereby the Company agreed to pay management and administrative fees of \$2,500 and \$3,000 per month, respectively.

During the year ended May 31, 2012, the Company incurred \$30,000 (2011 – \$30,000) for management fees and \$36,000 (2011 – \$36,000) for administrative fees to VCC.

As at May 31, 2012, \$43,120 (May 31, 2011 - \$Nil) was due to VCC for management and administrative fees.

- (b) As at May 31, 2012, \$Nil (May 31, 2011 - \$131) was due to a director of the Company.

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- (c) As at May 31, 2012, a total of \$400 (2011 - \$357) was due from companies with directors and officers in common. The amounts resulted from recovery of expenses, were included in accounts receivable and repaid subsequent to May 31, 2012.

## 1.10 Fourth Quarter and Subsequent Events

None

## 1.11 Proposed Transactions

While the Company continues to seek out and review potential business opportunities, there are no transactions that are currently under negotiation or proposed to be entered into.

## 1.12 Critical Accounting Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of property and equipment, fair value measurements for financial instruments and share-based compensation and other equity-based payments, and the recoverability and measurement of deferred tax assets and liabilities.

## 1.13 Changes in Accounting Policies including Initial Adoption

The financial information presented in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Our significant accounting policies are set out in Note 2 of the audited annual financial statements of the Company, as at and for the year ended May 31, 2012.

### Going concern issue

The financial statements have been prepared on a 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 for the foreseeable future. The continuing operations of the Company are dependent upon its ability to identify and acquire a business opportunity, to raise adequate financing and to commence profitable operations in the future. To date, the Company has not generated any significant revenues. There is uncertainty and substantial doubt that the Company will be able to carry on as a going concern.

### International Financial Reporting Standards (IFRS)

The May 31, 2012 audited annual financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") and IFRS 1, First Time Adoption of IFRS

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("IFRS 1"). Subject to certain transition elections disclosed in Note 12, we have consistently applied the same accounting policies in our opening IFRS balance sheet as at June 1, 2010 and throughout all periods presented, as if these policies had always been in effect.

The Company's conversion plan to transition from Canadian GAAP to IFRS consists of four phases:

- Phase 1 (scoping and diagnostic) – Involved a preliminary diagnostic review of the reporting differences between Canadian GAAP and IFRS and the key areas that may be impacted.
- Phase 2 (Impact, analysis, quantification and evaluation) – Involved a detailed assessment and technical analysis of each reporting difference identified in Phase 1. IFRS conversion adjustments were quantified, accounting policies and procedures were reviewed and updated, IT systems and software were assessed, training was conducted and outstanding business activities such as budgeting and compensation were assessed.
- Phase 3 (Implementation phase) – This phase, was completed and includes the collection of financial information necessary to prepare financial statements for the May 31, 2011 year-end and the opening balance sheet as at June 1, 2010 in compliance with IFRS.
- Phase 4 (Monitoring phase) – This phase includes monitoring the changes to IFRS, monitoring the regulatory environment for the commentary on the future IFRS changes, commentary on financial reporting trends and analyzing the business plan of the Company to develop accounting policies, systems and internal controls for the evolution of the business.

## Accounting Policies and Procedures

Based on the detailed assessment in Phase 2, a number of key accounting areas were identified where IFRS differs from Canadian GAAP. These key areas are explained below and separated into differences expecting to have a quantitative and qualitative difference and those expecting to have only a qualitative differences expecting. Impacts to the fiscal 2011 financial statements have been quantified where applicable.

### Quantitative Impact

Management performed a detailed review of the Company's books and records in order to identify differences between GAAP and IFRS that affect the Company. After completing the review, no material adjustments were deemed necessary to convert the Company's financial reporting to IFRS.

### Qualitative Impact

The following accounting policy differences are expected to impact the disclosures to the financial statements of the Company or the internal processes and procedures for financial reporting.

#### *IFRS 1, First-time Adoption of IFRS*

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective applications of IFRS.



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The purpose of the options is to provide relief to companies and simplify the conversion process by not requiring them to recreate information that may not exist or may not have been collected at the inception of the transaction.

The Company has analyzed the exemptions available and has not utilized any of the exemptions.

## **Business Activities**

IFRS are globally expected to result in higher volatility to net earnings and other performance measures, which could lead to effects felt throughout the Company's business activities.

From management's review of the Company's business activities, the conversion to IFRS will not have a material effect. There are not compensation considerations, financial contracts or business contracts that are linked to GAAP based metrics. The expected quantitative impact of the conversion to IFRS will not affect how the Company does business on a day to day basis and will not impact the internal business practices for decision making.

## **Internal Controls & Disclosure Controls and Procedures over Financial Reporting**

The Company has reviewed its internal controls and disclosure controls and procedures over financial reporting and has determined that the impact on IFRS is not going to materially alter how transactions are initiated, recorded, processed and reported.

## **Financial Expertise**

The Company's accounting department, senior management team and Directors have been appropriately trained based on the requirements of their respective roles. The Company has brought in outside consultants to help guide the transition and prepare the Company for future IFRS filings.

## **Information Technology**

The Company's accounting information system comprises of accounting software, spreadsheets, databases and use of document processors. There were no numerical differences between Canadian GAAP and IFRS, limited resources in terms of accounting personnel and the complexity of the accounting information system is low. The accounting information system and size of the department is appropriate for the scale of the operation.

### **1.14 Financial Instruments and Other Instruments**

The carrying amount of cash and cash equivalents, receivables, trades payable and accrued liabilities, and amounts due to and from related parties approximate fair value because of the short-term maturity of these items.

Please see Notes 2 and 10 in the notes to the audited financial statements of the Company, as at and for the years ended May 31, 2012 and 2011.

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## **1.15 Other Requirements**

### Summary of Outstanding Share Data as at September 25, 2012:

Authorized - Unlimited common shares without par value

Issued – common shares: 20,026,663

Additional disclosures pertaining to the Company's management information circulars, material change reports, press releases and other information are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

On behalf of the Board of Directors, thank you for your continued support.

*"Praveen Varshney"*

**Praveen Varshney, C.A.**

President and Director

September 25, 2012