



MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE THREE MONTHS ENDED JUNE 30, 2012

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

The discussion and analysis of Aquarius Coatings Inc. (the "Company") may contain forward-looking statements, which involve risks and uncertainties. Actual events could differ from those anticipated in forward-looking statements. While this MD&A reflects the period ending June 30, 2012, it also addresses key events that have occurred up to and including the date of writing on August 21, 2012.

Forward-looking statements may include sales, earnings, and profitability comments. These statements may contain words such as "anticipated", "expected", "could", "should", "may", "plans", "will", or similar expressions that are based on and arise out of our experience, our perception of trends, current conditions and expected future developments as well as other factors. By their very nature, forward-looking statements involve uncertainties and risks that the forecasts and targets will not be achieved. Readers are cautioned not to place undue reliance on forward looking statements as a number of important factors, as disclosed herein and in the Company's other continuous disclosure documents, could cause actual results to differ materially from those expressed in such forward looking statements.

Readers are also referred to SEDAR at www.sedar.com for additional information.

2. INTRODUCTION

The following is a discussion and analysis of the Company's results of operations and financial condition for the three months ended June 30, 2012 and should be read in conjunction with its audited consolidated financial statements for the year ended March 31, 2012 and the related notes thereto. The amounts included in the following discussions are expressed in Canadian dollars (unless otherwise indicated).

3. GOING CONCERN

These financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred significant losses for a period of several years and has both a working capital and shareholders' deficiency. Accordingly, the ability of the Company to continue as a going concern is uncertain and is dependent upon obtaining sufficient levels of financing, achieving profitable operations and continued support from its shareholders. These financial statements do not include any adjustments to the amounts or classification of financial statement items that might be necessary if the Company was unable to continue as a going concern. No adjustment has been made in these financial statements to reflect liquidation values of assets on a non-going concern basis as any such adjustment, if required, would not have a material affect on the corporation's balance sheet. Please refer to Note 2 to the Consolidated Financial Statements for the year ended March 31, 2012 for important information regarding the going concern assumption.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management using the same accounting policies and methods as used in preparing the Company's audited consolidated financial statements for the year ended March 31, 2012. The accounting policies are discussed in detail in Note 3 to the year-end audited financial statements and in Note 3 to the interim financial statements. The interim financial statements have, in management's opinion, been properly prepared in compliance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

5. BUSINESS OVERVIEW

The Company is a distributor of industrial and consumer corrosion protection and graffiti resistant coating systems, marketing a range of protective coatings for steel, concrete and manufactured goods, with distribution primarily in North America.

Products include:

- **Blue Steel Primer** – a waterborne low VOC rust converting product for treating corrosion on various metal surfaces
- **Saf-T-Seal** – a waterborne sealer for ferrous and non-ferrous metals

5. **BUSINESS OVERVIEW (cont'd)**

- **Sure Tred** – Non slip safety coating for various pedestrian walkways
- **Armacote** – polyurethane industrial enamels for maintenance and production work
- **Armaclear Sealer** – a waterborne sealer for poured concrete, concrete block, masonry, brick, stucco surfaces
- **Armaglaze WB 6000 & 9000** - high performance 2 component urethane finishes for premium performance & protection including anti-graffiti
- **Armakleen123** – waterborne graffiti remover for various surfaces. Intended for use on Armaglaze protected surfaces
- **Armabrite** – complete line of single component moisture cure primers – intermediate and finish coats

The Company attends select trade shows which provide exposure for the Company and its products. Attendance at these trade shows has resulted in expressions of interest for private label opportunities. Although no business has resulted as yet the Company is continuing discussions with potential customers.

The Company has a continuing relationship with an international distributor with current distribution within Canada. This remains one of our key components for future growth. This relationship is attributed to the unique nature of our products and through the support of local sales initiatives.

As discussed in Note 13 the Company has relied on the financial support of a major shareholder and will continue to require this support until a positive cash flow is generated from operations. Except for the additional expenses discussed in Note 6 administrative expenses have been reduced by approximately \$110,000 per year the last two fiscal years from \$430,000 in the March 2010 fiscal year. The Company will continue to look at means of further reducing costs and attaining profitability.

6. **OVERALL PERFORMANCE RELATING TO CURRENT OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2012**

Revenue decreased 44.3% to \$42,793 in the three months ended June 30, 2012 from \$76,766 in the same period in the prior year. Gross margin, as a percentage of sales, decreased to 29.0% compared to 42.8% in the same period in the prior year. Operating expenses for the period increased by 24.0% from \$75,470 in the prior year's period to \$93,550 in the current year. Included in those expenses for the current period is an additional \$11,100 in costs associated with the conversion to IFRS and a provision for bad debts in the amount of \$7,444. Excluding those items operating expenses were unchanged from the prior year. As a result of the lower gross margin and higher operating expenses the net loss for the quarter increased by 83.0% from \$47,562 in the prior year to \$87,018 in the in the current year.

7. **SELECTED CONSOLIDATED FINANCIAL INFORMATION**

Selected items from the Consolidated Income Statements and Consolidated Balance Sheets as at June 30, 2012, June 30, 2011 and June 30, 2010

Balance Sheet Item	30-Jun-12	30-Jun-11	30-Jun-10
	\$'s	\$'s	\$'s
Cash (Overdraft)	(10,349)	2,411	(38,405)
Accounts receivable	31,819	64,643	53,637
Inventory – Raw materials	59,783	57,397	41,966
Inventory – Finished Goods	16,927	26,510	25,821
Accounts payable	545,925	517,158	487,672
Notes Payable	200,000	200,000	200,000
Related party advances	3,130,274	2,895,025	2,679,080
Shareholders Equity (Deficiency)	(3,652,323)	(3,343,261)	(3,238,635)

All assets are located in Ontario and are subject to the general security agreement discussed in Note 7 to the March 31, 2012 audited financial statements.

8. CASH (OVERDRAFT)

Cash (overdraft) represents cash on deposit less issued and outstanding cheques. The overdraft increased to \$10,349 in the current period from cash of \$2,411 in the prior year. This balance is related to the timing of the receipt of funding and the release of cheques.

9. ACCOUNTS RECEIVABLE

Accounts receivable decreased by 49.4% from \$64,643 in the prior year to \$32,728 at the end of the current period. The receivables will fluctuate relative to the timing of sales during the period.

10. INVENTORY

Raw material inventories increased by 4.2% from \$57,397 in the prior year to \$59,783 at the end of the current period and finished goods inventory decreased by 36.1% from \$26,510 in the prior year to \$16,927 at the end of the current period.

Inventory levels will fluctuate during a period depending on the timing of purchases and product manufacturing. Raw Material levels in particular will vary from period to period resulting from the volume of purchases required in order to obtain reasonable pricing and the purchase of raw materials in advance of known price increases.

11. ACCOUNTS PAYABLE

Accounts payable increased by 5.7% from \$517,158 in the prior year to \$546,834 at the end of the current period. The change in payables is dependent on the timing of expenses and raw material purchases and is related to funding advances and the release of cheques.

12. NOTES PAYABLE

Notes payable represents a subordinated loan from a venture capital company to a subsidiary a number of years ago. The loan is non-interest bearing and unsecured. There have been no principal payments on the loan since 1992 and no payments are anticipated in the near future.

13. DUE TO RELATED PARTIES

During the current period, sales and marketing efforts were funded from the proceeds of shareholder and related party advances. The amount due to related parties increased by 8.1%, from \$2,895,025 in the prior year to \$3,130,274 at the end of the current period. The requirement for advances is dependent on the timing of expenses and raw material purchases.

14. SELECTED QUARTERLY FINANCIAL DATA

The table below presents selected financial data for each of the eight quarters ending June 30, 2012

	30-Jun 2012 \$'s	31-Mar 2012 \$'s	31-Dec 2011 \$'s	30-Sep 2011 \$'s	30-Jun 2011 \$'s	31-Mar 2011 \$'s	31-Dec 2010 \$'s	30-Sep 2010 \$'s
Revenue	42,793	53,190	78,485	69,029	76,766	73,978	90,952	68,634
Cost of Goods Sold	30,401	50,688	53,191	46,068	43,944	44,314	63,649	38,728
Gross Margin	12,392	2,502	25,294	22,961	32,822	29,664	27,303	29,906
Selling, general and administrative	93,550	97,305	70,488	75,883	75,470	90,123	71,589	76,278
Amortization	304	238	238	237	238	535	602	602
Interest and bank charges	5,556	24,292	5,087	5,186	4,676	2,245	5,123	5,103
	99,410	121,835	75,813	81,306	80,384	92,903	77,314	81,983
Net Profit (Loss)	(87,018)	(119,333)	(50,519)	(58,345)	(47,562)	(63,239)	(50,011)	(52,077)
Other Comprehensive Income (Loss)	2,246	(2,010)	(2,459)	8,376	2,246	(2,010)	111,665	0
Total comprehensive income (Loss)	(84,772)	(121,343)	(52,978)	(49,969)	(45,316)	(65,249)	61,654	(52,077)

Loss per Share

The net loss for the three months ended June 30, 2012, excluding Other Comprehensive Income, was \$87,018 (\$0.00 per share), for the same period in the previous year the net loss was \$47,562 (\$0.00 per share). As of June 30, 2012 and December 31, 2010 there were 107,948,144 shares outstanding.

Discussion of Selected Financial Data

Sales, which had been relatively level for a number of quarterly periods, have declined significantly in the past two quarters. The aggregate revenue has decreased by 21.5% to \$243,497 in the last four quarters from \$310,330 in the previous four quarters.

The aggregate Cost of Goods sold decreased to \$180,348 in the last four quarters from \$190,635 in the previous four quarters, however the aggregate gross margin over the last four quarters has been approximately 25.9% of sales and has declined from a margin of 38.6% in the previous four quarters. The aggregate Cost of Goods Sold in the last four quarters includes a provision for obsolete inventory in the amount of \$21,465

The aggregate Selling, general and administrative expenses for the last four quarters increased by 7.6% to \$337,226 from \$313,460 in the previous four quarters. Those expenses for the last two quarters include an additional provision for bad debt of \$7,000 and additional cost of \$23,000 associated with the conversion to IFRS. The Company continues to review operations to reduce costs, increase sales and generally improve the profitability of the Company.

As discussed in Note 20 below and in Note 19 to the March 31, 2012 audited financial statements, Other Comprehensive Income represents the unrealized gain on Long-term investments. The investment continues to be valued at US\$1 per share and the quarterly changes are the result of changes in foreign exchanges rates.

15. TRANSACTIONS WITH RELATED PARTIES

As discussed in Note 13 above, the Company has historically funded its activities through the sale of Common shares and advances from a major shareholder. During the current period sales and marketing efforts were funded from the

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proceeds of shareholder and related party advances.

16. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its loans payable, share capital, contributed surplus and deficit. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide returns to its shareholders.

	<u>Jun 30, 2012</u>	<u>Mar 31, 2012</u>
Notes payable	\$ 200,000	\$ 200,000
Loan due to shareholder	3,130,274	3,067,329
Share capital	10,340,865	10,340,865
Contributed surplus	5,193,806	5,193,806
Other Comprehensive Income	114,416	112,170
Deficit	<u>(19,301,410)</u>	<u>(19,214,392)</u>
Total Capital (Deficiency)	<u>\$ (322,049)</u>	<u>\$ (300,222)</u>

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Company's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2012.

17. CONTRACTUAL OBLIGATIONS

The Company rents premises on a monthly basis and has no long term lease commitments and has no capitalized lease commitments.

18. CAPITAL RESOURCES

The Company does not anticipate any major expenditure on capital resources.

19. OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

20. LONG-TERM INVESTMENTS

Woodland Biofuels Inc ("Woodland")

The Company holds 112,272 shares in Woodland which were previously included at a nominal value since no readily available market existed for the shares. Woodland completed a private placement of 4,000,000 shares in December 2010 at a price of US\$1.00 per share and another private placement of 100,000 shares in September 2011 at a price of \$1.00 per share. The Company has used these two valuations as the basis for the fair value measurement of the investment in Woodland. The changes between the values on the balance sheet dates are recorded in other comprehensive income for the year ended March 31, 2012 and the three months ended June 30, 2012. Further details are outlined in Note 19 to the March 31, 2012 Audited Financial Statements regarding the valuation and designation of the long-term investment under IFRS.

21. RISKS AND UNCERTAINTIES

There are risks and uncertainties with the business operation and results of the Company and those risks are discussed in detail in Note 16 to the audited financial statements for the year ended March 31, 2012. The following factors should be considered in addition to other information contained in this document.

a. Seasonality and Inflation

Sales of the Company's products are seasonal with regard to exterior coatings and in some cases will be subject to buying and funding cycles of government and public sector routines. Inflation, in recent years, has not adversely affected the Company's results of operations and is not expected to adversely affect the Corporation in the future, unless inflation increases substantially.

b. Legal Proceedings

Management is not aware of any outstanding legal proceedings.

22. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

As required by National Instrument 52-109, the Company's Acting Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be filing annual and quarterly certificates of disclosure concurrent with the filing of its annual and quarterly filings.

The Board of Directors together with an independent and qualified Audit Committee provide direct oversight responsibilities for the review of the quarterly and annual financial statements.

23. ADDITIONAL INFORMATION

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interest of insiders in material transactions, if applicable, is contained in the Company's information circular for its most recent annual meeting of shareholders that involved the election of directors, and in the Company's comparative financial statements for its most recently completed financial year. Additional information is also contained in Form 51-102F6 'Compensation of Directors and Executive Officers for the year ended March 31, 2012 filed on SEDAR on July 30, 2012.

24. INVESTOR RELATIONS

Personnel employed directly by the Company handle all investor relations. Their duties include news releases, investor communications and general day-to-day operations of this department.

CORPORATE PROFILE

Board of Directors

David J. Hennigar, Bedford, Nova Scotia	Director, Chairman
N. Gary Van Nest, Toronto, Ontario	Director
J. Thomas MacQuarrie, Q.C., Halifax, Nova Scotia	Director
Michael G. Ryan, Halifax, Nova Scotia	Director

Corporate Officers

David J. Hennigar, Bedford, Nova Scotia	Acting Chief Executive Officer
Lorne S. MacFarlane, Dartmouth, Nova Scotia	Chief Financial Officer & Secretary

Corporate Office

190 Marycroft Avenue, Unit 5,
Woodbridge, Ontario L4L 5Y1
Tel.: (905) 264-1168
Fax: (905) 264-1169

Corporate Information

Bankers	Canadian Imperial Bank of Commerce, Woodbridge, Ontario
Lawyers	Bennett Jones LLP, Toronto, Ontario
Auditors	Collins Barrow Toronto LLP, Toronto, Ontario
Transfer Agent & Registrar	Equity Transfer & Trust Company, Toronto, Ontario

Market for Securities

The Common Shares of the Corporation are listed and posted for trading on the TSX Venture Exchange under the trading symbol "AQC".

