# MANAGEMENT DISCUSSION AND ANALYSIS
**(REVISED FEBRUARY 18, 2011)**

**FOR THE YEAR ENDED MARCH 31, 2010**

**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 March 31, 2010, it also addresses key events that have occurred up to and including the date of writing on July 18, 2010 and the writing of the revision on February 18, 2011.**

## 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 March 31, 2010, it also addresses key events that have occurred up to and including the date of writing on July 18, 2011 and the writing of the revision on February 18, 2011

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 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 year ended March 31, 2010 and should be read in conjunction with its audited consolidated financial statements for the year ended March 31, 2010 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 1 to the Consolidated Financial Statements for the year ended March 31, 2010 included in this annual report for important information regarding the going concern assumption.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The Company's financial statements included in this annual report were prepared in accordance with generally accepted accounting principles in Canada, as more particularly set out and described in the related notes thereto.

### Future changes in accounting policies

*International Financing Reporting Standards (IFRS)*

In January 2006, the AcSB adopted a strategic plan calling for the adoption of IFRS by publicly accountable enterprises in Canada, after a specified transition period. The AcSB has confirmed January 1, 2011 as the changeover date (i.e., the date IFRS will replace current Canadian standards and interpretations as GAAP for this category of reporting entity). As a result, the Company is required to prepare its consolidated financial statements in accordance with IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly the Company will be implementing IFRS commencing April 1, 2011.

The Company plans to carry out a diagnostic review of significant IFRS differences during the fourth quarter of fiscal 2011. While the effects of IFRS have not yet been fully determined, management has identified areas where it may be impacted by accounting policy changes which may potentially impact the recognition, measurement and presentation of the Company’s financial statement balances as of the transition date.

A large impact is in presentation and disclosure of the Financial Statements. The Balance Sheet will be classified in order of liquidity and the Statement of Earnings will group expenses all by function or all by nature. Further, the Company anticipates a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any process and/or system changes necessary to gather the required information.

*Business Combinations, Consolidated Financial Statements and Non-controlling Interests*

In October 2008, the CICA issued Section 1582 Business Combinations ("Section 1582") concurrently with Section 1601 Consolidated Financial Statements ("Section 1601"), and Section 1602 Non-controlling Interests ("Section 1602"). Section 1582, which replaces Section 1581 Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. This pronouncement will not have any impact on the financial statements.

**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. 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, 2009.

## 5. BUSINESS OVERVIEW

The Company is a manufacturer of industrial and consumer corrosion protection and graffiti resistant coatings. The company markets a range of protective coatings for steel, concrete and manufactured goods, with distribution throughout 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 no-ferrous mettals
- **Sure Tred** – Non slip safety coating for various pedestrian walkways
- **Armacote** – polyurethane industrial enamels for maintenance and production work
- **Armaglaze WB 6000 & 9000** - high performance 2 component urethane finishes for premium performance & protection including anti graffitti
- **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

We have a relationship with an international distributor which remains one of our key components for future growth. This ongoing relationship is attributed to the specialty "non-competitive" nature of our products and through the support of local sales initiatives. This distributor has a global presence, currently representing our products nationwide.

## 6. OVERALL PERFORMANCE RELATING TO CURRENT OPERATIONS FOR THE YEAR ENDED MARCH 31, 2010

Revenues increased by 10.0% to $236,248 in the current year from $214,905 in the prior year. Gross margin decreased by 15.9% to $78,441 in the current year from $93,258 in the prior year. The decrease in margin was a result of higher raw material while maintaining product pricing at current levels. Operating expenses for the year decreased by 9.1% from $498,444 in the prior year to $455,456 in the current year resulting in an overall decrease in the loss of 9.1%form $405,186 in the prior year to $377,015 in the current year.

## 7. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable increased by 9.0% from 47,713 in the prior year to $51,995 at the end of the current year and accounts payable increased by 12.7% from 447,561 in the prior year to $504,247 at the end of the current year.

## 8. INVENTORY

Raw material inventories increased by 1.7% from $52,934 last year to $53,814 at the end of the current year and finished goods inventory decreased by 37.9% from $47,596 last year to $29,566 at the end of the current period.
Cost of Goods sold for the year is comprised of the following:

| | |
|---|---|
| Inventory | $35,886 |
| Overhead expenses | 2,842 |
| Total | $38,728 |

All assets including inventories are subject to a general security agreement as indicated in Note 7 of March 31, 2010 financial statements

## 9. DUE TO RELATED PARTIES

During the most recent fiscal year, capital expenditures and sales and marketing efforts were funded from the proceeds of shareholder and related party advances. The amount due to related parties increased by 13.2% from $2,313,212 at the end of the prior year to $2,618,580 at the end of the current year.

## 10. SELECTED CONSOLIDATED FINANCIAL INFORMATION

| **12 month period ending:** | **March 31 2008** | **March 31 2009** | **March 31 2010** |
|---|---|---|---|
| Revenue | $258,371 | $214,905 | $236,248 |
| Cost of Sales | $178,910 | $121,647 | $157,807 |
| Gross Margin | $79,461 | $93,258 | $78,441 |
| General Expenses | $481,479 | $473,145 | $429,896 |
| Net Operating Income/(Loss) before deducting interest, amortization and extraordinary items | $(402,018) | $(379,887) | $(351,455) |
| Interest, amortization and extraordinary items | $ 65,797 | $(25,299) | $(25,561) |
| Net Income/(Loss) | $(336,221) | $(405,186) | $(377,016) |
| Cash /(deficit) | $(10,680) | $(2,803) | $(19,490) |
| Total Assets | $157,701 | $181,067 | $182,793 |
| Current Liabilities | $2,535,024 | $2,963,575 | $3,342,317 |
| Accounts payable | $463,931 | $447,560 | $504,247 |
| Shareholders Equity/(deficiency) | $(2,377,322) | $(2,782,508) | $(3,159,524) |

All fixed assets are located in Ontario.

## 11. SELECTED QUARTERLY FINANCIAL DATA

The table below presents selected financial data for each of the eight quarters ending March 31, 2010

| | **Mar 31 2010 $'s** | **Dec 31 2009 $'s** | **Sept 30 2009 $'s** | **Jun 30 2009 $'s** | **Mar 31 2009 $'s** | **Dec 31 2008 $'s** | **Sept 30 2008 $'s** | **Jun 30 2008 $'s** |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 46,792 | 55,074 | 63,922 | 70,460 | 48,481 | 28,761 | 64,162 | 73,501 |
| **Cost of Goods Sold** | (4,309) | 53,088 | 46,445 | 62,582 | (7,968) | 31,721 | 45,348 | 52,546 |
| | | | | | | | | |
| **Gross Margin** | 51,101 | 1,985 | 17,477 | 7,878 | 56,449 | (2,960) | 18,814 | 20,955 |
| | | | | | | | | |
| **Selling, general and administrative** | 102,554 | 101,914 | 115,440 | 109,988 | 143,880 | 112,203 | 112,451 | 104,611 |
| **Amortization** | 246 | 227 | 346 | | 806 | | | |
| **Interest & Bank Charges** | 6,547 | 7,601 | 8,881 | 1,713 | 20,954 | 803 | 1,450 | 1,287 |
| | | | | | | | | |
| | 109,347 | 109,742 | 124,667 | 111,701 | 165,640 | 114,145 | 113,901 | 106,021 |
| | | | | | | | | |
| **Net Profit/ (Loss)** | (58,245) | (107,757) | (107,190) | (103,823) | (109,191) | (115,966) | (95,086) | (84,943) |

**Loss Per Share**

The net loss for the year ended March 31, 2010, was $377,016 ($0.00 per share), for the same period in the previous year the net loss was $405,186 ($0.00 per share). As of March 31, 2010 and March 31, 2009 there were 107,948,144 shares outstanding.

## 12. TRANSACTIONS WITH RELATED PARTIES

The Company has historically funded its activities through the sale of Common shares and advances from a major shareholder. During the most recent fiscal year, capital expenditures and sales and marketing efforts were funded from the proceeds of shareholder and related party advances.

## 13. CONTRACTUAL OBLIGATIONS

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

## 14. CAPITAL RESOURCES

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

## 15. OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

## 16. PORTFOLIO INVESTMENTS

**a. Certified Emissions Reductions Inc ("CER")**

The Company owns Class A common shares in CER, which comprise 51% of its share capital. This long-term investment has been written down to $1. Further details appear in note 4(a) of the notes to the Consolidated Financial Statements for the year ended March 31, 2010.

**b. Woodland Biofuels Inc ("Woodland")**

The Company holds 112,272 shares in Woodland, which comprises 1.1% of its share capital. This long-term investment has been included at a nominal price of $1. Further details appear in note 4(b) of the notes to the Consolidated Financial Statements for the year ended March 31, 2010.

## 17. RISKS AND UNCERTAINTIES

There are risks and uncertainties with the business operation and results of the company. The following factors should be considered in addition to other information contained in this document.

**a. Currency Fluctuations**

Currency fluctuations can have an effect on the Company's revenue and profit margins.

**b. 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.

**c. Legal Proceedings**

Management is not aware of any outstanding legal proceedings.

## 18. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Exchange Administrators ("MI52-109"), The Company's Acting Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") will be filing quarterly certificates of disclosure concurrent with the filing of its 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.

## 19. 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 insider 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.

## 20. 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 | Millard DesLauriers & Shoemaker LLP |
| 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”.