



**MANAGEMENT DISCUSSION AND ANALYSIS**

**FOR THE THREE MONTH PERIOD ENDED JUNE 30, 2016**

**1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS**

The discussion and analysis of Aquarius Coatings Inc. (the "Corporation") 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 three months ending June 30, 2016, it also addresses key events that have occurred up to and including the date of this Report.

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 Corporation'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 the Corporation's documents filed on SEDAR at [www.sedar.com](http://www.sedar.com) for additional information.

**2. INTRODUCTION**

The following is a discussion and analysis of the Corporation's results of operations and financial condition for the three month period ended June 30, 2016 and should be read in conjunction with its Condensed Consolidated Interim Financial Statements for the period ended June 30, 2016 and the related notes thereto (the "Interim Financial Statements"). The amounts included in the following discussions are expressed in Canadian dollars (unless otherwise indicated).

**3. GOING CONCERN**

The Interim Financial Statements have been prepared on a going concern basis which assumes the Corporation will be able to realize its assets and discharge its liabilities in the normal course of operations. The Corporation has incurred significant losses for a period of several years and has both a working capital and shareholders' deficiency. Accordingly, the ability of the Corporation 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. The Interim Financial Statements do not include any adjustments to the amounts or classification of financial statement items that might be necessary if the Corporation 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 effect on the Corporation's balance sheet. Please refer to Note 2 to the Interim Financial Statements for important information regarding the going concern assumption.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Interim Financial Statements of the Corporation have been prepared by management using the accounting policies and methods as outlined in Note 3 to Consolidated Financial Statements for the year ended March 31, 2016. The Interim Financial Statements have, in management's opinion, been properly prepared using judgement within reasonable limits of materiality and are in conformity with International Financial Reporting Standards ("IFRS").

**5. BUSINESS OVERVIEW**

As of August 1, 2014 the Corporation entered into an agreement to sell certain assets of the Corporation, namely Inventory, Equipment, Intellectual Property, Material Contracts and Customer Lists. The transaction closed on September 5, 2014 and as a result of this sale the Corporation is no longer in the distribution of industrial and consumer protective coatings but it does retain a royalty interest on sales of the Corporation's former products for a 3 year period.

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**5. BUSINESS OVERVIEW (continued)**

On July 22, 2016 the Corporation issued a Press Release outlining details of a proposed transaction to be presented at an Annual and Special General Meeting of shareholders to be held on October 11, 2016. Please refer to the Press Release and a Material Change Report filed under the Corporation's profile on SEDAR.COM

**6. OVERALL PERFORMANCE RELATING TO OPERATIONS FOR THE THREE MONTH PERIOD ENDING JUNE 30, 2016 COMPARED TO THE SAME PERIOD IN THE PRIOR YEAR**

**Continuing operations**

There were no revenues from continuing operations in either the current period or in the same period in the prior year. General and administrative expenses were \$5,218 compared to \$7,206 in the prior year. Bank charges and interest were \$501 compared to \$508 in the prior year. Amortization expense was \$24 compared to \$47 in the prior year and royalty income in the current period was \$2,894 compared to \$4,369 in the prior year comparative period.

**7. SELECTED CONSOLIDATED FINANCIAL INFORMATION**

Selected items from the Consolidated Balance Sheets as at June 30, 2016, June 30, 2015 and June 30, 2014:

<b>Balance Sheet Item</b>	<b>30-Jun-16</b> \$'s	<b>30-Jun-15</b> \$'s	<b>30-Jun-14</b> \$'s
Cash	7,396	17,486	4,189
Accounts receivable	6,179	13,488	35,504
Inventory – Raw materials	-	-	31,162
Inventory – Finished Goods	-	-	25,717
Accounts payable	57,332	56,055	87,496
Notes Payable	-	200,000	200,000
Related party advances	3,823,864	3,804,957	3,662,897
Shareholders Equity (Deficiency)	(3,867,456)	(3,917,436)	(3,730,881)

All assets are now located in Nova Scotia and are subject to the General Security Agreement discussed in Note 7 to the Interim Financial Statements.

**8. CASH**

Cash represents cash on deposit less outstanding cheques. Cash decreased 58% to \$7,396 in the current period from \$17,486 in the prior year.

**9. ACCOUNTS RECEIVABLE**

Accounts receivable decreased by 54% to \$6,179 at the end of the current period compared to \$13,488 in the prior year.

**10. INVENTORY**

Inventories have now been sold as discussed in Note 4 – DISCONTINUED OPERATIONS to the Interim Financial Statements.

**11. ACCOUNTS PAYABLE**

Accounts payable increased by 2% to \$57,332 at the end of the current period from \$56,055 in the prior year

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**12. NOTES PAYABLE**

Notes payable represented a subordinated loan from a venture capital company to a subsidiary a number of years ago. The loan was non-interest bearing and unsecured. There have been no principal payments on the loan since 1992 and Corporation wrote off the balance of the note in the fiscal year ended March 31, 2016.

**13. RELATED PARTY TRANSACTIONS**

During the year operations were funded from the proceeds of shareholder and related party advances. The amount due to related party increased slightly to \$3,823,864 at the end of the current period compared to \$3,804,957 in the prior year. Please refer to Note 7 and Note 10 in the Interim Financial Statements for pertinent information pertaining to the related party transactions.

**14. SELECTED QUARTERLY FINANCIAL DATA**

The table below presents selected financial data for each of the eight quarters ending June 30, 2016:

	30-Jun 2016 \$'s	31-Mar 2016 \$'s	31-Dec 2015 \$'s	30-Sep 2015 \$'s	30-Jun 2015 \$'s	31-Mar 2015 \$'s	31-Dec 2014 \$'s	30-Sep 2014 \$'s
<b>CONTINUING OPERATIONS</b>								
<b>Expenses</b>								
General and administrative	5,218	9,294	12,576	15,806	7,206	11,018	5,739	8,507
Amortization	24	48	47	47	47	94	94	132
Interest and bank charges	501	526	514	492	508	490	519	341
Royalty income	(2,072)	(833)	(3,023)	(1,416)	(4,369)	(3,788)	(4,792)	-
Gain on settlement of debt	-	(200,000)	-	-	-	-	-	-
	3,671	(190,965)	10,114	14,929	3,392	7,815	1,560	8,980
Net Income (Loss) from continuing operations	(3,671)	190,965	(10,114)	(14,929)	(3,392)	(7,815)	(1,560)	(8,980)
<b>DISCONTINUED OPERATIONS</b>								
Sales	-	-	-	-	-	527	(90)	62,596
Cost of sales	-	-	-	-	-	5,000	-	37,126
Gross Margin	-	-	-	-	-	(4,473)	(90)	25,470
Expenses								
Selling, general and administrative	-	-	-	-	-	1,482	436	194,145
Bank Charges and Interest	-	-	-	-	-	-	-	266
Gain on disposal of assets	-	-	-	-	-	-	-	(10,614)
	-	-	-	-	-	1,482	436	183,798
Net income (loss) from discontinued operation	-	-	-	-	-	(5,955)	(526)	(158,328)
Total income (loss)	(3,671)	190,965	(10,114)	(14,929)	(3,392)	(13,770)	(2,086)	(167,307)
Other Comprehensive Income (Loss)	-	(112,271)	-	-	-	-	-	-
Total comprehensive income (Loss)	(3,671)	78,694	(10,114)	(14,929)	(3,392)	(13,770)	(2,086)	(167,307)

**Discussion of Selected Financial Data**

**CONTINUING OPERATIONS**

The net loss for the three months ended June 30, 2016 from continuing operations, excluding Other Comprehensive Income, was \$3,671 (\$0.00 per share), for the same period in the previous year the net loss was \$3,992 (\$0.00 per share). As of June 30, 2016 and June 30, 2015 there were 107,948,144 shares outstanding.

Royalty income in the current period was \$2,072 compared to \$4,369 in the prior year comparative period

There was no Other Comprehensive Income in either the period under review or in the comparative period of the prior year and there were no items in Discontinued Operations in either the current period or in the prior year.

**15. TRANSACTIONS WITH RELATED PARTIES**

The Corporation has historically funded its activities through the sale of Common shares and advances from a major shareholder. During the period under review, sales and marketing efforts were funded from the proceeds of shareholder and related party advances (see Note 7 of the Interim Financial Statements).

**16. MANAGEMENT OF CAPITAL**

The Corporation defines capital that it manages as the aggregate of its notes payable, loan due to shareholder, share capital, contributed surplus, accumulated other comprehensive income and deficit. Its objectives when managing capital are to ensure that the Corporation will continue as a going concern, so that it can provide returns to its shareholders.

	Jun 30, 2016	Jun 30, 2015
	\$	\$
Notes payable	-	200,000
Loan due to shareholder	3,823,864	3,804,957
Share capital	10,340,865	10,340,865
Contributed surplus	5,193,806	5,193,806
Accumulated other comprehensive income	-	112,271
Deficit	(19,402,127)	(19,564,378)
<b>Total Capital</b>	<b>(43,592)</b>	<b>87,521</b>

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

The Corporation 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 Corporation's overall strategy with respect to management of capital remains unchanged from the year ended March 31, 2016.

**17. CONTRACTUAL OBLIGATIONS**

The Corporation has no long term lease commitments and has no capitalized lease commitments.

**18. CAPITAL RESOURCES**

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

**19. OFF-BALANCE SHEET ARRANGEMENTS**

The Corporation has no off-balance sheet arrangements.

**20. LONG-TERM INVESTMENTS**

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

The Corporation holds 112,272 shares in Woodland; further details appear in Note 9 of the notes to the Interim Financial Statements.

**21. RISKS AND UNCERTAINTIES**

There are risks and uncertainties with the business operation and results of the Corporation and those risks are discussed in detail in Note 16 to the Consolidated Financial Statements for the year ended March 31, 2016.

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

As required by National Instrument 52-109, the Corporation'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.

**24. LISTING SUSPENSION**

The Corporation's shares have been suspended from trading on the TSX Venture Exchange (the "TSXV") effective November 3, 2014, for failure to comply with Exchange Requirements. The Corporation has satisfied the TSX-V following a Compliance Review of its status following the disposition in September, 2014, of the assets of its Coatings Division. The Corporation has paid all requisite fees and the Directors have provided assurances and undertakings regarding compliance with Exchange Requirements, as required by the TSX-V. In accordance with the requirements of the TSX-V following that Review, since the Corporation has not maintained the requirements for a TSX Venture Exchange ("TSX.V") Tier 2 company, the Corporation's listing will transfer to the NEX Board of the TSX.V (the "NEX") upon completion of requisite formalities.

**25. SHARE CAPITAL**

As at June 30, 2016, and at the date of this Report, there were 107,948,144 issued and outstanding common shares (June 30, 2015 - 107,948,144). There are no other shares of any class or series, and no Warrants or Incentive Stock Options issued or outstanding. See Note 10 to the Interim Financial Statements for details of certain transactions in relation to the issued and outstanding share capital that have not, as at June 30, 2016 or up to the date of this Report, been implemented.

**26. ADDITIONAL INFORMATION**

Additional information may be found in the Corporation's documents filed on SEDAR, at [www.sedar.com](http://www.sedar.com).

**Dated: August 25, 2016**

**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
Christopher H. Freeman, King City, Ontario	Secretary

**Corporate Office**

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**Corporate Information**

Bankers	Canadian Imperial Bank of Commerce, Woodbridge, Ontario
Lawyers	C. H. Freeman, Barrister & Solicitor, King City, Ontario
Auditors	Collins Barrow Toronto LLP, Toronto, Ontario
Transfer Agent & Registrar	TMX Equity Transfer Services Inc., Toronto, Ontario