



Q3

January 31, 2008

Third Quarter Interim Report for the Period Ending January, 2008

The accompanying unaudited interim financial statements of Galvanic Applied Sciences Inc. for the third quarter ended January 2008 have been approved by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

GALVANIC APPLIED SCIENCES INC.

3RD QUARTER REPORT TO SHAREHOLDERS

Fellow Shareholders:

I am pleased to report on the activities of Galvanic Applied Sciences Inc. for the period ending January 31, 2008. Sales for the 3rd quarter ending January were \$3.418 million compared to \$4.012 million in the same quarter a year previous. For the nine months, sales were \$9.832 million compared to \$12.750 million in the prior year. The company also experienced a loss of \$10,876. in its quarter ending January and a year to date loss of \$788,098. It has been a difficult and challenging year for Galvanic, principally due to the escalated Canadian dollar value compared to currency values where the company markets its products. However, progress is being achieved as is reflected in the cash flows for nine months at (\$275,528.) but positive \$208,188. for the most recent quarter. We expect this progress to continue as our revamped sales and marketing effort takes traction and as we learn to be more competitive and effective in our export markets which now represent 80% of the company's business and its future.

With respect to Galvanic's product lines and its product development program, the directors have determined that its product brands are well known and accepted in their markets and that improvements through development upgrades will be accelerated to enhance the sales efforts. This should provide an attractive product and sales base for moving the company into its next growth phase.

While prospects for the 4th quarter remain questionable, management is encouraged by the cash flow improvement in the most recent quarter and by the "requests for quote" activity, a leading indicator of orders expected to be placed. We are optimistic that this will launch a significant turn around for our next fiscal year beginning May 1st.



G.J. Hipple
Chief Executive Officer

March 27, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Galvanic Applied Sciences Inc., (the "Company" or "Galvanic") is primarily an instrumentation Company involved in the design, engineering, manufacturing and selling of equipment for measurement in the natural gas, industrial liquids and sulphur processing markets. In this past quarter the Company's activities have been carried out directly in Calgary, Canada and through its wholly owned subsidiary, Galvanic Applied Sciences U.S.A. Inc., headquartered in Lowell, Massachusetts.

The following interim Management's Discussion and Analysis ("MD&A") has been prepared by management as of March 19, 2008 and is a review of the financial condition and results of operations of the Company based on accounting principles generally accepted in Canada. This report is Management's analysis of Galvanic's financial performance for the quarter ended January 31, 2008 and 2007 and should be read in conjunction with the unaudited consolidated financial statements and accompanying notes to the consolidated financial statements for the three-month periods ended January 31, 2007 and 2006. It is also advisable to read the MD&A in conjunction with the Company's 2007 annual report and the audited consolidated financial statements, the accompanying notes to consolidated financial statements and the MD&A for the years ended April 30, 2007 and 2006 contained in the annual report.

The interim report, which includes the MD&A, the unaudited consolidated financial statements and accompanying notes thereto, is reviewed and approved by the Company's Audit Committee and the Board of Directors prior to publication. The interim consolidated financial statements have not been reviewed by the Company's external auditors.

OPERATING SEGMENTS

The Company has two operating segments identified by industry sector: the gas processing and distribution market, "Galvanic Canada;" and the liquids process market, "Galvanic Lowell."

Galvanic Canada

Galvanic Canada is headquartered in Calgary, Alberta and includes a sales and service centre located in Houston, Texas. Galvanic Canada's operation includes the manufacture and sales of hydrogen sulphide, total sulphur analyzers, gas chromatographs and a chromatograph-based BTU analyzer. These analyzers are marketed primarily into the gas processing market. The product line also includes a line of electronic flow and pressure measurement products sold into the gas distribution market, identified as the "Gas Micro". All the research and development activities for the corporate entity are carried out in Canada.

Galvanic Lowell

Galvanic Lowell is headquartered in Lowell, Massachusetts, and is primarily a manufacturing base for the liquids product line. This segment also includes a sales and service centre located in Dusseldorf, Germany, necessary to compete with local competitors and to service the European market where the company has a large installed base of Monitek products.

CONSOLIDATED RESULTS OF OPERATIONS

SUMMARY OF QUARTERLY RESULTS

	2008			2007				2006		
	Jan 08 Q3 \$	Oct 07 Q2 \$	July 07 Q1 \$	April 07 Q4 \$	Jan 07 Q3 \$	Oct 06 Q2 \$	July 06 Q1 \$	April 06 Q4 \$	Jan 06 Q3 \$	Oct 05 Q2 \$
Revenue	3,147,891	3,851,326	2,832,569	4,598,347	4,012,634	4,624,437	4,112,879	5,038,728	3,887,355	4,416,045
Gross margin	999,713	1,297,521	947,289	1,546,665	1,689,525	1,599,700	1,888,413	1,870,666	1,758,506	1,951,247
Net (loss) income	(93,969)	(279,776)	(414,353)	62,317	424,168	237,781	525,361	423,440	467,460	515,255
Earnings (loss) per share										
	0.00	(0.01)	(0.03)	0.00	0.03	0.02	0.03	0.03	0.03	0.03
	0.00	(0.01)	(0.03)	0.00	0.02	0.02	0.03	0.03	0.03	0.03

As a result of the decline in revenues and the reduction in gross margin as a percentage of sales, the Company recorded a net loss of \$94,000 or \$0.00 per common share for the three-month period ended January 31, 2008 as compared to net income of \$424,000 or \$0.03 per common share during the same period last year. Consolidated revenues from instrument sales declined by 22% to \$3,148,000 from the \$4,013,000 recorded in the previous corresponding quarter. The decrease in revenues was largely as a result of the continued decline in sales into the gas processing and gas distribution markets in Alberta. Analytical instrument sales decreased by 52% largely due to the general economic slowdown in the gas industry coupled with increased competition, and sales into the gas distribution market of the Gas Micro declined by 48%, due to the completion of a major replacement program by the Company's major customer. Gross margin as a percent of sales decreased to \$999,000 or 32% of sales, for the three-month period as compared with \$1,690,000 or 42% of sales for the comparative prior period. This decrease in gross margins as a percentage of sales was due to the adverse impact of exchange rates on gross margin as a percentage of sales and higher manufacturing costs required for ongoing product support and service.

SEGMENTED OPERATING RESULTS

For the three-month period ended January 31, 2008 compared with the three-month period ended January 31, 2007

	Galvanic Canada	2008 Galvanic Lowell	Total	Galvanic Canada	2007 Galvanic Lowell	Total
	\$	\$	\$	\$	\$	\$
REVENUE						
Analytical measurement equipment	1,792,409	-	1,792,409	2,209,466	-	2,209,466
Electronic flow products	148,968	-	148,968	526,121	-	526,121
Liquids process analyzers	-	1,206,514	1,206,514	-	1,277,047	1,277,047
	<u>1,941,377</u>	<u>1,206,514</u>	<u>3,147,891</u>	<u>2,735,587</u>	<u>1,277,047</u>	<u>4,012,634</u>
COST OF SALES						
	<u>1,385,212</u>	<u>762,965</u>	<u>2,148,177</u>	<u>1,474,369</u>	<u>848,740</u>	<u>2,323,109</u>
GROSS MARGIN						
	<u>556,165</u>	<u>443,549</u>	<u>999,714</u>	<u>1,261,218</u>	<u>428,307</u>	<u>1,689,525</u>
GROSS MARGIN %						
	<u>0.29</u>	<u>0.37</u>	<u>0.32</u>	<u>0.46</u>	<u>0.34</u>	<u>0.42</u>
EXPENSES						
Selling and marketing	409,050	193,772	602,822	391,366	164,248	555,614
General and administrative	308,815	178,103	486,918	311,582	211,258	522,840
Interest on long-term debt	-	-	-	3,219	-	3,219
Exchange (gain) loss	(225,391)	27,750	(197,641)	(191,863)	28,342	(163,521)
Amortization	209,123	9,941	219,064	192,942	16,549	209,491
	<u>701,597</u>	<u>409,566</u>	<u>1,111,163</u>	<u>707,246</u>	<u>420,397</u>	<u>1,127,643</u>
INCOME TAXES						
	<u>(32,928)</u>	<u>15,447</u>	<u>(17,481)</u>	<u>126,000</u>	<u>11,714</u>	<u>137,714</u>
NET (LOSS) EARNINGS						
	<u>(112,505)</u>	<u>18,536</u>	<u>(93,969)</u>	<u>427,971</u>	<u>(3,803)</u>	<u>424,168</u>

SEGMENTED OPERATING RESULTS (continued)

For the nine-month period ended January 31, 2008 compared with the nine-month period ended January 31, 2007

	Galvanic Canada	2008 Galvanic Lowell	Total	Galvanic Canada	2007 Galvanic Lowell	Total
	\$	\$	\$	\$	\$	\$
REVENUE						
Analytical measurement equipment	6,123,332	-	6,123,332	7,445,740	-	7,445,740
Electronic flow products	598,674	-	598,674	1,421,250	-	1,421,250
Liquids process analyzers	-	3,109,780	3,109,780	-	3,882,960	3,882,960
	<u>6,722,006</u>	<u>3,109,780</u>	<u>9,831,786</u>	<u>8,866,990</u>	<u>3,882,960</u>	<u>12,749,950</u>
COST OF SALES	<u>4,491,414</u>	<u>2,095,848</u>	<u>6,587,262</u>	<u>5,022,675</u>	<u>2,549,637</u>	<u>7,572,312</u>
GROSS MARGIN	<u>2,230,592</u>	<u>1,013,932</u>	<u>3,244,524</u>	<u>3,844,315</u>	<u>1,333,323</u>	<u>5,177,638</u>
GROSS MARGIN %	<u>0.33</u>	<u>0.33</u>	<u>0.33</u>	<u>0.43</u>	<u>0.34</u>	<u>0.41</u>
EXPENSES						
Selling and marketing	1,281,646	467,704	1,749,350	1,070,796	561,817	1,632,613
General and administrative	1,115,673	531,355	1,647,028	931,428	589,977	1,521,405
Interest on long-term debt	1,957	-	1,957	13,990	-	13,990
Exchange (gain) loss	293,368	(68,762)	224,606	(214,144)	20,540	(193,604)
Amortization	604,806	29,822	634,628	534,022	45,496	579,518
	<u>3,297,450</u>	<u>960,119</u>	<u>4,257,569</u>	<u>2,336,092</u>	<u>1,217,830</u>	<u>3,553,922</u>
INCOME TAXES	<u>(244,927)</u>	<u>19,980</u>	<u>(224,947)</u>	<u>383,000</u>	<u>53,406</u>	<u>436,406</u>
NET (LOSS) EARNINGS	<u>(821,931)</u>	<u>33,833</u>	<u>(788,098)</u>	<u>1,125,224</u>	<u>62,086</u>	<u>1,187,310</u>

Galvanic Lowell

The Company's array of process analytics instrumentation is marketed under three brands, with each brand targeting a particular market segment, and includes the Tytronics, Nametre and Monitek product lines. The Tytronics product line offers on-line chemical analysis of fluid processes, primarily to the water and chemical industries; due to their patented systems, the analyzers provide highly reliable and repeatable results for a variety of chemical applications. The Nametre product line offers in-line and laboratory viscosity analyzers to measure the viscosity and viscoelasticity of a wide range of materials; they are sold into polymer manufacturing, petrochemical, food, paints and coatings, and pulp and paper markets. The Monitek line of products uses a variety of technologies to provide in-line turbidity, suspended solids, and oil-on-water measurements using photometric, acoustic, and fluorescence technologies. Typical applications are separation activities, such as pre- and post-filter measurement, pre- and post-centrifuge measurement, and solids carryover from a clarifier.

Substantially all of this operating division's revenue and expenses are denominated in U.S. dollar currency, and any changes in revenues or operating expenses must be assessed in light of the change in the value of the Canadian dollar currency. The average U.S. dollar exchange rate utilized to translate U.S. dollar revenues and expenses for the nine-month period of fiscal 2008 was \$1.03 Canadian, a reduction of 10% from the \$1.14 rate that was utilized for the nine-month period of fiscal 2007.

For the three-month period ended January 31, 2008, revenues generated from the liquids process analyzer market declined by 5% to \$1,207,000, compared with the \$1,277,000 recorded for the three-month period ended January 31, 2007. This decrease in recorded revenues was largely due to the decline in the average exchange rate utilized to translate revenues. For the nine-month period ended January 31, 2008 revenues declined by 20% to 3,110,000 compared to the \$3,883,000 recorded for the nine-month period ended January 31, 2007. The reduction in year-to-date recorded revenues was due to both decreased volume shipments across all product lines, as a result of cyclical ordering patterns, and the decline in the average exchange rate utilized to translate revenues, which accounted for 35% of the decline for the nine-month period.

Gross margins as a percentage of sales were 37% for the three-month period ended January 31, 2008 as compared with 34% for the three-month period ended January 31, 2007. The improvement in margins in the three-month period ended January 31, 2008 was largely due to higher unit prices for Tytronics units shipped into international markets. For the nine-month period gross margin as a percentage of sales were 33% as compared with 34% for the corresponding previous period.

Marketing and selling expenses for the Lowell operating segment are primarily salaries for marketing administration, a direct sales staff, and representatives' commissions. Selling and marketing expenditures for the three-month period ended January 31, 2008 were \$194,000, an increase of 18% from the \$164,000 recorded in the three-month period ended January 31, 2007. Selling and marketing expenditures were \$468,000 for the nine-month period ended January 31, 2008, a decrease of 17% from the \$562,000 recorded for the comparative prior period. Discretionary travel expenditures, both domestically and internationally, accounted for the increase in the three-month period ended January 31, 2008 and the year-to-date decrease.

Major expenditures for general and administration in this operating segment have not changed significantly over the comparative prior periods. General and administrative expenses for the three-month period ended January 31, 2008 were \$178,000, a reduction of 16% from the \$211,000 recorded for the three-month period ended January 31, 2007. General and administrative expenses were \$531,000 for the nine-month period ended January 31, 2008, a reduction of 10% from the \$589,000 recorded for the nine-month period ended January 31, 2007. The decrease in general and administrative expenses recorded for the three-month period and the year-to-date period as compared with the comparative prior periods is largely due to the strengthening of the Canadian dollar in relationship to the U.S. dollar and the decline in the average exchange rates utilized to translate general and administrative expenses.

The unrealized exchange loss of \$28,000 recorded for the three-month period ended January 31, 2008 and for the nine-month period compared with the gain of \$69,000 and the loss of \$21,000 respectively, is due to the relationship of the Euro dollar in relationship to the Canadian dollar and to changes in the exchange rate utilized to record inter-company advances from the Lowell, Massachusetts, location to Germany.

Largely due to improved margins in the three-month period and unrealized exchange gains recorded in the amount of \$69,000 for the nine-month period ended January 31, 2008 this operating segment reported net earnings of \$18,000 and \$34,000 respectively as compared with a loss of \$4,000 and net earnings of \$62,000 for the comparative prior periods.

Galvanic Canada

Galvanic Canada's operation can be segmented into two product lines: analytical products that measure the composition of gas; and electronic flow and pressure measurement equipment designed to correct the volume reading of gas flow through a meter located at commercial sites, designed for the gas distribution market.

For the three-month period ended January 31, 2008 revenues generated from instrument sales declined by \$794,000, or 29%, to \$1,941,000, compared to \$2,736,000 for the same period in 2007. For the nine-month period ended January 31, 2008 revenues generated from instrument sales were \$6,722,000, a decline of \$2,145,000 or 24%, compared to \$8,867,000 for the same period of 2007. The decline in recorded revenues for the three-month period and the year-to-date period was largely due to reduced instrument sales into the Alberta market. Instrument sales into the gas processing industry declined by 49% and 60% respectively, and instrument sales of the Gas Micro into the gas distribution market declined by 66% and 58% respectively. This was a result of a general economic slowdown in the gas processing industry, coupled with increased competition, and the completion of a major replacement program with the Company's major customer in the gas distribution market.

Due to the decline in sales into the Alberta market, export sales, denominated in U.S. dollar currency, accounted for 66% of the revenues in the three-month period ended January 31, 2008 and 71% year-to-date. This compares to 48% and 45% respectively for the comparative prior periods. As a result any changes in revenues must be assessed in light of the change in value of the Canadian dollar. For the three-month period the average exchange rate realized was a \$1.00 Canadian as compared to \$1.15 Canadian in the corresponding previous quarter. For the nine-month period ended January 31, 2008 the average exchange rate realized was \$1.03 Canadian, as compared with the \$1.14 Canadian realized in the comparative prior year period. As a result, export revenue growth of 12% in the three month period and 32% year-to-date was negatively impacted by the decline in the value of the U.S. dollar by exchange losses realized of 16% in the current quarter 11% year-to-date.

Gross margin as a percentage of sales was \$556,000 or 29% for the quarter and \$2,231,000 or 33% for the nine-month period ended January 31, 2008. This compares with \$1,261,000 or 46% and \$3,844,000 or 43% respectively, for the comparative prior periods. The decrease in gross margins for the third quarter and year-to-date is mainly as a result of changes in the exchange rates on the revenue realized on export sales and costs incurred. U.S. dollar sales are recorded at the average exchange rates realized for the month. The resultant decrease in revenues accounted for a 6% decrease in gross margins as a percentage of sales for the three-month period ended January 31, 2008, and 4% for the year-to-date period. Third quarter and year-to-date margins were also reduced by increases in manufacturing expenses required for ongoing product support and service.

Selling and marketing expenses were \$409,000 for the three-month period ended January 31, 2008, compared to \$391,000 for the third quarter of fiscal 2007. Selling and marketing expenditures were \$1,282,000 for the nine-month period ended January 31, 2008, an increase of \$211,000 or 20%, from the \$1,071,000 recorded in the comparative prior period. This increase in selling and marketing expenses for the three-month and year-to-date periods over the comparative prior periods is largely due to increased salary and wages due to the addition of sales and service support personnel required in both the Calgary and Houston locations, increased travel expenses required to pursue international opportunities, and royalties committed to Alberta Research Council in respect of the Company's water analyzer.

General and administrative expenses were \$309,000 for the three-month period ended January 31, 2008 as compared with \$312,000 for the three-month period ended January 31, 2007. General and administrative expenditures were \$1,116,000 for the nine-month period ended January 31, 2008, an increase of \$184,000 from the \$931,000 recorded in the comparative prior period. The increase in year-to-date expenditures is largely due to increased legal fees related to a claim against certain former employees of the Company. The Company expects to incur future expenses related to its claim against former employees of the company.

As of January 31, 2008 the Company had approximately \$4.1 million of U.S. dollar denominated current assets. Changes in the value of the Canadian dollar will result in an adjustment to the carrying value of these assets. At January 31, 2008 the value of the U.S. dollar was \$1.00 Canadian compared with \$0.9447 at October 31, 2007. Accordingly, this change in the value of the U.S. dollar resulted in an exchange gain of \$225,000 for three-month period ended January 31, 2008. At April 30, 2007 the value of the U.S. dollar was \$1.11 compared with \$1.00 at January 31, 2008. This devaluation of the U.S. dollar resulted in a loss of \$293,000 for the nine-month period ended January 31, 2008.

This operating segment reported net losses of \$113,000 for the three-month period and \$822,000 for the nine-month period ended January 31, 2008. This compares with net earnings of \$428,000 and \$1,125,000 respectively for the comparative prior periods. These losses are attributable to both a reduction in recorded revenues, gross margins, and the significant exchange losses recorded in the nine-month period. These losses reduce prior year income taxes and therefore income taxes recoverable in the amount of \$33,000 and \$245,000 at the effective rate of 23% have been recorded as compared to income taxes payable of \$126,000 and \$383,000 respectively in the comparative prior periods.

OTHER COMPREHENSIVE INCOME

Included in the consolidated statements of earnings are \$83,000 of unrealized gains for the three-month period ended January 31, 2008 and unrealized losses of \$148,000 for the nine-month period ended January 31, 2008 on translating the financial statements of the Company's self-sustaining liquid analyzer U.S. operations utilizing the current rate method of translation.

LIQUIDITY AND CAPITAL RESOURCES

Galvanic continues to generate operating cash flow sufficient to fund its ongoing operating requirements. The Company's principal source of liquidity is derived primarily from cash flow from operations and from its working capital. During the first nine-months of fiscal 2008, the Company reduced its net cash position by \$478,000. This reduction in cash balances occurred as a result of funding its ongoing development programs in the amount of \$339,000, investment in property plant and equipment in the amount of \$126,000 and the debt repayment in the amount of \$105,000. Cash was further depleted through losses generated from operations in the amount of \$276,000. During the first nine-months of fiscal 2008, non-cash working capital from operations increased by \$368,000 as a result of accounts receivable collections in the amount of \$1,021,000, and a \$653,000 decrease in inventory. This was offset of by a decrease in the operating loan of \$175,000, accounts payable in the amount of \$563,000, and income taxes in the amount of \$574,000. As of January 31, 2008, the Company maintained a working capital position of \$5,870,000.

Accounts receivable recorded at \$3,509,000 represent 98 days of sales compared with 95 days at April 30, 2007.

Inventory levels have decreased by \$653,000 to \$3,552,000 from the \$4,205,000 recorded in April 30, 2007. This decrease is largely due to the shipment of a shelter system and included in work-in-process in the Canadian operating segment.

During fiscal 2008 there were no significant changes in the structure of the Company's bank credit facilities. The existing credit facility consists of a revolving bank term loan in the amount of \$2,550,000. The availability of the operating facility is subject to a monthly borrowing base calculation that considers eligible accounts receivable. As of January 31, 2008, \$1,370,000 was advanced against this facility. The loan is collateralized by a charge over all of the assets of the Company, and requires that the Company meet certain covenants. Galvanic was in full compliance with these covenants at January 31, 2008.

Management believes that with its working capital position and access to funds available through its credit facility, together with positive cash from future operations, the Company will be able to meet its near term working capital requirements.

Capital Asset Additions

During the nine-month period ending January 31, 2008, the Company invested \$127,000 in capital additions primarily for the completion of its production facilities, compared with \$213,000 expended in the corresponding previous period.

Product Development Costs

The Company continues to invest in research and development activities to support its continued goal of creating new generations of current products and the design of new products. For the past quarter and fiscal period, efforts were directed to continued enhancement and improvement to current product offerings. All product development activities for both the U.S. and Canadian operations are carried out in the Calgary location. Development expenditures consist primarily of technical personnel and material and equipment required to support the ongoing development activities. For the three-months ended January 31, 2008, the Company expended \$80,000 on development activities. This compares with \$112,000 for the

corresponding previous quarter. This decrease is largely due to specific application work required and included in cost of sales.

COMMITMENTS

The majority of the Company's lease commitments include rental costs to be incurred with respect to building rent in Calgary, Alberta; Lowell, Massachusetts; and Dusseldorf, Germany. The remaining amounts are on account of automobiles utilized for service and sales, and office equipment.

The Company has also committed to a minimum annual royalty for fiscal 2008, in the amount of \$60,000 in respect to its water analyzer.

SHARE CAPITAL

The Company's authorized share capital has remained unchanged during the second quarter of fiscal 2008. The Company's issued and outstanding shares at January 31, 2008, October 31, 2007, and July 31, 2007 are 15,571,072 common shares.

FINANCIAL INSTRUMENTS

The Company's restricted funds, accounts receivable, operating loan, and accounts payable and accrued liabilities and the long-term accounts receivable relating to deferred revenue, constitute financial instruments. Based on available market information, and relatively short periods to maturity, the carrying value of the Company's financial instruments approximates their fair value. The carrying values of these financial instruments represent their maximum credit risk. Long-term debt approximates its fair value due to the floating rate of interest.

OFF-BALANCE SHEET ARRANGEMENTS

At January 31, 2008 and April 30, 2007, the Company has not entered into any off-balance sheet arrangements.

EXECUTIVE COMPENSATION

Compensation paid by the Company to its executive officers for the nine-month period ended January 31, 2008 amounted to \$207,000 as compared with \$219,750 for the corresponding previous period. For the period ended January 31, 2008, \$28,250 was paid to the Directors of the Company for their services.

FORWARD-LOOKING STATEMENTS

Certain statements included in the Management's Discussion and Analysis and elsewhere in this report contain forward looking statements, which by their nature are necessarily subject to risks and uncertainties and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements reflect the Company's current views with respect to future events, and are based on information currently available to the Company and on hypotheses which it considers to be reasonable; however, management warns the reader that hypotheses relative to future events which are beyond the control of management could prove to be false, given that they are subject to certain risks and uncertainties.

Additional information relating to the Company may be found on SEDAR @ www.Sedar.com.

Consolidated Financial Statements of

GALVANIC APPLIED SCIENCES INC.

(Unaudited)

January 31, 2008 and January 31, 2007

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Earnings and Retained Earnings

(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
REVENUE				
Sales	3,147,891	4,012,634	9,831,786	12,749,950
Cost of sales	2,148,178	2,323,109	6,587,263	7,572,312
Gross margin	999,713	1,689,525	3,244,523	5,177,638
EXPENSES				
Amortization	219,064	209,491	634,628	579,518
Foreign exchange (gain) loss	(197,641)	(163,521)	224,606	(193,604)
General and administrative	486,918	522,840	1,647,028	1,521,405
Interest	-	3,219	1,957	13,990
Selling and marketing	602,822	555,614	1,749,350	1,632,613
	1,111,163	1,127,643	4,257,569	3,553,922
(LOSS) EARNINGS BEFORE INCOME TAXES	(111,450)	561,882	(1,013,046)	1,623,716
PROVISION FOR INCOME TAXES				
Current	(17,481)	148,214	(224,948)	424,906
Future	-	(10,500)	-	11,500
	(17,481)	137,714	(224,948)	436,406
NET (LOSS) EARNINGS	(93,969)	424,168	(788,098)	1,187,310
OTHER COMPREHENSIVE INCOME (Note 2)	83,093	72,191	(147,637)	69,168
CUMULATIVE COMPREHENSIVE INCOME	(10,876)	496,359	(935,735)	1,256,478
RETAINED EARNINGS, BEGINNING OF PERIOD	6,969,153	7,176,797	7,663,282	6,413,655
RETAINED EARNINGS, END OF PERIOD	6,875,184	7,600,965	6,875,184	7,600,965
NET (LOSS) EARNINGS PER COMMON SHARE (Note 5)				
Basic	0.00	0.03	(0.05)	0.08
Diluted	0.00	0.02	(0.05)	0.07

GALVANIC APPLIED SCIENCES INC.

Consolidated Balance Sheets (Unaudited)

	January 31, 2008 (Unaudited) \$	April 30, 2007 (Audited) \$
ASSETS		
CURRENT		
Cash	827,715	1,305,373
Restricted funds	112,750	113,950
Accounts receivable - trade	3,509,013	4,529,659
Recoverable income taxes	260,928	-
Inventory	3,552,080	4,205,001
Prepaid expenses and deposits	131,870	127,507
	<u>8,394,356</u>	<u>10,281,490</u>
Long-term accounts receivable	-	34,521
Deferred development costs	2,652,260	2,686,134
Property, plant and equipment	1,197,618	1,332,555
Goodwill	3,442,693	3,442,693
	<u>15,686,927</u>	<u>17,777,393</u>
LIABILITIES		
CURRENT		
Operating loan	1,370,000	1,545,000
Accounts payable and accrued liabilities	1,145,071	1,708,059
Income taxes payable	9,334	312,640
Current portion of long-term debt	-	104,495
	<u>2,524,405</u>	<u>3,670,194</u>
Deferred revenue		
Long-term debt	-	34,521
Future income taxes	897,166	897,166
	<u>3,421,571</u>	<u>4,601,881</u>
COMMITMENTS AND CONTINGENCIES (Note 6)		
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	4,806,423	4,806,423
Contributed surplus	943,142	917,563
Retained earnings	6,875,184	7,663,282
Accumulated other comprehensive income	(359,393)	(211,756)
	<u>12,265,356</u>	<u>13,175,512</u>
	<u>15,686,927</u>	<u>17,777,393</u>

APPROVED BY THE BOARD



Director



Director

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2008	2007	2008	2007
	\$	\$	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net (loss) earnings	(93,969)	424,168	(788,098)	1,187,310
Adjustments for:				
Amortization	219,064	209,491	634,628	579,518
Future income taxes	-	(10,500)	-	11,500
Stock-based compensation	-	16,971	25,579	50,913
Unrealized foreign exchange gain (loss)	83,093	72,191	(147,637)	69,168
	208,188	712,321	(275,528)	1,898,409
Changes in non-cash working capital	(496,904)	(1,368,303)	368,182	(1,529,002)
	(288,716)	(655,982)	92,654	369,407
FINANCING				
Repayment of long-term debt	-	-	(104,495)	(122,773)
Issuance of share capital, under the stock-option plan	-	-	-	19,350
	-	-	(104,495)	(103,423)
INVESTING				
Property, plant and equipment	(21,354)	(40,370)	(126,893)	(212,079)
Development costs	(80,318)	(111,660)	(338,924)	(415,283)
	(101,672)	(152,030)	(465,817)	(627,362)
NET (DECREASE) IN CASH	(390,388)	(808,012)	(477,658)	(361,378)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,218,103	1,790,048	1,305,373	1,343,414
CASH AND CASH EQUIVALENTS, END OF PERIOD	827,715	982,036	827,715	982,036
SUPPLEMENTARY INFORMATION				
Cash paid for interest	-	3,219	1,957	13,990
Cash paid for taxes	-	80,437	316,000	330,223

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2008

(Unaudited)

1. ACCOUNTING POLICIES

Interim financial statements

The accompanying interim consolidated financial statements of Galvanic Applied Sciences Inc. have been prepared in accordance with Canadian generally accepted accounting principles consistent with those used in the Company's consolidated financial statements for the year ended April 30, 2007. These interim financial statements and notes thereto should be read in conjunction with the Company's consolidated financial statements contained in its Annual Report for the year ended April 30, 2007.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year-end and the results of operations for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the accompanying unaudited interim consolidated financial statements include all adjustments (of a recurring nature) necessary to present fairly the consolidated financial position of the Company at January 31, 2008 and the consolidated results of its operations and cash flows for the nine months ended January 31, 2008 and 2007.

2. FINANCIAL INSTRUMENTS AND COMPREHENSIVE INCOME

Effective May 1, 2006, the Company adopted the following new standards issued by the Canadian Institute of Chartered Accountants (CICA) in 2006. CICA Handbook Sections 3855 and 3861 – Financial Instruments: This section describes the requirement to report all financial instruments at fair value in the financial statements unless certain criteria are met. CICA Handbook Section 1530 – Comprehensive Income: This section establishes standards for reporting and disclosing Comprehensive Income that arises from changes in the equity of an enterprise during the period but is not included in net income. CICA Handbook Section 1506 – Changes in Accounting Policies, Accounting Estimates and Errors: This section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changing accounting policies, changes in accounting estimates and correction of errors

Financial Instruments

Under the new standards, financial assets and liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics.

The Company's primary financial instruments consist of cash, accounts receivable, operating loan, and accounts payable and accrued liabilities. The fair value of these assets approximates their respective carrying amounts due to their short-term nature, and the expectation that these financial instruments will be held to maturity. Under the new

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2008

(Unaudited)

accounting standards other financial instruments are classified as i) Held for trading, or ii) Available for sale. Financial instruments in these classifications would be carried at fair value. The Company does not currently hold any financial instruments that would be included in these classifications.

The Company has not entered into any hedge contracts or other derivative arrangements. Management has also reviewed the Company's other significant contractual arrangements and determined that there are no embedded derivatives that would require disclosure and accounting for as financial instruments under the new accounting standards.

Comprehensive income

Under the new standards, additional financial statement disclosure has been introduced which identifies certain gains and losses, which in the company's case include only foreign currency translation adjustments arising from translation of the company's US subsidiary which is considered to be self-sustaining, that are recorded outside the income statement. Additionally, a separate component of equity, Accumulated Other Comprehensive Income ("AOCI"), has been introduced in the consolidated balance sheet to record the continuity of other comprehensive income balances on a cumulative basis.

The adoption of comprehensive income has been made in accordance with the applicable transitional provisions. Accordingly, the April 30, 2007 period end accumulated foreign currency translation adjustment balance of \$211,756 has been reclassified to AOCI. In addition, the change in the accumulated foreign currency translation adjustment balance for the period ended January 31, 2008 of \$147,637 is now included as Comprehensive Income.

3. SHARE CAPITAL

	<u>Number of</u> <u>Shares</u>	<u>Amount</u> <u>\$</u>
Authorized		
Unlimited number of common and preferred shares without nominal or par value		
Issued		
Common shares		
Balance, January 31, 2008, October 31, 2007, July 31, 2007 and April 30, 2007	15,571,072	4,806,423

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2008

(Unaudited)

Stock options

At January 31, 2008, the Company has a fixed stock option plan open to directors, officers and employees of the Company. Under this plan, the Company may grant options to a maximum of 10% of the issued and outstanding common share of the Company on a non-diluted basis. Under the plan, the exercise price generally equals the market price of the Company's stock on the day prior to the date of grant and an option's maximum term is five years. The options granted have the following expiry dates: July 31, 2008, August 28, 2008 and September 16, 2010.

	Number of Shares	Weighted Average Exercise Price
	\$	\$
Options outstanding April 30, 2007; July 31, 2007; and October 31, 2007	990,000	0.50
Expired	(350,000)	0.50
Balance January 31, 2008	640,000	0.50

In 2004, the Company adopted the fair value based method of accounting for its stock based compensation plan whereby the fair value of stock options granted is recognized as an expense of the period with a corresponding amount credited to contributed surplus at January 31, 2008 of \$0 (October 31, 2007 - \$8,608) (July 31, 2007 - \$16,971) (April 30, 2007 - \$67,884).

4. SEGMENTED INFORMATION

The Company currently has two reportable business segments identified primarily by market segment. These include instrumentation for the natural gas industry, which includes both the processing and distribution market, Galvanic Canada, and the liquid analyser process market, Galvanic Lowell.

The operations for the natural gas industry are primarily conducted by the Company through its Calgary and Houston offices, and its products include instrumentation for the measurement of the composition of natural gas. The Brimstone acquisition further expanded the Company's product offering in this market, and is included in this operating segment. Brimstone Instrumentation Ltd. manufactures analyzer systems that analyze and track sulphur species content.

This operating segment's product line can be broadly categorized into two groups. The first is analytical products, which measure hydrogen sulfide (H₂S) total sulfur, sulfur species

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2008

(Unaudited)

utilizing ultra violet-based systems, and carbon dioxide (CO₂) with infrared technology. The market for such products is the natural gas processing industry, sulphur recovery plants, tail gas clean-up units, gas sweetening process and sulfur degassing and forming.

The second product line is electronic flow and pressure measurement products, which consist primarily of equipment that is designed to correct the volume reading of gas flow through a meter located at a commercial site.

The Company's operation in the liquids process market is operated from Lowell, Massachusetts and Dusseldorf, Germany. This operation includes three product lines that utilize varying technologies that measure chemical concentrations, viscosity, turbidity and suspended solids for the liquids process industry.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2008

(Unaudited)

4. SEGMENTED INFORMATION (Continued)

The Company evaluates the performance of its operating segments based on earnings before income taxes. The accounting policies of each of the business segments are the same as those described in Note 1 to the consolidated financial statements. Good will associated with the Brimstone Instrumentation Inc., acquisition is included in the Galvanic Canada operating segment and the goodwill associated with the Metrisa, Inc. acquisition is included in the Galvanic Lowell operating segment.

	Three Months Ended January 31, 2008			Three Months Ended January 31, 2007		
	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$
Revenue	1,941,377	1,206,514	3,147,891	2,735,587	1,277,047	4,012,634
Segment (loss) earnings	(112,505)	18,536	(93,969)	427,971	(3,803)	424,168
Amortization	209,123	9,941	219,064	192,942	16,549	209,491
Total assets of segments	(579,290)	253,934	(325,356)	(465,328)	181,117	(284,211)
Goodwill allocated to segment	-	-	-	-	-	-
Total enterprise assets	(579,290)	253,934	(325,356)	(465,328)	181,117	(284,211)
Expenditures for property, plant and equipment	(12,155)	(9,199)	(21,354)	(42,606)	2,236	(40,370)
Expenditures for development costs	(80,318)	-	(80,318)	(111,660)	-	(111,660)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2008

(Unaudited)

4. SEGMENTED INFORMATION (Continued)

	Nine Months Ended January 31, 2008			Nine Months Ended January 31, 2007		
	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$
Revenue	6,722,006	3,109,780	9,831,786	8,866,990	3,882,960	12,749,950
Segment (loss) earnings	(821,931)	33,833	(788,098)	1,125,224	62,086	1,187,310
Amortization	604,806	29,822	634,628	534,022	45,496	579,518
Total assets of segments	10,625,894	1,618,340	12,244,234	11,941,016	1,930,242	13,871,258
Goodwill allocated to segment	608,983	2,833,710	3,442,693	608,983	2,833,710	3,442,693
Total enterprise assets	11,234,877	4,452,050	15,686,927	12,549,999	4,763,952	17,313,951
Expenditures for property, plant and equipment	(114,171)	(12,722)	(126,893)	(209,502)	(2,577)	(212,079)
Expenditures for development costs	(368,747)	-	(368,747)	(415,283)	-	(415,283)

The following table represents revenues by geographic area based on the location of the use of the product.

	Three Months Ended January 31, 2008		Nine Months Ended January 31, 2008	
	\$	2007	\$	2007
Canada	663,844	1,419,615	2,048,626	4,904,068
United States	932,636	1,542,901	3,179,740	4,590,812
Germany	301,675	266,950	802,278	698,198
Other international sales	1,249,736	783,168	3,801,142	2,556,872
	3,147,891	4,012,634	9,831,786	12,749,950

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2008

(Unaudited)

5. PER SHARE AMOUNTS

The number of shares used in the weighted average diluted calculation at January 31, 2008 was 16,068,572 (October 31, 2007, 16,068,572), (July 31, 2007 – 16,068,572) (April 30, 2007 – 16,048,662).

6. COMMITMENTS AND GUARANTEES

The Company has various guarantees and indemnifications in place in the ordinary course of business, none of which, as assessed by management, are expected to have a significant impact on the Company's financial statements or operation.

CORPORATE INFORMATION

DIRECTORS

Peter C. Bourgeois (2) (3) (4)
Mississauga, Ontario

Gerald J. Hipple (1)
Calgary, Alberta

Walter Chayka (2) (3) (4)
Calgary, Alberta

S. Grant Reeves (2) (3) (4)
North Charleston, South Carolina

- (1) Chairman of the Board
- (2) Compensation Committee
- (3) Audit Committee
- (4) Corporate Governance Committee

CORPORATE OFFICERS

Gerald J. Hipple (1)
Chief Executive Officer
Calgary, Alberta

REGISTRAR AND TRANSFER

Computershare Trust Company of Canada

Helen Cornett, C.A.
Vice-President and Chief Financial Officer

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

STOCK EXCHANGE LISTING

The TSX Venture Exchange
Trading Symbol: GAV

BANKERS

TD Canada Trust Bank
Calgary, Alberta

SOLICITOR

Macleod Dixon
Calgary, Alberta



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