



Q3
JANUARY 31, 2009

Third Quarter Interim Report for the Period Ended January 31, 2009

The accompanying unaudited interim financial statements of the Galvanic Applied Sciences Inc. for the third quarter ended January 31, 2009 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

Dear Shareholders:

The Company is pleased to report profitable earnings for the third quarter ending January 31, 2009 as a result of steady demand for the company's products combined with continued restraint on discretionary spending. Third quarter consolidated revenues of \$3.7 million produced a net income of \$247,000, or 1.6 cents per diluted share. Revenues of \$1.7 million from gas analyzers declined 11% from the prior period as the downturn in the economy and lower natural gas prices led to project delays and mostly smaller replacement orders for the period. Better than expected electronic volume corrector revenue of \$580,000 for the third quarter and \$1.1 million for the nine months year-to-date reflects the completion of a large domestic order from a major customer. Liquid analyzer revenues of \$1.4 million for the third quarter reflected another consistent quarter that was essentially flat from the prior period, but up 20% from the comparable prior year quarter and 28% better for the nine months ending January 31. Consolidated revenue for the third quarter maintained levels slightly better than the previous quarter as orders booked prior to the economic downturn were completed. Consolidated revenue for the nine months ending January 31 is 8% ahead of last year's nine months reflecting modest growth this year before demand is expected to turn down as the recession takes hold.

Gross margin for the Canadian segment of 44% in the quarter was achieved as a result of favorable volume of electronic volume correctors and fewer lower margin accessories in the mix. Gross margins for the Lowell segment of 26% in the quarter was less than expected as a result of lower margin contracts pursuant to long standing OEM arrangements. Consolidated gross margin was 38% of revenues for the third quarter compared with 32% in the comparable prior period, whereas gross margin for the nine months year-to-date was 39% compared with 33% for the comparable prior period. Close review of bid requirements and pricing assumptions combined with manufacturing efficiencies has yielded the improvement in gross margins.

Due to the general economic malaise, business conditions are expected to be difficult. The expectation in the fourth quarter is for weaker demand across all the Company's product lines due to reduced capital spending in all market segments. As a result, sales below previously recorded levels will adversely impact profitability. The Company will continue to seek ways to maintain profitability. An aggressive targeted sales strategy is being pursued combined with continued emphasis on cost control. Investment in product development will remain a priority. Development of the next generation UV liquid analyzer is ongoing and schedule for completion this summer.

With warm regards,



Grant Reeves
Chief Executive Officer
March 24, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS
JANUARY 31, 2009

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. 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 Management's Discussion and Analysis ("MD&A") dated March 11, 2009 has been prepared by management 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 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, 2009 and 2008. It is also advisable to read the MD&A in conjunction with the Company's 2008 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, 2008 and 2007 contained in the annual report.

The Annual report, which includes the MD&A, the audited 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.

FORWARD-LOOKING STATEMENTS

This Management's Discussions and Analysis contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipated", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intent", "could", "might", "should", "believe" and similar expressions.

These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JANUARY 31, 2009

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 and 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 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

	2009			2008				2007		
	Jan 09 Q3 \$	Oct 08 Q2 \$	July 08 Q1 \$	April 08 Q4 \$	Jan 08 Q3 \$	Oct 07 Q2 \$	July 07 Q1 \$	April 07 Q4 \$	Jan 07 Q3 \$	Oct 06 Q2 \$
Revenue	3,763,356	3,698,965	3,177,844	3,133,035	3,147,891	3,851,326	2,832,569	4,598,347	4,012,634	4,624,437
Gross margin	1,414,262	1,648,687	1,129,817	905,678	999,713	1,297,521	947,289	1,546,665	1,689,525	1,599,700
Net income (loss)	247,221	723,624	60,109	(980,747)	(93,969)	(279,776)	(414,353)	62,317	424,168	237,781
Earnings per share										
Basic	0.016	0.05	0.00	(0.07)	0.00	(0.01)	(0.03)	0.00	0.03	0.02
Diluted	0.016	0.05	0.00	(0.07)	0.00	(0.01)	(0.03)	0.00	0.02	0.02

During the third quarter of fiscal 2009 the Company increased revenues by \$615,000 or 20% to \$3,763,000 from the \$3,148,000 recorded in the comparative prior period. Gross margin for the third quarter of fiscal 2009 was 38% of revenue as compared to 32% for the comparative prior period. This improvement in revenues and gross margin is primarily due to increased demand for the Company's product in the gas utility distribution market as a result of increased business activity. Largely due to the improvement in gross margin the Company generated net earnings after income taxes of \$247,000, or \$0.016 per common share as compared with a net loss after income taxes of \$94,000 or \$0.00 per common share in the three-month period ended January 31, 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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SEGMENTED OPERATING RESULTS

For the three-month period ended January 31, 2009 compared with the three-month period ended January 31, 2008

	2009			2008		
	Galvanic Canada	Galvanic Lowell	Total	Galvanic Canada	Galvanic Lowell	Total
	\$	\$	\$	\$	\$	\$
REVENUE						
Analytical measurement equipment	1,739,573	-	1,739,573	1,792,409	-	1,792,409
Electronic flow products	580,211	-	580,211	148,968	-	148,968
Liquids process analyzers	-	1,443,571	1,443,571	-	1,206,514	1,206,514
	<u>2,319,785</u>	<u>1,443,571</u>	<u>3,763,356</u>	<u>1,941,377</u>	<u>1,206,514</u>	<u>3,147,891</u>
COST OF SALES	<u>1,287,871</u>	<u>1,061,223</u>	<u>2,349,094</u>	<u>1,385,212</u>	<u>762,965</u>	<u>2,148,177</u>
GROSS MARGIN	<u>1,031,914</u>	<u>382,348</u>	<u>1,414,262</u>	<u>556,165</u>	<u>443,549</u>	<u>999,714</u>
GROSS MARGIN %	<u>44%</u>	<u>26%</u>	<u>38%</u>	<u>29%</u>	<u>37%</u>	<u>32%</u>
EXPENSES						
Selling and marketing	257,421	206,934	464,355	409,050	193,772	602,822
General and administrative	314,398	176,276	490,674	308,815	178,103	486,918
Foreign exchange (gain) loss	(42,834)	25,139	(17,695)	(225,391)	27,750	(197,641)
Amortization	<u>170,718</u>	<u>10,989</u>	<u>181,707</u>	<u>209,123</u>	<u>9,941</u>	<u>219,064</u>
EXPENSES	<u>699,703</u>	<u>419,338</u>	<u>1,119,041</u>	<u>701,597</u>	<u>409,566</u>	<u>1,111,162</u>
INCOME TAXES						
Current	39,000	-	39,000	(32,928)	15,447	(17,481)
Future	<u>9,000</u>	<u>-</u>	<u>9,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>48,000</u>	<u>-</u>	<u>48,000</u>	<u>(32,928)</u>	<u>15,447</u>	<u>(17,481)</u>
NET EARNINGS	<u>284,209</u>	<u>(36,988)</u>	<u>247,221</u>	<u>(112,505)</u>	<u>18,536</u>	<u>(93,968)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
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For the nine-month period ended January 31, 2009 compared with the nine-month period ended January 31, 2008

	2009			2008		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
REVENUE						
Analytical measurement equipment	5,566,353	-	5,566,353	6,123,332	-	6,123,332
Electronic flow products	1,083,153	-	1,083,153	598,674	-	598,674
Liquids process analyzers	-	3,990,659	3,990,659	-	3,109,780	3,109,780
	<u>6,649,506</u>	<u>3,990,659</u>	<u>10,640,165</u>	<u>6,722,006</u>	<u>3,109,780</u>	<u>9,831,786</u>
COST OF SALES	<u>3,747,183</u>	<u>2,700,216</u>	<u>6,447,399</u>	<u>4,491,414</u>	<u>2,095,848</u>	<u>6,587,262</u>
GROSS MARGIN	<u>2,902,323</u>	<u>1,290,443</u>	<u>4,192,766</u>	<u>2,230,592</u>	<u>1,013,932</u>	<u>3,244,524</u>
GROSS MARGIN %	<u>44%</u>	<u>32%</u>	<u>39%</u>	<u>33%</u>	<u>33%</u>	<u>33%</u>
EXPENSES						
Selling and marketing	906,179	495,034	1,401,213	1,281,646	467,704	1,749,350
General and administrative	965,924	527,416	1,493,340	1,115,673	531,355	1,647,028
Interest on long-term debt	-	-	-	1,957	-	1,957
Exchange	(563,101)	203,295	(359,806)	293,368	(68,762)	224,606
Amortization	<u>499,553</u>	<u>46,508</u>	<u>546,061</u>	<u>604,806</u>	<u>29,822</u>	<u>634,628</u>
	<u>1,808,555</u>	<u>1,272,253</u>	<u>3,080,808</u>	<u>3,297,450</u>	<u>960,119</u>	<u>4,257,569</u>
INCOME TAXES						
Current	104,686	15,318	120,004	(244,927)	19,980	(224,947)
Future	<u>(39,000)</u>	<u>-</u>	<u>(39,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>65,686</u>	<u>15,318</u>	<u>81,004</u>	<u>(244,927)</u>	<u>19,980</u>	<u>(224,947)</u>
NET EARNINGS	<u>1,028,081</u>	<u>2,872</u>	<u>1,030,954</u>	<u>(821,931)</u>	<u>33,833</u>	<u>(788,098)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 a commercial site, designed for gas distribution.

Revenues generated from instrument sales in the three-month period ended January 31, 2009 were \$2,320,000 compared with the \$1,941,000 recorded in the comparative prior period. Revenues generated from instrument sales in the nine-month period were \$6,649,000 compared with the \$6,722,000 in the corresponding prior period. Due to increased activity levels experienced by the Company's major customer in the gas utility distribution market, unit deliveries of the Company's electronic flow measurement products accounted for the increase in revenues in the three-month period ended January 31, 2009 and partially off-set the decrease in year-to-date revenues of analytical instrument equipment. Revenues generated from electronic flow products in the three-month period were \$580,000 compared with \$149,000 in the comparative period, and \$1,083,000 for the nine-month period compared with \$599,000 in the corresponding previous period.

Revenues generated from analytical equipment remained static in the current quarter and decreased by \$557,000 or 9% to \$5,566,000 compared to \$6,123,000 for the same period in fiscal 2008. The year-to-date decrease in analytical instrument sales was largely due to lower demand for high value analytical instruments and integrated shelter systems as a result of lower project activity in international markets, and is partially offset with increased sales in the Canadian market.

Revenue is derived from instrument sales throughout Canada, the United States, and internationally. Export sales are denominated in U.S. currency and any change in the exchange rate affects the value at which transactions are recorded. Export sales accounted for 54% of the sales in the quarter and 59% year-to-date. This compares with 66% and 71% respectively in the comparative prior periods. The decrease in export revenues in the third quarter of fiscal 2009 was off-set with currency exchange gains. Currency rate fluctuations had an immaterial impact on recorded revenues year-to-date.

Gross margin for the three-month period ended January 31, 2009 was \$1,032,000 or 44%, compared to \$556,000 or 29% for the third quarter of fiscal 2008, an increase of \$476,000. Gross margin for the nine-month period ended January 31, 2009 was \$2,902,000 or 44% compared to \$2,231,000 or 33% for the nine-month period ended January 31, 2008. This improvement in the third quarter of fiscal 2009 was primarily due to the change in revenue mix as a result of the increase in business activity and the proportionate amount of revenue earned from the Company's electronic flow measurement products. Year-to-date improvements were due to both the change in product revenue mix and cost improvements.

Selling and marketing expenditures were \$257,000, a decrease of \$152,000 or 37% for the third quarter of fiscal 2009 when compared to the \$409,000 for the third quarter of fiscal 2008. Selling and marketing expenditures for the nine-month period ended January 31, 2009 were \$906,000, a decrease of \$376,000 or 29% when compared to the \$1,282,000 for the comparative prior period. This reduction in selling and marketing expenditures for the quarter and year-to-date periods is largely as a result of reduced costs due to the reorganization of the sales force to focus on higher growth geographic markets.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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General and administrative expenditures were \$314,000, for the third quarter of fiscal 2009 when compared to the \$308,000 for the third quarter of fiscal 2008. General and administrative expenses for the nine-month period ended January 31, 2009 were \$966,000, a decrease of \$150,000 or 13%, when compared to the \$1,116,000 for the comparative prior period. The decrease in year-to-date expenditures is largely due to legal fees incurred in the prior fiscal period.

As of January 31, 2009 this operating segment had approximately \$ 2.4 million of U.S. dollar denominated current assets. Changes in the value of the Canadian dollar results in an adjustment to the carrying value of these assets. At January 31, 2009 the value of the U.S. dollar was \$1.22 Canadian, compared with \$1.00 at January 31, 2008. Accordingly, this appreciation of the U.S. dollar resulted in exchange gains of \$43,000 for the quarter and \$563,000 for the nine-month period ended January 31, 2009. This compares with an exchange gains in the amount of \$225,000 for the three-month period ended January 31, 2008 and a loss in the amount of \$293,000 for the nine-month period ended January 31, 2008.

This operating segment reported net earnings before income taxes of \$332,000 for the quarter and \$1,094,000 year-to-date. This compares with net losses of \$145,000 and \$1,067,000 respectively for the comparative prior periods. This improvement in net earnings before taxes in the quarter is primarily attributable to the improvement in gross margin as a percentage of sales. The year-to-date improvement in net earnings before taxes is due to the improvement in margins, the reduction in expenses, and unrealized foreign exchange gains as compared to losses in the corresponding previous period. As a result of profitable operations current income taxes payable of \$48,000 for the quarter and \$66,000 year-to-date have been recorded, as compared to recoverable income taxes in the amount of \$33,000 and \$244,000 respectively in the prior period. As certain product development expenditures qualify for a credit against federal income taxes, current income taxes payable have been minimized due to the availability of these tax credits that are applied against federal income taxes payable.

Galvanic Lowell

The Company's array of liquid 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 optical technologies.

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 was \$1.25 Canadian for the three-months ended January 31, 2009, an increase of 25% from the \$1.00 rate that was utilized to translate revenues and expenses for the comparative prior period. The average U.S. dollar exchange rate utilized to translate U.S. dollar revenues and expenses was \$1.12 for the nine-month period ended January 31, 2009, an increase of 9% from the \$1.03 that was utilized for the comparative prior period.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JANUARY 31, 2009

For the three-month period ended January 31, 2009 revenues generated from instrument sales in this operating segment increased by \$237,000 to \$1,444,000 or 20% compared to \$1,207,000 for the same period in 2008. For the nine-month period ended January 31, 2009 revenues increased by \$881,000 or 28% to \$3,991,000 compared to \$3,110,000 for the same period in fiscal 2008. Recorded revenues in the quarter and year-to-date periods were impacted by both the increase in average exchange rates utilized to translate revenues as a result of the strengthening of the U.S. dollar in relation to the Canadian dollar and increased unit volume shipments across all product lines. Average exchange rate differences accounted for the third quarter increase and 34% for the nine-month period ended January 2009. The balance of the year-to-date sales growth was due to increased market demand for the Monitek product in the European market and the Tytronics product line due to long standing OEM arrangements.

Gross margin was \$382,000 or 26% for the third quarter of fiscal 2009 and \$1,291,000 or 32% for the nine-month period ended January 31, 2009. This compares with \$444,000 or 37% and \$1,014,000 or 33% respectively, for the comparative prior periods. Gross margin in the third quarter of fiscal 2009 was adversely impacted by the change in the revenue mix due to lower margin contracts pursuant to OEM arrangements. The decline in year-to-date gross margin was due to the decrease in the third quarter

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 in the third quarter of fiscal 2009 were \$207,000, compared with \$194,000 for the comparative prior period. Selling and marketing expenditures were \$495,000 for the nine-month period ended January 31, 2009 compared with \$468,000 for the comparative prior period. The increase in marketing and selling expenses recorded for the three-month and year-to-date periods as compared with the comparative prior periods is largely due to the increase in the average exchange rate utilized to translate selling and marketing expenses and off-set by cost reductions incurred in re-structuring the sales force.

General and administrative expenses were \$176,000 for the three-month period ended January 31, 2009 as compared with \$178,000 for the comparative prior period. General and administrative expenses were \$527,000 for the nine-month period ended January 31, 2009 compared with \$531,000 for the comparative prior period. The decrease in general and administrative expenses recorded for the three-month and year-to-date periods as compared with the comparative prior periods is largely due to a reduction in interest costs related to operating line advances and offset by the increase in the average exchange rate utilized to translate general and administrative expenses.

The unrealized exchange loss of \$25,000 recorded for the quarter and \$203,000 year-to-date compared with the loss of \$28,000 and the gain of \$69,000 respectively is due to the changes in the Euro in relation to the U.S. dollar and the exchange rate utilized to record intercompany advances from Lowell to Germany.

This operating segment reported a \$37,000 loss for the three-month period ended January 31, 2009 as compared with net earnings of \$18,000 for the comparative prior period. Net earnings of \$3,000 were recorded for the nine-month period ended January 31, 2009 as compared with net earnings of \$34,000 in the comparative prior period. Net earnings were impacted by the reduction in gross margins in the third quarter and more significantly by exchange losses of \$203,000 as compared with gains of \$69,000 in the year-to-date periods.

OTHER COMPREHENSIVE INCOME

Included in the consolidated statements of other comprehensive income, were \$26,000 of unrealized gains in the quarter and \$376,000 for the nine-month period ended January 31, 2009 on translating the financial statements of Galvanic Lowell utilizing the current rate method of translation, as this segment is considered self-sustaining for Canadian GAAP purposes.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operations

The Company's principal source of liquidity is derived primarily from cash flow from operations and from working capital. For the quarter ended January 31, 2009, the Company generated cash from operations before changes in non-cash working capital of \$429,000 compared with \$208,000 for the comparative prior period. Cash generated from operations before changes in non-cash working capital totalled \$1,751,000 for the nine-month period of 2009, compared with a cash loss of \$276,000 for the nine months ended January 31, 2008. The increase in cash from operations was primarily as a result of improved earnings in the amount of \$247,000 in the quarter and \$1,031,000 year-to-date, adjusted for non-cash amortization in the amount of \$182,000 in the quarter, and \$546,000 year-to-date, and non-cash exchange gains of \$26,000 in the quarter and \$376,000 year-to-date. This compares with losses in the comparative prior period of \$94,000 and \$788,000, adjusted for non-cash amortization of \$219,000 and \$634,000, and non-cash exchange gain of \$83,000 and a loss of \$147,000 respectively in the comparative prior periods. During the period cash flow was used primarily to repay its revolving term loan and finance its development program.

Financing

Cash used for financing activities totalled \$120,000 for the quarter and \$934,000 year-to-date as compared to \$235,000 and \$279,000 respectively in the comparative prior periods. Cash was primarily used to repay its revolving term loan in the amount of \$120,000 in the quarter and \$905,000 for the year-to-date period. This compares with repayments of \$235,000 and \$175,000 respectively in the comparative prior period.

Investing

Cash used for investing activities totalled \$156,000 in the quarter and \$399,000 year-to-date as compared with \$102,000 and \$466,000 respectively in the comparative prior period. Cash was primarily invested for product development in the amount of \$115,000 in the quarter and \$319,000 year-to-date. This compares with \$80,000 and \$339,000 respectively in the comparative prior period. During the fiscal period the Company's efforts were primarily focused on projects related to product design for its liquid analyzers.

Liquidity

During fiscal 2009 there were no significant changes in the structure of the Company's credit facilities. The existing credit facility consists of a revolving 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. 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, 2009.

As of January 31, 2009, the Company maintained a working capital position of \$6,931,000. 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 should be able to meet its near term working capital requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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SHARE CAPITAL

The Company's authorized share capital has remained unchanged in fiscal 2009.

Share capital transactions include the purchase of 100,000 common shares pursuant to the Normal Course Issuer Bid for total consideration of \$28,550. The Company is entitled to purchase for cancellation up to a maximum of 778,553 of its common shares under the Bid which commenced April 8, 2008 and terminates April 9, 2009.

The Company's issued and outstanding shares at January 31, 2009, are 15,741,072 Common Shares.

During the three-month period ended July 31, 2008, the Company granted options to employees of the Company to purchase 600,000 common shares at the market price of \$0.30 per common share at the date of the grant. The stock options expire May 5, 2013. 200,000 of the options vest immediately and the balance vest equally over a five-year period. The fair value at the date of the grant was computed using the Black-Scholes model. The assumptions used in determining the fair value of the stock option included risk free interest rate of 3.95%, expected life of the stock option of 5 years, annualised volatility rate of 69% and an annualised dividend rate of 0%. The fair value of the options amounted to \$131,919.

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.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 1 to the consolidated financial statements for the year ended April 30, 2008, contained in the Company's 2008 Annual report. The interim consolidated financial statements have been prepared following the same accounting policies and methods of computation as the consolidated financial statements for the year ended April 30, 2008, except as noted below. The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and Management's judgments, and as a result, the estimates used by Management involve uncertainty and may change, as additional experience is required.

ACCOUNTING CHANGE

Beginning in the first quarter of fiscal 2009, the Company adopted the new Section 1535 "Capital Disclosures" standard and Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instrument-Presentation" standard issued by the Canadian Institute of Chartered Accountants (CICA). None of these changes had a significant effect on the Company's financial results in fiscal 2009. Details of the new accounting standard are included in Notes 1 and 4 and in the January 31, 2009, Consolidated Financial Statements.

FUTURE ACCOUNTING CHANGES

Research and Development Costs

The CICA issued Section 3064 "Goodwill and Intangible Assets" replacing Section 3450 "Research and Development Costs". The new standard, which the Company will adopt May 1, 2009, establishes guidelines for the recognition, measurement, presentation and disclosure of research and development costs. Management is in the process of assessing the impact of this new standard and believes it will not have a material impact on the Company's consolidated statements.

Convergence with International Financial Reporting Standards

Canada's Accounting Standards Board ratified a plan that will result in Canadian generally accepted accounting principles (GAAP) being converged with International Financial Reporting Standards (IFRS) by 2011. The impact on the Company's consolidated financial statements has not yet been determined.

RISK FACTORS

The Company operates in a highly competitive market, and demand for the Company's products is largely a function of pipeline expansions, plant and equipment upgrades, and many other factors that may affect the fortunes of the business either positively or negatively. Shareholders should carefully consider the following factors, many of which are inherent of a company carrying out activities connected to the design, manufacture and sale of instrumentation equipment.

- a) Several instrumentation companies target the same customers as Galvanic. Some of these competitors are large, multi-national companies with greater access to resources to apply to research and development, and marketing and operations.
- b) If commodity prices decrease or fail to meet expectations, pipeline expansion and equipment upgrades may be reduced significantly, which can have a material adverse effect on the Company's operations.
- c) The Company's products are marketed internationally and are to a large extent priced in US dollars, which exposes the Company to international and US dollar currency exchange risks.
- d) The Company's products are subject to domestic and international regulatory approvals. There can be no assurances that such approvals will be granted in a timely fashion or at all. Delay in securing such approvals may adversely impact the timing of introducing the Company's products into these markets.
- e) The Company may utilize single source suppliers which could cause the Company to experience short-term vulnerability to supply disruptions.
- f) The Company is focused on providing products and services to a limited geographic market. The Company's efforts to expand such market area will subject the Company to significant competition from established competitors. There can be no assurance that the Company's marketing strategy will be successful.
- g) The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have material adverse effect upon the Company's business and prospects.
- h) The business of the Company is subject to the operating risks inherent to the industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have benefit of insurance maintained by it; however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JANUARY 31, 2009

- i) The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, labor costs, and depreciation account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- j) The Company sells its products domestically and to foreign customers and generally extends unsecured credit to these customers. The Company therefore remains subject to possible default in respect to customers to whom credit is extended.

STATEMENT REGARDING INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

As of January 31, 2009, the Chief Executive Officer and the Chief Financial Officer have determined that the design and operation of Galvanic Applied Sciences Inc. disclosure controls were effective as of January 31, 2009.

During fiscal 2009, there have been no changes in internal controls over financial reporting that have materially affected or are reasonably likely to materially affect, the Company's control over financial reporting.

OFF-BALANCE SHEET ARRANGEMENTS

At January 31, 2009, and April 30, 2008, the Company has not entered into any off-balance sheet arrangements.

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

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Earnings, Comprehensive Income (Loss), Retained Earnings and Accumulated Other Comprehensive Loss (Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2009	2008	2009	2008
	\$	\$	\$	\$
REVENUE				
Sales	3,763,356	3,147,891	10,640,165	9,831,786
Cost of sales	2,349,094	2,148,178	6,447,399	6,587,263
GROSS MARGIN	1,414,262	999,713	4,192,766	3,244,523
EXPENSES				
Amortization	181,707	219,064	546,061	634,628
Foreign exchange (gain) loss	(17,695)	(197,641)	(359,806)	224,606
General and administrative	490,674	486,918	1,493,340	1,647,028
Interest	-	-	-	1,957
Selling and marketing	464,355	602,822	1,401,213	1,749,350
	1,119,041	1,111,163	3,080,808	4,257,569
EARNINGS (LOSS) BEFORE INCOME TAXES	295,221	(111,450)	1,111,958	(1,013,046)
PROVISION FOR (RECOVERY) OF INCOME TAXES				
Current	39,000	(17,481)	120,004	(224,948)
Future	9,000	-	(39,000)	-
	48,000	(17,481)	81,004	(224,948)
NET EARNINGS (LOSS)	247,221	(93,969)	1,030,954	(788,098)
OTHER COMPREHENSIVE INCOME (LOSS)	25,747	83,093	376,262	(147,637)
CUMULATIVE COMPREHENSIVE INCOME (LOSS)	272,968	(10,876)	1,407,216	(935,735)
RETAINED EARNINGS, BEGINNING OF PERIOD	6,678,170	6,969,153	5,894,437	7,663,282
RETAINED EARNINGS, END OF PERIOD	6,925,391	6,875,184	6,925,391	6,875,184
ACCUMULATED OTHER COMPREHENSIVE LOSS, BEGINNING OF PERIOD	(6,034)	(442,486)	(356,549)	(211,756)
OTHER COMPREHENSIVE GAIN (LOSS)	25,747	83,093	376,262	(147,637)
ACCUMULATED OTHER COMPREHENSIVE GAIN, END OF PERIOD	19,713	(359,393)	19,713	(359,393)
NET EARNINGS (LOSS) PER COMMON SHARE (Note 6)				
Basic and diluted	0.016	0.00	0.066	(0.05)

GALVANIC APPLIED SCIENCES INC.

Consolidated Balance Sheets

	January 31, 2009 (Unaudited) \$	April 30, 2008 (Audited) \$
ASSETS		
CURRENT		
Cash and cash equivalents	2,043,357	286,257
Restricted funds	96,170	123,829
Accounts receivable - trade	2,909,889	3,673,983
Recoverable income taxes	-	390,928
Inventory	2,895,745	3,109,015
Prepaid expenses	131,472	97,964
	<u>8,076,633</u>	<u>7,681,976</u>
Deferred development costs	2,053,647	2,040,309
Property, plant and equipment	969,379	1,101,832
Goodwill	3,442,693	3,442,693
	<u>14,542,352</u>	<u>14,266,810</u>
LIABILITIES		
CURRENT		
Operating loan	-	905,000
Accounts payable and accrued liabilities	1,011,137	1,097,188
Income taxes payable	89,790	-
Restructuring accounts payable and accrued liabilities	45,000	263,432
	<u>1,145,927</u>	<u>2,265,620</u>
Future income taxes	538,018	577,237
	<u>1,683,945</u>	<u>2,842,857</u>
COMMITMENTS AND CONTINGENCIES (Note 7)		
SHAREHOLDERS' EQUITY		
Share capital (Note 2)	5,003,473	5,032,023
Contributed surplus	909,830	854,042
Retained earnings	6,925,391	5,894,437
Cumulative other comprehensive income	19,713	(356,549)
	<u>12,858,407</u>	<u>11,423,953</u>
	<u>14,542,352</u>	<u>14,266,810</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,	
	2009	2008	2009	2008
	\$	\$	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net earnings (loss)	247,221	(93,969)	1,030,954	(788,098)
Adjustments for:				
Amortization	181,707	219,064	546,061	634,628
Future income taxes	8,781	-	(39,219)	-
Restructuring costs, net of cash payments	(52,602)	-	(218,432)	-
Stock-based compensation	18,596	-	55,788	25,579
Unrealized foreign exchange gain (loss)	25,747	83,093	376,262	(147,637)
	429,450	208,188	1,751,414	(275,528)
Changes in non-cash working capital	1,305,828	(261,904)	1,338,523	543,182
	1,735,278	(53,716)	3,089,937	267,654
FINANCING				
Repayment of long-term debt	-	-	-	(104,495)
(Decrease) increase in operating loan	(120,000)	(235,000)	(905,000)	(175,000)
Common share purchases pursuant to normal course issuer bid	-	-	(28,550)	-
	(120,000)	(235,000)	(933,550)	(279,495)
INVESTING				
Property, plant and equipment	(40,863)	(21,354)	(107,976)	(126,893)
Development costs	(114,868)	(80,318)	(318,970)	(338,924)
Decrease in restricted funds	-	-	27,659	-
	(155,731)	(101,672)	(399,287)	(465,817)
NET INCREASE (DECREASE) IN CASH	1,459,547	(390,388)	1,757,100	(477,658)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	583,810	1,218,103	286,257	1,305,373
CASH AND CASH EQUIVALENTS, END OF PERIOD	2,043,357	827,715	2,043,357	827,715
SUPPLEMENTARY INFORMATION				
Cash paid for interest	274	-	40,458	1,957
Cash paid for taxes	-	-	-	316,000

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

1. ACCOUNTING POLICIES

Interim consolidated financial statements

The 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, 2008, except as noted below. These interim financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's annual report for the year ended April 30, 2008.

Adoption of new accounting standards

Capital disclosures

Effective May 1, 2008, the Company adopted the new Section 1535 "Capital Disclosures" standard issued by the Canadian Institute of Chartered Accountants (CICA). This section established standards for disclosing information about the Company's capital and how it is managed. The impact of this change is described in Note 4 to the consolidated financial statements as of January 31, 2009.

Financial instruments

Effective May 1, 2008, the Company adopted the new Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 outlines the disclosure requirements for financial instruments and non-financial derivatives. This guidance prescribes an increased importance on the nature of risks arising from financial instruments and how the Company manages those risks. The presentation requirements under Section 3863 are relatively unchanged from Section 3861.

Inventories

Effective May 1, 2008, the Company adopted CICA Handbook Section 3031 "Inventories", which replaced CICA Section 3030 of the same name. This new section provides new guidance on the recognition, measurement and disclosure of inventories which include the requirement of inventory to be measured on a "first-in, first out" or weighted average basis. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

Future Changes in Accounting Policies

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the company will adopt the new standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The company is currently evaluating the impact of the adoption of this new section.

Over the next few years the CICA will adopt its new strategic plan for the direction of accounting standards in Canada, which was ratified in January 2006. As part of the plan, Canadian GAAP for public companies will converge with International Financial Reporting Standards (IFRS) over the next few years. The company is currently assessing the impact of the convergence of Canadian GAAP with IFRS on its financial statements and expects to begin work on the conversion process later in 2009.

2. SHARE CAPITAL

Authorized

Unlimited number of common and preferred shares, without nominal or par value

Issued

Common shares

	Number of Shares	Amount \$
Balance, April 30, 2008	15,841,072	5,032,023
Common shares purchased	(64,000)	(19,350)
Balance, July 31, 2008	15,777,072	5,012,673
Common shares purchased	(36,000)	(9,200)
Balance, October 31, 2008 & January 31, 2009	15,741,072	5,003,473

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

Normal Course Issuer Bid

In the three-month period ended January 31, 2009, the company did not purchase any common shares (October 31, 2008 – 36,000 common shares- \$9,200, July 31, 2008 – 64,000 common shares -\$19,350). The Company is entitled to purchase for cancellation up to 778,553 of its common shares under the Normal Course Issuer Bid, which commenced on April 8, 2008, and terminates on April 9, 2009.

Stock Option Plan

At January 31, 2009, 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 shares 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 six years. Options generally vest over a three to five year period. The options granted have the following expiry dates: September 16, 2010, and May 5, 2013.

	Number of Shares Under Option	Weighted Average Exercise Price \$
Options outstanding, April 30, 2008	370,000	0.50
Expired	(100,000)	0.51
Granted	600,000	0.30
Options outstanding, July 31, 2008	870,000	0.36
Expired	(150,000)	0.50
Options outstanding, October 31, 2008 & January 31, 2009	720,000	0.33

The following table summarizes outstanding and exercisable options at January 31, 2009:

Exercise Price \$	Number Outstanding January 31, 2009	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$
0.50	120,000	1.25	0.50
0.30	600,000	4.25	0.30
	720,000		

Stock options issued have been accounted for using the fair-value method. The fair-value of each stock option granted is estimated on the date of grant using the Black-Scholes option-

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

pricing model. Stock-based compensation expense with a corresponding amount credited to contributed surplus of \$18,596 (October 31, 2008 - \$18,596), has been recorded, using the following weighted average assumptions:

Risk-free interest rate (%)	3.95%
Expected option life (years)	5
Expected volatility (%)	6.9%
Estimated annual dividend	nil

The following table presents a summary of activity related to the Company's contributed surplus for the nine months ended January 31, 2009:

	\$
Balance, contributed surplus, April 30, 2008	854,042
Stock option expense	18,596
Balance, contributed surplus, July 31, 2008	<u>872,638</u>
Stock option expense	18,596
Balance, contributed surplus, October 31, 2008	<u>891,234</u>
Stock option expense	18,596
Balance, contributed surplus, January 31, 2009	<u><u>909,830</u></u>

3. 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 the processing and distribution market, Galvanic Canada; and the liquid analyzer 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.

This operating segment's product line can be broadly categorized into two groups. The first is analytical products, which measure hydrogen sulfide (H₂S) sulfur and total sulfur, gas chromatographs and carbon dioxide (CO₂) with infrared technology. The markets for such products are the natural gas processing industry, sulfur recovery plants, tail gas clean-up units, gas sweetening process and sulphur degassing and forming.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

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.

The Company evaluates its performance of its operating segments based on earnings before income taxes.

	Three Months Ended January 31, 2009			Three Months Ended January 31, 2008		
	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$
Revenue	2,319,785	1,443,571	3,763,356	1,941,377	1,206,514	3,147,891
Segment earnings(loss)	284,209	(36,988)	247,221	(112,505)	18,536	(93,969)
Amortization	170,718	10,989	181,707	209,123	9,941	219,064
Total assets of segments	(17,212)	(24,033)	(41,245)	(579,290)	253,934	(325,356)
Goodwill allocated to segment	-	-	-	-	-	-
Total enterprise assets	(17,212)	(24,033)	(41,245)	(579,290)	253,934	(325,356)
Expenditures for capital assets	(18,815)	(22,048)	(40,863)	(12,155)	(9,199)	(21,354)
Expenditures for development costs	(114,868)	-	(114,868)	(80,318)	-	(80,318)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

	Nine Months Ended January 31, 2009			Nine Months Ended January 31, 2008		
	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$
Revenue	6,649,506	3,990,659	10,640,165	6,722,006	3,109,780	9,831,786
Segment earnings (loss)	1,028,081	2,873	1,030,954	(821,931)	33,833	(788,098)
Amortization	499,553	46,508	546,061	604,806	29,822	634,628
Total assets of segments	9,053,832	2,045,827	11,099,659	10,625,894	1,618,340	12,244,234
Goodwill allocated to segment	608,983	2,833,710	3,442,693	608,983	2,833,710	3,442,693
Total enterprise assets	9,662,815	4,879,537	14,542,352	11,234,877	4,452,050	15,686,927
Expenditures for capital assets	(57,937)	(50,039)	(107,976)	(114,171)	(12,722)	(126,893)
Expenditures for development costs	(318,970)	-	(318,970)	(368,747)	-	(368,747)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

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

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2009	2008	2009	2008
	\$	\$	\$	\$
Canada	1,117,198	663,844	2,793,568	2,048,626
United States	1,213,371	932,636	3,859,761	3,179,740
Other international sales	1,432,787	1,551,411	3,986,836	4,603,420
	3,763,356	3,147,891	10,640,165	9,831,786

4. CAPITAL DISCLOSURES

The Company considers its capital structure to include shareholders' equity and working capital. The company's objectives when managing its capital structure are to:

- finance internally generated growth, and
- maintain financial flexibility to preserve its ability to meet its financial obligations and preserve investor and creditor confidence.

The Company manages its capital structure and makes adjustments based on changes in market conditions. To manage the capital structure, the company may from time to time adjust its capital spending, revise the terms of its operating lines of credit, issue new shares, or purchase shares for cancellation pursuant to the normal course issuer bid.

The Company is subject to certain financial covenants associated with its revolving operating lines of credit. As of January 31, 2009, the Company is in compliance with these requirements.

5. FINANCIAL INSTRUMENTS

The Company is exposed to financial risks arising from its financial assets and liabilities. The Company's financial assets and liabilities are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and its operating loan.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

Fair Value

The carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and operating lines of credit approximate fair value due to the short-term nature of these instruments

Credit Risk

Credit risk refers to the possibility that a customer will fail to meet its contractual obligations, resulting in the Company incurring a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of its accounts receivable balances. The carrying amount of these assets included on the balance sheet represents the maximum credit exposure.

The Company assesses the credit worthiness of its customers on an ongoing basis, and establishes credit limits for each customer based on internal analysis, historical experience with the customer, and external credit reports. The Company also monitors the amount and aging of accounts receivable balances on an ongoing basis.

Standard payment terms are 30 days from invoice date, however may vary by region and contract. Historically, payment terms for international customers allow for payment up to 90 days. Management believes that accounts receivable balances from international customers that extend beyond 90 days present a credit risk. As of January 31, 2009, two international customers had accounts receivable balances of \$319,000 or 11% of the accounts receivable balance which were more than 90 days overdue. In the event that these two customers are unable to meet their financial obligations the Company would incur a financial loss.

Liquidity Risk

Liquidity risk is the risk that the company may not to be able to meet its financial obligations as they become due. The Company manages liquidity risk through cash management and maintains sufficient operating lines of credit to meet financing requirements that exceed anticipated internally generated funds. As at January 31, 2009, accounts payable and accrued liabilities, and operating lines of credit are less than one year.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates, may affect the Company's net income or the value of the financial statements.

Interest Rate Risk

The Company is exposed to interest rate risk with respect to its revolving operating lines of credit that bear interest at floating market rates. Fluctuations in the interest rate may impact the company's borrowing costs. Based on the operating loan outstanding as of January 31, 2009, any change in the prime rate would have had an insignificant impact on income before income taxes for the period.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2009

(Unaudited)

Currency Risk

The Company's international business is primarily denominated in U.S. dollars and as a result has a foreign exchange risk relative to the U.S. dollar. The types of foreign exchange risk can be categorized as follows:

Transaction exposure

The Canadian Company sells its instruments both domestically and internationally, and as a result is exposed to currency risk on U.S. denominated financial assets and liabilities with fluctuations in the rates recognized as foreign exchange gains or losses in the consolidated statements of earnings.

Translation exposure

The Company's foreign subsidiary is considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income.

For the three months ended January 31, 2009, had the Canadian dollar weakened or strengthened by 1% against the U.S. dollar, with all other variables held constant, earnings and other comprehensive income would have been impacted as follows:

	Earnings	Other Comprehensive Income
	\$	\$
	<hr/>	<hr/>
1% decrease in value of Canadian dollar	27,000	21,500
1% increase in value of Canadian dollar	(27,000)	(21,500)

6. EARNINGS PER SHARE

The number of shares used in the weighted average diluted calculation was 15,981,072, (October 31, 2008 – 15,981,072) (July 31, 2008 - 15,777,072) (April 30, 2008 - 15,572,551).

7. 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 (1) (2) (3) (4)
Mississauga, Ontario

Gerald J. Hipple
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

S. Grant Reeves (2) (3) (4)
Chief Executive Officer

REGISTRAR AND TRANSFER

Computershare Trust Company of
Calgary, Alberta

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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