



Q3
January 31, 2010

Third Quarter Interim Report for the Period Ending January 31, 2010

The accompanying unaudited interim financial statements of Galvanic Applied Sciences Inc. for the Third quarter ending January 31, 2010 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.

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

The Company is pleased to report profitable net earnings of \$116,000 on revenues of \$3.3 million for the third quarter ended January 31, 2010. Revenues for the period were up approximately 17% from the first half run rate moving earnings into positive territory. This improvement was the result of a large project installation in Alberta augmenting our core analyzer and spare parts business. Despite this improvement revenue continues to lag last year's \$3.7 million and net earnings or \$247,000 due to severe cuts in natural gas pipeline construction and general economic weakness for capital projects. Gross margins were maintained at 40% of revenue in the quarter and year-to-date compared with 38% and 39% respectively in the same period last year. The Company continues to monitor and adjust its variable selling, marketing and general expenses commensurate with sales activity to maintain profitable operations. Included in these efforts was the closure of our German sales office and establishment of a new distributor to represent our Monitek product line in Germany. Net operating income of \$116,000 would have been \$308,000 except for foreign currency losses due to the strengthening Canadian dollar and a one-time expense to facilitate a new distribution agreement in Europe.

The Company released to production and introduced its new Tytronics UV-VIS photometric analyzer in the quarter targeting the industrial waste water market. Incorporating advanced communications capabilities the photonic module and control units can be separated increasing reliability and accuracy. Designed with standardized electronic components it is the first new product developed using a standard design platform and common electronic components to gain engineering and cost advantages. During the quarter the Company began development of its next new generation analyzer scheduled for upgrade pursuant to its long-range product development plan. This analyzer will be the first to integrate a new software operating system and electronic platform. This new architecture will form the core of all future products allowing for faster and lower cost product development in the future.

The outlook for the fourth quarter indicates revenues will continue to lag last year's levels based on existing orders and goods shipped to date. Quotation activity has slowed in the quarter while outstanding quotations from previous quarters languish as pending but not yet awarded. These quotes are expected to become orders eventually which could provide some incremental revenue in the quarter.

The Company continues to maintain a solid balance sheet, carries no debt and has strengthened its sales, development and operations processes and policies to be more responsive to customers while achieving greater operational effectiveness. Our world-class products and international reach provide great value to our customers that should continue to pay-off in the long term.



Grant Reeves
Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

JANUARY 31, 2010

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") has been prepared by management as of March 18, 2010 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, 2010 and 2009, 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, 2010 and 2009. It is advisable to read the MD&A in conjunction with the Company's 2009 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, 2009 and 2008 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 office 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 natural 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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Galvanic Lowell

Galvanic Lowell is headquartered in Lowell, Massachusetts, and is the sales and manufacturing base for the liquids product line.

CONSOLIDATED RESULTS OF OPERATIONS
SUMMARY OF QUARTERLY RESULTS

	2010			2009			2008			
	Jan 10 Q3 \$	Oct 09 Q2 \$	July 09 Q1 \$	April 09 Q4 \$	Jan 09 Q3 \$	Oct 08 Q2 \$	July 08 Q1 \$	April 08 Q4 \$	Jan 08 Q3 \$	Oct 07 Q2 \$
Revenue	3,264,017	2,734,803	2,863,089	3,253,998	3,763,356	3,698,965	3,177,844	3,133,035	3,147,891	3,851,326
Gross margin	1,300,710	1,106,828	1,172,470	1,439,942	1,414,262	1,648,687	1,129,817	905,678	999,713	1,297,521
Net income (loss)	116,008	(156,741)	(7,855)	18,216	247,221	723,624	60,109	(980,747)	(93,969)	(279,776)
Earnings per share										
Basic	0.01	(0.01)	0.00	0.000	0.02	0.05	0.00	(0.07)	0.00	(0.01)
Diluted	0.01	(0.01)	0.00	0.000	0.02	0.05	0.00	(0.07)	0.00	(0.01)

For the three-month period ended January 31, 2010 the Company recorded net earnings of \$116,000 or \$0.01 per common share as compared with net earnings of \$247,000 or \$0.02 per common share for the comparative prior period. Despite an improvement in consolidated gross margins to 40% as compared with 38% for the same period this decline in net earnings after tax was largely due to

- (i) the impact of lower margins in the Canadian operating segment resulting from both a decline in revenues due to continued weakness in demand from current economic conditions and product mix; offset with improved margins from the Lowell operating segment largely due to cost improvements and product mix.
- (ii) reorganization costs of \$44,000 necessary to facilitate and expand the distribution of the Monitek product line in Europe.
- (iii) foreign currency losses in the amount of \$78,000 which offset improvements in selling, marketing and general and administrative expenses, as compared with foreign currency gains in the amount of \$18,000 for the comparative prior period.

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SEGMENTED OPERATING RESULTS

**For the three-month period ended January 31, 2010 compared
with the three-month period ended January 31, 2009**

	2010			2009		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
REVENUE						
Analytical measurement equipment	1,772,923	-	1,772,923	1,739,573	-	1,739,573
Electronic flow products	230,553	-	230,553	580,211	-	580,211
Liquids process analyzers	-	1,260,541	1,260,541	-	1,443,571	1,443,571
	<u>2,003,476</u>	<u>1,260,541</u>	<u>3,264,017</u>	<u>2,319,784</u>	<u>1,443,571</u>	<u>3,763,355</u>
COST OF SALES	<u>1,203,404</u>	<u>759,903</u>	<u>1,963,307</u>	<u>1,287,871</u>	<u>1,061,223</u>	<u>2,349,094</u>
GROSS MARGIN	<u>800,072</u>	<u>500,638</u>	<u>1,300,710</u>	<u>1,031,913</u>	<u>382,348</u>	<u>1,414,261</u>
GROSS MARGIN %	<u>40%</u>	<u>40%</u>	<u>40%</u>	<u>44%</u>	<u>26%</u>	<u>38%</u>
EXPENSES						
Selling and marketing	192,961	194,807	387,768	257,421	206,934	464,355
General and administrative	283,604	159,402	443,006	314,398	176,276	490,674
Reorganization	-	43,938	43,938	-	-	-
Exchange	65,266	12,549	77,815	(42,834)	25,139	(17,695)
Amortization	158,549	3,859	162,408	170,718	10,989	181,707
	<u>700,380</u>	<u>414,555</u>	<u>1,114,935</u>	<u>699,703</u>	<u>419,338</u>	<u>1,119,041</u>
INCOME TAXES						
Current	-	30,000	30,000	39,000	-	39,000
Future	39,767	-	39,767	9,000	-	9,000
	<u>39,767</u>	<u>30,000</u>	<u>69,767</u>	<u>48,000</u>	<u>-</u>	<u>48,000</u>
NET EARNINGS	<u>59,925</u>	<u>56,083</u>	<u>116,008</u>	<u>284,210</u>	<u>(36,990)</u>	<u>247,220</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS
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SEGMENTED OPERATING RESULTS (continued)

**For the nine-month period ended January 31, 2010 compared
with the nine-month period ended January 31, 2009**

	2010			2009		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
REVENUE						
Analytical measurement equipment	4,865,516	-	4,865,516	5,566,353	-	5,566,353
Electronic flow products	312,918	-	312,918	1,083,153	-	1,083,153
Liquids process analyzers	-	3,683,475	3,683,475	-	3,990,659	3,990,659
	<u>5,178,434</u>	<u>3,683,475</u>	<u>8,861,909</u>	<u>6,649,506</u>	<u>3,990,659</u>	<u>10,640,165</u>
COST OF SALES	<u>2,940,671</u>	<u>2,341,230</u>	<u>5,281,901</u>	<u>3,747,183</u>	<u>2,700,216</u>	<u>6,447,399</u>
GROSS MARGIN	<u>2,237,763</u>	<u>1,342,245</u>	<u>3,580,008</u>	<u>2,902,323</u>	<u>1,290,443</u>	<u>4,192,766</u>
GROSS MARGIN %	<u>43%</u>	<u>36%</u>	<u>40%</u>	<u>44%</u>	<u>32%</u>	<u>39%</u>
EXPENSES						
Selling and marketing	646,521	517,734	1,164,255	906,179	495,034	1,401,213
General and administrative	809,667	529,767	1,339,434	965,924	527,416	1,493,340
Reorganization	-	418,064	418,064	-	-	-
Exchange	320,477	(69,648)	250,829	(563,101)	203,295	(359,806)
Amortization	<u>452,564</u>	<u>16,514</u>	<u>469,078</u>	<u>499,553</u>	<u>46,508</u>	<u>546,061</u>
	<u>2,229,229</u>	<u>1,412,431</u>	<u>3,641,660</u>	<u>1,808,555</u>	<u>1,272,253</u>	<u>3,080,808</u>
INCOME TAXES						
Current	-	(27,528)	(27,528)	104,686	15,318	120,004
Future	<u>14,464</u>	<u>-</u>	<u>14,464</u>	<u>(39,000)</u>	<u>-</u>	<u>(39,000)</u>
	<u>14,464</u>	<u>(27,528)</u>	<u>(13,064)</u>	<u>65,686</u>	<u>15,318</u>	<u>81,004</u>
NET EARNINGS	<u>(5,930)</u>	<u>(42,658)</u>	<u>(48,588)</u>	<u>1,028,082</u>	<u>2,872</u>	<u>1,030,954</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.

This operating segment continues to be impacted by both weak demand due to the ongoing economic downturn and the slow down in activity in the oil and gas market and foreign currency fluctuations. International sales (including the United States) are transacted in U.S. dollars and subject to exchange fluctuations, therefore any significant change in the U.S. dollar exchange rate impacts the reported Canadian dollar amount of sales. For the three-month period ended January 31, 2010 revenues generated from analytical instrument sales remained relatively flat at \$1,773,000 as compared to \$1,740,000 for the comparative prior period. This was largely due to continuing stagnant sales into the Canadian market combined with the unfavorable impact of foreign currency exchange rates on international revenues which offset some improvements in export revenues. During the fiscal quarter the average rate utilized to translate revenues was \$1.05 U.S. as compared to \$1.22 U.S. in the comparative prior period. For the nine-month period ended January 31, 2010 revenues generated from instrument sales decreased by 12% to \$4,866,000 compared to \$5,566,000 in the comparative prior period. Year-over-year international revenues remained relatively flat as foreign currency exchange had an immaterial impact on recorded international sales and the decrease in recorded revenues was largely due to reduced demand for analytical instruments in the Canadian market.

For the third quarter of fiscal 2010, revenue generated by the Company's electronic flow products decreased by 60% to \$231,000 compared to \$580,000 in the comparative prior period. For the nine-month period ended January 31, 2010, revenue generated from electronic flow products decreased by 71% to \$313,000 compared to \$1,084,000 in the comparative prior period. The decrease in electronic flow product revenues in the current fiscal quarter was primarily due to unanticipated upgrade requirements in the corresponding previous period by the Company's major domestic market; the year-over-year decrease was primarily due to the completion of its annual maintenance and upgrade program in fiscal 2009 by the Company's major domestic customer.

Gross margin was \$800,000 or 40% of sales for the three-month period ended January 31, 2010 and \$2,238,000 or 43% of sales for the nine-month period ended January 31, 2010. This compares with \$1,032,000 and \$2,902,000 or 44% respectively. The decline in gross margin in the current fiscal quarter and the slight decrease year-over-year is primarily a result of the impact of product revenue mix resulting from decreased sales of the Gas Micro product line.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Selling and marketing expenditures were \$193,000, a decrease of \$64,000 or 25% for the third quarter of fiscal 2010 when compared to the \$257,000 for the comparative prior period. Selling and marketing expenditures for the nine-month period of January 31, 2010 were \$647,000, a decrease of \$259,000 or 29% when compared to the \$906,000 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 a reduction in marketing and selling wages associated with changes in the sales force and discretionary travel expenditures required to pursue international opportunities.

General and administrative expenditures were \$283,000, a decrease of \$31,000 or 10% when compared to the \$314,000 for the third quarter of fiscal 2009. General and administrative expenses for the nine-month period were \$810,000 a decrease of \$156,000 or 16% when compared to the \$966,000 for the comparative prior period. The decrease in the third quarter of fiscal 2010 was largely due to intercompany allocations and miscellaneous small accounts. The year-over-year decrease was largely as a result of intercompany management fees, the decrease in option based compensation expenses, employee recruitment costs and miscellaneous smaller accounts.

As of January 31, 2010 this operating segment had approximately \$1.7 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. In the third quarter of fiscal 2010, the U.S. dollar devaluated from \$1.08 Canadian at October 31, 2009 to \$1.07 Canadian at January 31, 2010, resulting in an unrealized exchange loss of \$65,000. At January 31, 2010, the devaluation in the value of the U.S. dollar to \$1.07 Canadian compared with \$1.19 at April 30, 2009, resulted in an unrealized exchange loss of \$320,000 year-to-date.

Amortization is comprised of two components; amortization of development costs and depreciation and amortization of capital assets. Costs relating to the development of a product are deferred once management determines that a new product is technologically feasible, the Company has the ability and intent to commercially produce and market for the product exists. These costs are then amortized using the declining balance method over the estimated average sales life of the products once commercial production commences. The decrease in amortization expenses in the quarter and year-over-year was largely due to a decrease in the amortization of development costs due to the capitalization of costs related to the development of new products and the amortization of commercialized products on a declining balance basis. During the fiscal quarter the company released to production and is introducing to the market its new Tytronics UV-VIS photometric analyzer. Capitalized development costs relating to this product upgrade will be amortized over the estimated average sales life in the upcoming fiscal quarter.

This operating segment reported net earnings after income taxes of \$60,000 for the fiscal quarter and a net loss of \$6,000 year-to-date. This compares with net earnings of \$284,000 and \$1,028,000 respectively for the comparative prior periods. This decrease in earnings in the quarter and year-to-date periods can be attributed to the decrease in revenue, the resultant reduction in gross margin, and foreign currency exchange losses which offset reductions in selling, marketing and general and administrative expenses as compared with foreign currency exchange gains in the comparative prior period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 ultraviolet 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 \$1.06 Canadian for the three-month period ended January 31, 2010 compared with \$1.25 Canadian in the comparative prior period and \$1.09 Canadian for the nine-month period ended January 31, 2010 compared with \$1.12 Canadian for the comparative prior period.

For the third quarter of fiscal 2010, revenues generated from the liquids process analyzer market decreased by 13% to \$1,261,000, compared to the \$1,444,000 recorded for the comparative prior period. For the nine-month period ended January 31, 2010 revenues decreased by 8% to \$3,684,000 compared to the \$3,991,000 recorded in the prior fiscal period. Recorded revenues in the quarter and year-to-date periods were impacted by both the decrease in average exchange rates utilized to translate revenues as a result of the strengthening of the Canadian dollar in relation to the U.S. dollar, and decreased unit volume shipments across all product lines. Average exchange rate differences largely accounted for the third quarter decrease and 28% for the nine-month period ended January 2010. The balance of the year-to-date sales decline was largely due to reduced market demand for the Monitek product line in the European market.

Gross margin was \$501,000 or 40% for the third quarter of fiscal 2010 and \$1,342,000 or 36% for the nine-month period ended January 31, 2010. This compares with \$382,000 or 26% and \$1,290,000 or 32% respectively, for the comparative prior periods. This improvement in the third quarter and year over year was largely as a result of the reduction in labour and fixed overhead due to the reorganization of the German office and the consolidation in Lowell, and a shift in the revenue mix to higher margin units.

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 2010 were \$195,000, compared with \$207,000 for the comparative prior period. Selling and marketing expenditures were \$518,000 for the nine-month period ended January 31, 2010 compared with \$495,000 for the comparative prior period. Selling and marketing expenditures were

MANAGEMENT'S DISCUSSION AND ANALYSIS

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impacted by the currency exchange rates utilized to translate selling and marketing expenditures and U.S. dollar currency expenditures.

The reduction in the current fiscal quarter was largely as a result of the decrease in the currency exchange rate required to translate selling and marketing expenditures and a reduction in variable commissions earned on European Monitek sales. This decrease was offset by increased selling and marketing wages due to additions and a reorganization of the sales force. The year over year increase in selling and marketing expenditures was largely due to increased salary and wages due to changes in the work force. This increase in salary and wages was offset by the decrease in exchange rate used to translate these expenditures and a reduction in variable commissions earned on European Monitek sales.

General and administrative expenses were \$159,000 for the three-month period ended January 31, 2010 as compared with \$176,000 for the comparative prior period. General and administrative expenses were \$530,000 for the nine-month period ended January 31, 2010 compared with \$527,000 for the comparative prior period. The reduction in general and administrative expenses in the current fiscal quarter and the slight increase year-over-year was largely as a result of cost savings on the closure of the German office and a decrease in the average exchange rate required to translate general and administrative expenses. These cost savings were offset by increased intercompany management fees in the current fiscal quarter and year-over-year.

On November 6, 2009 the Company announced the restructuring of the European distribution of its Monitek product line supported by the Düsseldorf, Germany office, and consolidation of this operation in Lowell, Mass. This was necessary to improve the cost structure and manage the business within current revenue levels. During the fiscal quarter all sales and support functions required to support European Monitek sales were consolidated in Lowell, Mass., and a new independent Representative was appointed to distribute the Monitek product line in Germany. In order to facilitate this new distribution arrangement in Germany it was necessary to resolve outstanding claims with the Company's independent sales agent and reorganization costs of \$44,000 were recognized in the current fiscal quarter. These costs were not accrued in the second quarter of fiscal 2010 as they could not be reasonably estimated. Year-to-date costs of \$418,000 were recorded which included employee severance amounts, office closure costs, professional services, travel, equipment write-offs and distribution costs. At January 31, 2010 \$159,000 remains to be paid. The Company does not anticipate any further expenses associated with this reorganization.

The unrealized exchange loss of \$13,000 recorded for the quarter and the exchange gain of \$70,000 year-to-date compared with the loss of \$25,000 and \$204,000 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 profit after income taxes of \$56,000 for the third quarter of fiscal 2010 and a year-to-date loss of \$43,000 after income taxes. This compares with a loss of \$37,000 and a profit of \$3,000 respectively in the comparative period periods. The improvement in the third quarter of fiscal 2010 as compared to the corresponding previous period is largely attributable to the improvement in gross margin,

MANAGEMENT'S DISCUSSION AND ANALYSIS

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and the year-to-date loss is largely due to restructuring costs of \$418,000 offset with unrealized exchange gains. As a result of profitable operations in the current fiscal quarter current income taxes payable in the amount of \$30,000 has been recorded and due to a net loss, income taxes recoverable in the amount of \$27,000 have been recorded year-to-date. This compares to income taxes payable in the amount of nil and \$15,000 respectively in the prior periods.

OTHER COMPREHENSIVE INCOME

Exchange gains or losses on the net investment in Galvanic Lowell are accumulated in shareholders' equity as a "cumulative translation adjustment". At January 31, 2010 an unrealized translation loss in the amount of \$224,000 was recorded compared with an unrealized gain in the amount of \$376,000 in the comparative prior year. This change is the result of the appreciation of the Canadian dollar against the U.S. dollar.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

The Company's principal source of liquidity is derived primarily from cash flow from operations and cash on hand. Additionally, the Company has an available line of credit.

Operating activities consumed \$154,000 in the current fiscal quarter and cash of \$964,000 was generated year-to-date. This compares with \$1,735,000 and \$3,090,000 of cash generated in the corresponding fiscal periods. This decrease in cash from operating activities was due to the decrease in cash generated from operations and changes in non cash working capital. Cash generated from operations was \$137,000 in the quarter and \$427,000 year-to-date compared with cash generated in the amount of \$429,000 and \$1,751,000 in the corresponding previous fiscal periods. The decrease in cash from operating activities was due to both the reduction in net earnings to \$116,000 in the fiscal quarter and a year-to-date net loss of \$49,000 compared with net earnings of \$247,000 and \$1,031,000 respectively and changes in reorganization costs in the current and year-to-date periods.

Non cash operating working capital generated in the amount of \$291,000 in the fiscal quarter and \$538,000 generated year-to-date is largely as a result of the timing of cash receipts and payments in the normal course of business. Non-cash working capital of \$293,000 in the current fiscal quarter was largely due to cash flow consumed due to the increase in accounts receivables and the decrease in accounts payable in the current fiscal period. Year-to-date non cash operating working capital generated in the amount of \$538,000 is largely as a result of cash flow generated from the collection of accounts receivable balances. This compares with non cash operating working capital generated in the amount of \$1,306,000 and \$1,339,000 respectively, largely as a result of cash flow generated from the collection of accounts receivable and recoverable income taxes, and a reduction in inventory.

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As of January 31, 2010, the Company maintained a working capital position of \$6,742,000. 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 and fund its ongoing development programs.

During the fiscal period and year cash flow was used primarily to finance its development program.

Financing Activities

No financing activities were undertaken in the third quarter of fiscal 2010 and year-to-date. Financing activities in the corresponding prior periods included the repayment of operating line advances and common shares purchases pursuant to a normal course issuer bid.

During fiscal 2010 there were no significant changes in the structure of the Company's credit facilities. The Company has a \$2,550,000 uncommitted revolving operating line of credit which bears interest at the prime rate plus 0.850%. This facility is subject to annual review; next scheduled for October of 2010. The availability of the operating facility is subject to a monthly borrowing base calculation that considers eligible accounts receivable. Operating advances are payable on demand and are secured by a general security agreement providing a general charge on all assets of the Company and its subsidiaries. The principal financial covenant requires that the Company maintain a consolidated current ratio of not less than 1.75 to 1.00. The covenants were all met throughout 2010. At January 31, 2010 no amounts were drawn on this facility.

Investing Activities

Development Costs

The Company continues to invest in development activities to support its current products and the development and introduction of new products. In order to accelerate its product development cycle the Company changed its design and development approach. This change required investment in a new software operating system and electronic platform. This new architecture will form the core of all future products and eliminates the low level software programming and hardware development required with feature sets common to all products. It also allows the development team to accelerate the work on specific applications and focus on expanding application ranges. During the fiscal quarter the company undertook the development of its next generation analyzer scheduled for upgrade due to product life cycle issues. Development work includes a new mechanical design, design and prototype development of application specific input/output boards, and software drivers required to integrate with the new architecture. This analyzer is the first product to incorporate this new core architecture. Subsequent to a technical feasibility review all costs related to this analyzer project have been capitalized.

During the third quarter of fiscal 2010 the Company invested \$239,000 and \$535,000 for the nine-month period ended January 31, 2010 as compared with \$115,000 and \$319,000

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respectively. Investment in the new architecture and development work on its new analyzer project largely accounted for the increase in the current fiscal quarter as compared with the comparative prior period. This investment in the third quarter combined with investments in FPA prototypes and electronic testing and verification equipment in the previous fiscal quarters primarily accounted for the year-over-year increase.

During the fiscal quarter the company released to production and is introducing to the market its new Tytronics UV-VIS single component, multi-stream photometric analyzer, targeting the water and industrial waste water market. This product incorporates a variety of new features including advanced communications capabilities, the ability to separate the photonic module and control units thereby increasing the reliability and accuracy in sample measurements. The Company is still evaluating various regulatory approvals and multi-range and multi-component capabilities to expand its market presence.

Property, Plant and Equipment

During fiscal 2010 the Company invested \$35,000 in property plant and equipment, primarily on computer equipment and hardware upgrades as part of ongoing replacements. This compares with \$41,000 and \$108,000 respectively in the comparative prior period.

SHARE CAPITAL

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

The Company's issued and outstanding shares at January 31, 2010, October 31, 2009, July 31, 2009 and April 30, 2009 are 15,741,072 Common Shares.

During this fiscal period no options were granted. During the three-month period ended October 31, 2009, the Company granted options to employees of the Company to purchase 320,000 common shares at the market price of \$0.36 per common share at the date of the grant. The stock options expire September 4, 2014 and vest equally over a three-year period. The fair value at the date of the grant was computed using the Black-Sholes model. The assumptions used in determining the fair value of the stock option included risk free interest rate of 1.85%, expected life of the stock option of 3 years, annualised volatility rate of 58% and an annualised dividend rate of 0%. The fair value of the options amounted to \$44,912.

As of January 31, 2010, 840,000 options remain outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS
JANUARY 31, 2010

CONTACTUAL OBLIGATIONS AND COMMITMENTS

The Company's contractual obligations include payments under its various leases which include rental costs to be incurred with respect to building rent in Calgary, Alberta, and Lowell, Massachusetts. The remaining amounts are on account of automobiles utilized for service and sales, and office equipment. Future minimum lease payments are as follows: \$

Remainder of 2010	118,159
2011	474,823
2012	473,268
2013	386,220
2014	95,781

FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

The Company's financial instruments consist of cash and cash equivalents and restricted funds, accounts receivable – trade, recoverable income taxes, operating loan, accounts payable and accrued liabilities, restructuring accounts payable and accrued liabilities and income taxes payable. The fair values of these financial instruments included on the consolidated balance sheets, approximates their carrying amount 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 this 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, 2010, six international customers had accounts receivable balance totaling \$60,000 or 3.5% of the accounts receivable balance which were

MANAGEMENT'S DISCUSSION AND ANALYSIS

JANUARY 31, 2010

more than 90 days overdue. In the event that these six 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 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.

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 instruments.

Interest Rate Risk

The Company is exposed to interest rate risk with respect to its short-term invested cash and revolving operating lines of credit that bear interest at floating market rates. Fluctuations in the interest rate may impact the company's borrowing costs. The Company has not drawn on its revolving line of credit during the nine-month fiscal period, therefore any change in the prime rate would have had no impact on income before income taxes as the Company has not drawn upon its revolving operating line of credit.

Currency Risk

The Company's international business activities are primarily denominated in U.S. dollars and as a result there is a foreign exchange currency risk relative to the U.S. dollar. The types of foreign exchange currency 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, 2010, had the Canadian dollar weakened or strengthened by 1% against the U.S. dollar, with all other

MANAGEMENT'S DISCUSSION AND ANALYSIS
JANUARY 31, 2010

variables held constant, earnings and other comprehensive income would have been impacted as follows:

	Earnings \$	Other Comprehensive Income \$
1% decrease in value of Canadian dollar	(23,000)	19,000
1% increase in value of Canadian dollar	23,000	(19,000)

ADOPTION OF NEW ACCOUNTING POLICIES

Effective May 1, 2009 the Company adopted new Section 3064, "Goodwill and Intangible Assets". Section 3064 establishes standards for 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 standards included in the previous Section 3062. The adoption of this standard resulted in no significant impact on the Company's Consolidated Financial Statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP in 2011 for profit oriented Canadian publically accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning in 2011. The Company is in the process of developing a change-over plan to complete the transition to IFRS by May 1, 2011, including the preparation of required comparative information. It is also in the process of identifying differences between Canadian GAAP and IFRS that will have the greatest potential impact on the financial statements. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's Consolidated Financial Statements is not reasonably determinable at this time.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 1 to the April 30th 2009 consolidated financial statements.

The preparation of the consolidated financial statements required 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 various assumptions considered reasonable under the circumstances. These estimates and judgments are subject to risk and uncertainties, and may change as new events occur, more experience is acquired, or the Company's operating environment changes. It is possible that changes in estimates could occur which may impact the expected recoverability of the Company's assets. Accounting estimates are considered to be critical if the estimate requires assumptions about material matters that are uncertain at the time the accounting estimate is made and material changes are reasonably likely to occur from time to time.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JANUARY 31, 2010

The accounting estimates believed to be the most critical, and require the most complex of judgments, are estimates associated with deferred development costs and goodwill, due to the amounts recorded on the consolidated balance sheets and the impact of adjustments on the results of operations.

Deferred Development Costs

Deferred development costs include costs incurred on new products, and enhancements or upgrades to its current portfolio of products. Reliably measured costs for the development of a product are deferred once management determines that a new product is technologically feasible, the Company has the ability and intent to commercially produce the product and a market for the product exists. These costs are then amortized on a declining balance basis over their estimated useful lives, ranging from five to ten years. As of January 31, 2010, April 30, 2009 and April 30, 2008 approximately 70% of the development costs that have been deferred are subject to amortization and are being amortized on a declining basis which approximates the best estimate of its estimated average sales life. These deferred development costs include upgrades and enhancements to its current portfolio of products which include products currently being marketed to the gas processing and distribution markets and are required for regulatory reporting and measurement, gas quality and composition, and custody transfer applications. The balance of the deferred development costs relate to new products being upgraded or developed. As of January 31, 2010 the Company introduced to the market its FPA UV-VIS photometer, which will be subject to amortization over a declining balance basis in the next fiscal quarter.

Development costs, net of amortization, are tested annually for impairment or when events or changes in circumstances indicate that the net carrying amount of the product may not be recoverable. To test for and measure for impairment, assets are grouped by product. An impairment loss is required to be recognized when the carrying amount of the product exceeds the sum of expected future cash flows expected to be recovered. Estimates of cash flows are calculated taking into consideration historical knowledge and experience, the market, customer base, sales prices, historical revenues generated, future demand, and product life cycle.

Management had determined that there were no significant changes in circumstance or occurrence of events that suggests that the value of its deferred development costs may not have been recoverable at January 31, 2010. Assumptions with respect to the market, demand, customer base, and product life cycle have not changed since April 30th of 2009. This combined with the assumption and that the current product introduction, the FPA UV-VIS photometer, will achieve market acceptance, and effectively compete with competitive products on the market, suggests that deferred development costs, net of amortization in the amount of \$2,337,309 are fairly stated at January 31, 2010.

Despite the uncertainty in demand for its products due to the slowdown in activity resulting from the economic environment, management had determined that the carrying value of deferred development costs, net of amortization recorded in the amount of

MANAGEMENT'S DISCUSSION AND ANALYSIS

JANUARY 31, 2010

\$2,073,684 are fairly stated at April 30, 2009. This determination was based on assumptions that the Company would continue to have a market for its products in the gas processing and distribution markets, it would be able to retain its customer base in these markets, it would have the ability to maintain its prices and demand for its portfolio of instruments, and that there would be no significant product life cycle changes or requirements. Management also assumed that new product under development would be successfully commercialized.

The procedures and estimates used by management to assess the carrying value of certain product development costs resulted in a write-down of \$593,000 for the year ended April 30, 2008. Subsequent to the write-down recorded deferred development costs were \$2,040,309 at April 30, 2008.

Goodwill

Goodwill is recorded through acquisitions and represents the excess of the aggregate purchase price of the fair value of net assets of an acquired business. In fiscal 2004 the Company reported goodwill associated with the Lowell operation in the amount of \$2,833,710. In fiscal 2005, the Company completed the acquisition of Brimstone Instrumentation Inc. and recorded an additional \$608,983 of goodwill. The carrying value of goodwill is reviewed annually for impairment or when events or changes in circumstances indicate that the value of goodwill may not be recoverable. At January 31, 2010 the consolidated value of good will remain unchanged at \$3,442,693, as management had determined that there have been no changes in circumstance or occurrence of events that may suggest the value of goodwill may not be recoverable. Consolidated value of goodwill was \$3,442,693 at April 30, 2009, and 2008 respectively.

OUTLOOK

The slow down in activity experienced in the previous three quarters is expected to continue into the 4th quarter of this fiscal year. Demand in Canadian and international markets have stagnated with increasing competition exerting downward pressure on product pricing. This combined with the strengthening of the Canadian dollar is expected to adversely impact revenues which are expected to remain flat or deteriorate in the upcoming fiscal quarter.

A reduction in anticipated demand in the upcoming fiscal quarter combined with increases in development spending required to upgrade the Company's product line may adversely affect profitability and cash flow. The Company continues to control expenses commensurate with lower revenues to maintain profitability. The Company is pursuing its targeted sales strategy pursuing opportunities available in international markets in selective geographic regions. The Company is continuing with its aggressive product development plan and believes it will grow as a result of upgrading its products with state-of-the-art electronics and user features that distinguish Galvanic products from its competitors in reliability, accuracy, and user interface. The combination of world-class products and international reach is expected to provide a platform which the company can build a strong customer base.

MANAGEMENT'S DISCUSSION AND ANALYSIS

JANUARY 31, 2010

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 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 statements, whether as a result of new information, future events or results or otherwise. These forward-looking statements include, among others:

- Expectations that the Company will not incur further expenses related to its reorganization of the German office
- Expectations that working capital and future cash flow will be sufficient to fund its ongoing development program
- Expectations of demand
- Expectations that the Company will be able to control expenses commensurate with revenues to maintain profitability
- The expectation that Company will develop state-of-the art products that will distinguish its products from its competitors
- Expectation of the Company's ability to successfully market its new Tytronics UV-VIS analyzer
- Expectations that the new product development strategy will accelerate the product development cycle
- Estimates of the investment required to update the company's portfolio of products
- Expectations that international markets will provide opportunities for growth
- Expectations that the Company will grow as a result of upgrading its products
- Expectations that upgraded products will achieve market acceptance
- Expectations that upgraded products will expand its customer base

These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Factors that could cause actual results or events to differ materially from current expectations include,

MANAGEMENT'S DISCUSSION AND ANALYSIS

JANUARY 31, 2010

among other things, changes in general economic and market conditions, industry activity, changes to regulations affecting the Company's activities, the effects of the Company's current plans, effects of market conditions on demand for the Company's products and services, the ability of the Company to effectively market its products, customer acceptance of introduced products, the ability of the Company to effectively maintain and upgrade its products, timing and costs of new product release, currency, exchange and uncertainties relating to the availability and costs of financing needed in the future.

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.

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.

RISK FACTORS

A complete discussion of business risk factors faced by the Company may be found under "Management's Discussion and Analysis" in the 2009 Annual report.

OFF-BALANCE SHEET ARRANGEMENTS

At January 31, 2010 and April 30, 2009 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

Consolidated Financial Statements of

GALVANIC APPLIED SCIENCES INC.

(Unaudited)

January 31, 2010 and January 31, 2009

The accompanying unaudited interim financial statements of Galvanic Applied Sciences Inc. for the third quarter ended January 31, 2010 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.
Consolidated Statements of Earnings
(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
REVENUE				
Sales	3,264,017	3,763,355	8,861,909	10,640,165
Cost of sales	1,963,307	2,349,094	5,281,901	6,447,399
GROSS MARGIN	1,300,710	1,414,261	3,580,008	4,192,766
EXPENSES				
Amortization	162,408	181,707	469,078	546,061
Foreign exchange loss (gain)	77,815	(17,695)	250,829	(359,806)
General and administrative	443,006	490,674	1,339,434	1,493,340
Reorganization costs (Note 8)	43,938	-	418,064	-
Selling and marketing	387,768	464,355	1,164,255	1,401,213
	1,114,935	1,119,041	3,641,660	3,080,808
EARNINGS (LOSS) BEFORE INCOME TAXES	185,775	295,220	(61,652)	1,111,958
PROVISION FOR (RECOVERY OF) INCOME TAXES				
Current	30,000	39,000	(27,528)	120,004
Future	39,767	9,000	14,464	(39,000)
	69,767	48,000	(13,064)	81,004
NET EARNINGS (LOSS)	116,008	247,220	(48,588)	1,030,954
NET EARNINGS (LOSS) PER COMMON SHARE (Note 7)				
Basic and diluted	0.01	0.02	(0.00)	0.07

GALVANIC APPLIED SCIENCES INC.

Consolidated Balance Sheets

	January 31, 2010 (Unaudited) \$	April 30, 2009 (Audited) \$
ASSETS		
CURRENT		
Cash and cash equivalents	3,226,879	2,832,761
Restricted funds	96,527	96,527
Accounts receivable - trade	1,751,145	2,400,955
Recoverable income taxes	58,000	-
Inventory	2,626,080	2,731,099
Prepaid expenses	173,289	156,957
	<u>7,931,920</u>	<u>8,218,299</u>
Deferred development costs	2,337,309	2,073,684
Property, plant and equipment	629,795	819,632
Goodwill	3,442,693	3,442,693
	<u>14,341,718</u>	<u>14,554,308</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	1,018,873	972,985
Income taxes payable	11,104	171,808
Reorganization accounts payable and accrued liabilities (Note 8)	159,502	11,250
	<u>1,189,479</u>	<u>1,156,043</u>
Future income taxes	588,000	573,537
	<u>1,777,479</u>	<u>1,729,580</u>
COMMITMENTS AND CONTINGENCIES (Notes 9 and 10)		
SHAREHOLDERS' EQUITY		
Retained earnings	6,895,019	6,943,607
Accumulated comprehensive loss	(274,310)	(50,778)
	<u>6,620,709</u>	<u>6,892,829</u>
Share capital (Note 3)	5,003,473	5,003,473
Contributed surplus	940,057	928,426
	<u>12,564,239</u>	<u>12,824,728</u>
	<u>14,341,718</u>	<u>14,554,308</u>

APPROVED BY THE BOARD

 Walter Chayka, **Director**

 Peter Bourgeois, **Director**

GALVANIC APPLIED SCIENCES INC.
Consolidated Statements of Retained Earnings (Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Retained Earnings, Beginning of Period	6,779,011	6,678,170	6,943,607	5,894,437
Net Income (Loss)	116,008	247,221	(48,588)	1,030,954
Retained Earnings, End of Period	6,895,019	6,925,391	6,895,019	6,925,391

GALVANIC APPLIED SCIENCES INC.
Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net Earnings	116,008	247,221	(48,588)	1,030,954
Other Comprehensive (Loss) Income	(24,995)	25,747	(223,532)	376,262
Comprehensive Income (Loss), End of Period	91,013	272,968	(272,120)	1,407,216

GALVANIC APPLIED SCIENCES INC.
Consolidated Statements of Accumulated Comprehensive (Loss) Income (Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Accumulated Other Comprehensive (Loss) Income, Beginning of Period	(249,315)	(6,034)	(50,778)	(356,549)
Other Comprehensive (Loss) Income	(24,995)	25,747	(223,532)	376,262
Accumulated Other Comprehensive (Loss) Income, End of Period	(274,310)	19,713	(274,310)	19,713

GALVANIC APPLIED SCIENCES INC.
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended		Nine Months Ended	
	January 31,		January 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net earnings (loss)	116,008	247,221	(48,588)	1,030,954
Adjustments for:				
Amortization	162,408	181,707	469,078	546,061
Future income taxes	39,767	8,781	14,463	(39,219)
Reorganization costs (Note 8)	(159,395)	(52,602)	203,481	(218,432)
Stock-based compensation	3,742	18,596	11,631	55,788
Unrealized foreign exchange (loss) gain	(24,995)	25,747	(223,532)	376,262
	137,535	429,450	426,533	1,751,414
Changes in non-cash working capital	(291,458)	1,305,828	537,615	1,338,523
	(153,923)	1,735,278	964,148	3,089,937
FINANCING				
Decrease in operating loan	-	(120,000)	-	(905,000)
Common share purchases pursuant to normal course issuer bid	-	-	-	(28,550)
	-	(120,000)	-	(933,550)
INVESTING				
Property, plant and equipment	-	(40,863)	(34,761)	(107,976)
Development costs	(239,138)	(114,868)	(535,269)	(318,970)
Decrease in restricted funds	-	-	-	27,659
	(239,138)	(155,731)	(570,030)	(399,287)
NET (DECREASE) INCREASE IN CASH	(393,061)	1,459,547	394,118	1,757,100
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,619,940	583,810	2,832,761	286,257
CASH AND CASH EQUIVALENTS, END OF PERIOD	3,226,879	2,043,357	3,226,879	2,043,357
SUPPLEMENTARY INFORMATION				
Cash paid for interest	-	274	-	40,458
Cash paid for taxes	-	-	32,627	-

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2010

(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, 2009, 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, 2009.

Adoption of new accounting standards

Effective May 1, 2009 the Company adopted new Section 3064, "Goodwill and Intangible Assets". Section 3064 establishes standards for 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 standards included in the previous Section 3062. The adoption of this standard resulted in no significant impact on the Company's Consolidated Financial Statements.

Future Changes in Accounting Policies

International Financial Reporting Standards

In February 2008, the CICA's Accounting Standards Board confirmed that International Financial Reporting Standards (IFRS) will replace Canadian GAAP in 2011 for profit oriented Canadian publically accountable enterprises. The Company will be required to report its results in accordance with IFRS beginning in 2011. The Company is in the process of developing a change over plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information. It is also in the process of identifying differences between Canadian GAAP and IFRS that will have the greatest potential impact on the financial statements. As IFRS is expected to change prior to 2011, the impact of IFRS on the Company's Consolidated Financial Statements is not reasonably determinable at this time.

2. CREDIT FACILITY

The Company has a \$2,550,000 uncommitted revolving operating line of credit which bears interest at the prime rate plus 0.850%. This facility is subject to annual review; next scheduled for October of 2010. The availability of the operating facility is subject to a monthly borrowing base calculation that considers eligible accounts receivable. Operating advances are payable on demand and are secured by a general security agreement providing a general charge on all assets of the Company and its subsidiaries. The principal financial covenant requires that the Company maintain a consolidated current ratio of not less than 1.75 to 1.00. The covenants were all met throughout 2010. At January 31, 2010 no amounts were drawn on this facility.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2010

(Unaudited)

3. SHARE CAPITAL

Authorized

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

Issued

Common shares

	Number of Shares	Amount \$
Balance, January 31, 2010, and October 31, July 31, April 30, 2009	15,741,072	5,003,473

Stock Option Plan

At January 31, 2010, 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, May 5, 2013, and September 4, 2014.

	Number of Shares Under Option	Weighted Average Exercise Price \$
Options outstanding, April 30, 2009	720,000	0.36
Expired	(160,000)	0.30
Options outstanding, July 31, 2009	560,000	0.36
Expired	(40,000)	0.30
Granted	320,000	0.36
Options outstanding, October 31, 2009	840,000	0.37
Expired	-	-
Granted	-	-
Options outstanding, January 31, 2010	840,000	0.37

The following table summarizes outstanding and exercisable options at January 31, 2010:

Exercise Price \$	Number Outstanding January 31, 2010	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$
0.50	120,000	0.62	0.50
0.30	400,000	3.25	0.30
0.36	320,000	2.58	0.36
	<u>840,000</u>		

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2010

(Unaudited)

3. SHARE CAPITAL (Continued)

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-pricing model. Stock-based compensation expense with a corresponding amount credited to contributed surplus of \$3,742 (October 31, 2009 - \$4,293), has been recorded, using the following weighted average assumptions:

Risk-free interest rate (%)	1.85%
Expected option life (years)	3
Expected volatility (%)	57.9%
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, 2010:

	<u>\$</u>
Balance, Contributed Surplus, April 30, 2009	928,426
Stock option expense	3,596
Balance, Contributed Surplus, July 31, 2009	932,022
Stock option expense	4,293
Balance, Contributed Surplus, October 31, 2009	936,315
Stock option expense	3,742
Balance, Contributed Surplus, January 31, 2010	940,057

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 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, and gas chromatographs. 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, 2010

(Unaudited)

4. SEGMENTED INFORMATION (continued)

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, 2010			Three Months Ended January 31, 2009		
	Galvanic Canada	Galvanic Lowell	Total Enterprise	Galvanic Canada	Galvanic Lowell	Total Enterprise
Revenue	2,003,476	1,260,541	3,264,017	2,319,784	1,443,571	3,763,356
Net segment earnings (loss)	59,925	56,083	116,008	284,210	(36,990)	247,220
Amortization	158,549	3,859	162,408	170,718	10,989	181,707
Total assets of segments	70,327	(196,651)	(126,324)	(17,212)	(24,033)	(41,245)
Expenditures for property, plant and equipment	-	-	-	18,815	22,048	40,863
Expenditures for development costs	238,138	-	238,138	114,868	-	114,868

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Nine Months Ended January 31, 2010

(Unaudited)

4. SEGMENTED INFORMATION (continued)

	Nine Months Ended January 31, 2010			Nine Months Ended January 31, 2009		
	Galvanic Canada	Galvanic Lowell	Total Enterprise	Galvanic Canada	Galvanic Lowell	Total Enterprise
Revenue	5,178,434	3,683,475	8,861,909	6,649,506	3,990,659	10,640,165
Segment (loss) earnings	(5,930)	(42,658)	(48,588)	1,028,081	2,873	1,030,954
Amortization	452,564	16,514	469,078	499,553	46,508	546,061
Total assets of segments	9,645,476	4,726,242	14,371,718	9,662,815	4,879,537	14,542,352
Expenditures for property, plant and equipment	18,500	16,261	34,761	57,937	50,039	107,976
Expenditures for development costs	535,269	-	535,269	318,970	-	318,970

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Canada	1,110,226	1,117,198	2,046,646	2,793,568
United States	1,144,020	1,213,371	3,503,931	3,859,761
Other international sales	1,009,771	1,432,787	3,311,332	3,986,836
	3,264,017	3,763,356	8,861,909	10,640,165

5. 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.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2010

(Unaudited)

5. CAPITAL DISCLOSURES (continued)

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.

6. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents and restricted funds, accounts receivable – trade, recoverable income taxes, operating loan, accounts payable and accrued liabilities, restructuring accounts payable and accrued liabilities and income taxes payable. The carrying value of these financial instruments approximates their fair values due to their short term nature.

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 this 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, 2010, six international customers had accounts receivable balance totalling \$60,000 or 3.5% of the accounts receivable balance which were more than 90 days overdue. In the event that these six 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.

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 instruments.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2010

(Unaudited)

6. FINANCIAL INSTRUMENTS (continued)

Interest Rate Risk

The Company is exposed to interest rate risk with respect to its short-term invested cash and revolving operating lines of credit that bear interest at floating market rates. Fluctuations in the interest rate may impact the company's borrowing costs. As at January 31, 2010, any change in the prime rate would have had no impact on income before income taxes as the Company has not drawn upon its revolving operating line of credit.

Currency Risk

The Company's international business activities are primarily denominated in U.S. dollars and as a result there is a foreign exchange currency risk relative to the U.S. dollar. The types of foreign exchange currency 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, 2010, 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 \$
	_____	_____
1% decrease in value of Canadian dollar	(23,000)	19,000
1% increase in value of Canadian dollar	23,000	(19,000)

7. EARNINGS PER SHARE

The number of shares used in the weighted average diluted calculation was 15,763,204 at January 31, 2010, October 31, 2009, July 31, 2009, and April 30, 2009.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Nine Months Ended January 31, 2010

(Unaudited)

8. REORGANIZATION COSTS

In November of 2009 the Company announced the reorganization of its European distribution of its Monitek product line supported by its office in Dusseldorf, Germany. This involved the permanent closure of the office location at the end of this year and the termination of three employees.

In connection with the closing of the Dusseldorf office at October 31, 2010 a dispute with an independent sales agent had resulted in a claim. No provision had been made in the financial statements at October 31, 2009 as management believed the claim was without merit and could not be reasonably estimated. Subsequent to October 31, 2009 the claim was settled and additional reorganization costs in the amount of \$43,938 were incurred. Estimated costs of \$418,064 (October 31, 2009 - \$374,126) include employee severance, office closure costs, professional services, travel, equipment write-offs, and third-party distribution claims. Restructuring costs in the amount of \$159,502 (October 31, 2009 - \$318,897) were included in current liabilities. The majority of the costs have been recorded and the Company does not expect to incur material costs in the future.

9. 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.

10. CONTINGENCIES

In connection with the closing of the Dusseldorf office at October 31, 2009 a dispute with an independent sales agent had resulted in a claim. No provision had been made in the financial statements at October 31, 2009 as management believed the claim was without merit and could not be reasonably estimated. Subsequent to October 31, 2009 the claim was settled and additional reorganization costs in the amount of \$43,938 were incurred.

CORPORATE INFORMATION

DIRECTORS

Peter C. Bourgeois (1) (2) (3) (4)
Mississauga, Ontario

Robert Johnston (2) (3) (4)
North Charleston, South Carolina

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

S. Grant Reeves
North Charleston, South Carolina

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

CORPORATE OFFICERS

S. Grant Reeves
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



Galvanic Applied Sciences Inc.

7000 Fisher Rd. S.E.
Calgary, Alberta T2H 0W3
Telephone: 403-252-8470
Fax: 403-255-6284

Galvanic Applied Sciences USA Inc.

41 Wellman Street
Lowell, Massachusetts 01851
Telephone: 978-848-2701
Fax: 978-848-2713

Houston, Texas

13211k Windfern Road
Houston, Texas 77064
Telephone: 281-477-9002
Fax: 281-477-9004

info@galvanic.com
www.galvanic.com