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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Galvanic Applied Sciences Inc., (the “Company” or “Galvanic”) is primarily an instrumentation Company involved in the design, engineering, manufacturing and selling of equipment for measurement in the natural gas, industrial liquids and sulphur processing markets. 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”) prepared by management is dated July 14, 2011 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, 2011 and 2010. It is also advisable to read the MD&A in conjunction with the Company’s 2011 audited consolidated financial statements, the accompanying notes to consolidated financial statements and the MD&A for the years ended April 30, 2011 and 2010 contained in the annual report.

The MD&A, the audited consolidated financial statements and Accompanying notes thereto, is reviewed and approved by the Company’s Audit Committee and Board of Directors prior to publication.

## 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 APRIL 30, 2011

### 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 Financial Performance

<u>April 30</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenue	11,762,134	11,232,294	13,894,163	12,964,821	17,348,297
Gross margin	4,731,709	4,413,966	5,632,708	4,150,201	6,724,303
Net income (loss)	933,843	(206,194)	1,049,170	(1,768,845)	1,249,627
Earnings per share:					
Basic	0.06	(0.01)	0.07	(0.11)	0.08
Diluted	0.06	(0.01)	0.07	(0.11)	0.08
Total assets	14,562,623	13,636,474	14,554,308	14,266,810	17,777,393

For the fiscal year ended April 30, 2011, the Company generated earnings after income taxes of \$934,000 or \$0.06 per common share as compared to a net loss after income taxes of \$206,000 or \$0.01 per common share for the fiscal year ended 2010. This turnaround in net earnings from an operating loss to a profit reflects improvements in operating results from both operating segments, particularly Canada.

Earnings from Canada reversed from a loss of \$145,000 to earnings of \$776,000 and earnings from Lowell reversed from a loss of \$61,000 to earnings of \$172,000. This significant year-over-year improvement in Canada largely reflects a 25% increase in revenues and gross margins combined with a reduction in expenses during fiscal 2011 as compared to fiscal 2010. The improvement in Lowell was due primarily to continuing cost improvements in the current fiscal year and reorganization costs incurred in fiscal 2010 on the closure of its German office.



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
APRIL 30, 2011**

**CONSOLIDATED RESULTS OF OPERATIONS  
SUMMARY OF QUARTERLY RESULTS**

	2011				2010			
	Apr 11 Q4 \$	Jan 11 Q3 \$	Oct 10 Q2 \$	July 10 Q1 \$	Apr 10 Q4 \$	Jan 10 Q3 \$	Oct 09 Q2 \$	July 09 Q1 \$
Revenue	<b>2,888,690</b>	2,738,815	3,218,926	2,915,704	<b>2,370,385</b>	3,264,017	2,734,803	2,863,089
Gross margin	<b>1,071,995</b>	1,135,688	1,324,818	1,199,209	<b>833,758</b>	1,300,710	1,106,828	1,172,470
Net income (loss)	<b>199,839</b>	161,584	307,047	265,374	<b>(157,606)</b>	116,008	(156,741)	(7,855)
EPS Basic & Diluted	<b>0.01</b>	0.01	0.02	0.02	<b>(0.01)</b>	0.01	(0.01)	0.00

Consolidated revenue for the fourth quarter of fiscal 2011 increased by \$519,000 or 18% to \$2,889,000, as compared to \$2,370,000 in the comparative prior period, consolidated gross margins increased to 37%, and net earnings increased to \$200,000 or \$0.01 per common share from a net loss of \$158,000 or \$(0.01) per common share. This turnaround in earnings from an operating loss to a profit in the fourth quarter of fiscal 2011 reflects improvements in both operating segments.

The increase in total revenues in the fourth quarter was largely due improved industry conditions and demand for the Company's gas products from the Canadian operating segment. Canadian fourth quarter revenues improved by \$503,000 while revenue improvements from the Lowell segment were impacted by foreign currency exchange rates used to translate these revenues. Canadian gross margins were negatively impacted by manufacturing variances and Lowell gross margins improved significantly due to manufacturing cost reductions and increased unit shipments. Largely due to the impact of improved margins from Lowell combined with a decrease in recorded income taxes payable in Canada due to the benefits of loss carry forwards, consolidated net earnings increased to \$200,000 as compared with losses in the corresponding prior year.



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**OPERATING RESULTS**

**For the three-month period ended April 30, 2011 compared with the three-month period ended April 30, 2010**

	2011			2010		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
<b>REVENUE</b>						
Analytical measurement equipment	1,412,579	-	1,412,579	1,119,962	-	1,119,962
Electronic flow products	575,653	-	575,653	364,438	-	364,438
Liquids process analyzers		893,537	893,537	-	885,985	885,985
Interco elimination	(4,582)	11,503	6,921	-	-	-
	<u>1,988,232</u>	<u>893,537</u>	<u>2,888,690</u>	<u>1,484,400</u>	<u>885,985</u>	<u>2,370,385</u>
<b>GROSS MARGIN</b>	<u>674,957</u>	<u>397,038</u>	<u>1,071,995</u>	<u>559,023</u>	<u>274,735</u>	<u>833,758</u>
<b>GROSS MARGIN %</b>	<u>35%</u>	<u>44%</u>	<u>37%</u>	<u>38%</u>	<u>31%</u>	<u>35%</u>
<b>EXPENSES</b>						
Selling and marketing	212,172	126,422	338,594	199,318	175,800	375,118
General and administrative	230,663	157,629	388,292	257,053	119,738	376,791
Reorganization costs	-	-	-	-	(10,854)	(10,854)
Foreign exchange loss (gain)	131,201	(43,545)	87,656	74,303	9,767	84,070
Amortization	159,378	2,632	162,010	207,221	(1,562)	205,659
<b>EXPENSES</b>	<u>733,414</u>	<u>243,138</u>	<u>976,552</u>	<u>737,895</u>	<u>292,889</u>	<u>1,030,784</u>
<b>INCOME TAXES</b>						
Current	(112,399)	(318)	(112,717)	-	27,528	27,528
Future	8,321	-	8,321	(39,505)	(27,443)	(66,948)
	<u>(104,078)</u>	<u>(318)</u>	<u>(104,396)</u>	<u>(39,505)</u>	<u>85</u>	<u>(39,420)</u>
<b>NET EARNINGS</b>	<u><b>45,621</b></u>	<u><b>154,218</b></u>	<u><b>199,839</b></u>	<u><b>(139,367)</b></u>	<u><b>(18,239)</b></u>	<u><b>(157,606)</b></u>



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**APRIL 30, 2011**

**For the year-ended April 30, 2011 compared with the year-ended April 30, 2010**

	2011			2010		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
<b>REVENUE</b>						
Analytical measurement equipment	7,143,080	-	7,143,080	5,985,478	-	5,985,478
Electronic flow products	1,166,549	-	1,166,549	677,356	-	677,356
Liquids process analyzers		3,550,243	3,550,243		4,569,460	4,569,460
InterCompany transactions	-	-	(97,738)	-	-	-
	<u>8,309,629</u>	<u>3,550,243</u>	<u>11,762,134</u>	<u>6,662,834</u>	<u>4,569,460</u>	<u>11,232,294</u>
<b>GROSS MARGIN</b>	<u>3,478,857</u>	<u>1,266,166</u>	<u>4,731,709</u>	<u>2,796,786</u>	<u>1,616,980</u>	<u>4,413,766</u>
<b>GROSS MARGIN %</b>	<u>42%</u>	<u>36%</u>	<u>40%</u>	<u>42%</u>	<u>35%</u>	<u>39%</u>
<b>EXPENSES</b>						
Selling and marketing	862,794	524,687	1,387,481	845,839	693,534	1,539,373
General and administrative	948,553	593,631	1,542,184	1,066,720	649,505	1,716,225
Reorganization costs	-	-	-	-	407,210	407,210
Foreign exchange loss (gain)	189,185	(48,301)	140,884	394,780	(59,881)	334,899
Amortization	616,366	9,525	625,891	659,785	14,952	674,737
<b>EXPENSES</b>	<u>2,616,898</u>	<u>1,079,542</u>	<u>3,696,440</u>	<u>2,967,124</u>	<u>1,705,320</u>	<u>4,672,444</u>
<b>INCOME TAXES</b>						
Current	(53,307)	15,061	(38,246)	-	-	-
Future	139,672	-	139,672	(25,041)	(27,443)	(52,484)
	<u>86,365</u>	<u>15,061</u>	<u>101,426</u>	<u>(25,041)</u>	<u>(27,443)</u>	<u>(52,484)</u>
<b>NET EARNINGS (LOSS)</b>	<u><b>775,594</b></u>	<u><b>171,563</b></u>	<u><b>933,843</b></u>	<u><b>(145,297)</b></u>	<u><b>(60,897)</b></u>	<u><b>(206,194)</b></u>



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

### Galvanic Canada

Analytical product revenue is derived from instrument sales throughout Canada, the United States, and internationally. Revenues continue to be impacted by sales of analytical product instruments to export markets (which include the United States). For the three-month period ended April 30, 2011 revenues generated from analytical instrument sales increased by 26% to \$1,413,000 as compared to \$1,120,000 for the comparative prior period. For the year ended April 30, 2011 revenue generated by analytical instruments increased by 19% to \$7,143,000 compared to \$5,985,000 in the comparative prior year. Improvement in revenues in the current fiscal quarter and year-over-year is largely due to an increase in units shipped and revenue growth in export markets and, to a lesser extent, increased sales to the Canadian market. Export revenues increased by 22% in the fiscal quarter and 16% for fiscal 2011 as compared to the comparative prior periods. The increase in export sales for the quarter and year-over-year was primarily a result of increased sales outside of the U.S. due to an increase in demand and partially driven by an increase in project activity. Export revenues were 61% of total revenues in the fiscal quarter and 69% of total revenues for fiscal 2011. This compares with 62% and 72% respectively for the comparative prior periods. Sales outside of Canada are transacted in U.S. dollars and are subject to exchange fluctuations against the Company's Canadian dollar functional currency; therefore any significant change in the U.S. dollar exchange rate impacts the reported Canadian dollar amount of sales. Revenue growth from export sales in the fiscal quarter and fiscal year largely offset negative foreign exchange effects from a stronger Canadian dollar, as compared to the prior year.

Revenues generated from the Company's electronic flow products are largely dependent on annual contracts from its major domestic customer. During the fiscal year the Company was awarded a contract for electronic flow correctors with deliveries scheduled over the calendar year. The increase in electronic flow product revenues in the quarter and year-over-year reflects an increase in contracted unit requirements. Based on scheduled deliveries it is anticipated that the contract will be fulfilled in the second quarter of fiscal 2012. The Company's major domestic customer accounted for 91% of electronic flow product revenues in fiscal 2011 as compared to 95% in the comparative prior year. In view of its reliance on its domestic customer, the Company is focusing its efforts on expanding its customer base in domestic and U.S. markets.

Gross margin was \$675,000 or 34% as a percentage of sales for the fourth quarter of fiscal 2011 and \$3,479,000 or 42% for the year ended April 30, 2011. This compares with \$559,000 or 38%, and \$2,797,000 or 42% respectively, for the comparative prior periods. The decline in gross margin percentage for the fourth quarter of fiscal 2011 is largely due to year-end inventory loss and cost adjustments combined with the unfavourable impact of currency on revenues. Year-over-year gross margins remained stable at 42%.

Selling and marketing expenditures were \$212,000 for the fourth quarter of fiscal 2011, as compared to \$199,000 recorded in the comparative prior period. Selling and marketing



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

expenditures were \$863,000 for the fiscal year ended April 30, 2011, as compared to the \$845,000 recorded for the comparative prior year.

General and administrative expenditures were \$231,000 for the fourth quarter of fiscal 2011, a decrease of \$26,000 or 10% compared to \$257,000 recorded in the comparative prior period. General and administrative expenditures were \$949,000 for the fiscal year ended April 30, 2011, a decrease of \$118,000 or 11% from the \$1,067,000 recorded for the comparative prior year. The decrease in the fourth quarter of fiscal 2011 and year-over-year is largely due to reductions in contracted professional services, which include audit, legal, software and network maintenance fees.

As a significant portion of its sales revenue is derived outside of Canada and transacted in U.S. dollars this operating segment is exposed to fluctuations in the exchange rate of U.S. dollar denominated sales, assets, purchases and liabilities. Foreign currency exchange gains and losses are largely comprised of gains or losses that are unrealized, on holding U.S. denominated assets, whereby changes in the value of the Canadian dollar results in an adjustment to the carrying value of these assets, and currency gains or losses realized, on the settlement of transactions. As of April 30, 2011 this operating segment had approximately \$3.0 million of U.S. dollar denominated current assets. In fourth quarter of fiscal 2011 the U.S dollar devalued from \$1.00 Canadian at January 31, 2011 to \$0.95 Canadian at April 30, 2011 resulting in an unrealized exchange loss of \$164,000, which was offset with realized exchange gains of \$32,000. At April 30, 2011 the devaluation in the value of the U.S dollar to \$0.95 Canadian compared with \$1.02 at April 30, 2010 resulted in an unrealized exchange loss of \$189,000 for fiscal year ended April 30, 2011 and realized exchange gains of \$38,000.

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, and 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. Depreciation and amortization of capital assets were \$60,000 in the fourth quarter of fiscal 2011 and \$241,000 for the year ended April 30, 2011. This compares with \$63,000 and \$244,000 respectively for the comparative prior periods. As there were not significant additions to the capital asset pool the declining balance method of depreciation resulted in the decrease in recorded depreciation and amortization expense in the current fiscal quarter and year-over-year. Amortization of development costs were \$94,000 in the fourth quarter of fiscal 2011 and \$375,000 for the year ended April 30, 2011. This compares with \$145,000 and \$416,000 respectively for the comparative prior periods. As all expenditures related to the development of its new product have been deferred until commercial production commences, the declining balance method of amortization over the estimated useful lives of commercialized products resulted in the decrease in recorded amortization expense



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

This operating segment reported net earnings after income taxes of \$45,000 for the fiscal quarter and net earnings of \$776,000 year-to-date. This compares with a net loss of \$139,000 and \$145,000 respectively for the comparative prior periods. The improvement in earnings in the fourth quarter and year over year is largely due to the increase in revenues, the corresponding increase in gross margin dollars combined with the decrease in current income taxes due to the benefits of income tax loss carry forwards.

### **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 \$.98 Canadian for the three-month period ended April 30, 2011 compared with \$1.03 Canadian in the comparative prior period and \$1.01 Canadian for the year ended April 30, 2011 compared with \$1.07 Canadian for the comparative prior year.

For the fourth quarter of fiscal 2011, revenues generated from the liquids process analyzer market increased slightly to \$894,000, compared to the \$886,000 recorded for the comparative prior period. For the fiscal year ended April 30, 2011 revenues decreased by 22% to \$3,550,000 compared to the \$4,569,000 recorded in the prior fiscal year. Recorded revenues in the quarter and year-to-date 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 unit shipments across all product lines. The slight increase in the three month period ended April 30, 2011 was largely due to increased unit volume shipments of the Nametre and Monitek product line in domestic markets which largely offset exchange rate differences. Year-over-year average exchange rate difference accounted for 21% of the decrease in recorded revenue with the balance of decrease due to a slowdown in demand for the Monitek product line in Europe.

Gross margin was \$397,000 or 44% for the fourth quarter of fiscal 2011 and \$1,267,000 or 36% for the year ended April 30, 2011. This compares with \$275,000 or 31% and \$1,616,000 or 35% respectively for the comparative prior periods. The improvement in gross margins in the fourth quarter was due to both lower manufacturing costs of labour due to reductions in the manufacturing work force combined with the contribution from



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **APRIL 30, 2011**

an increase in unit volume shipments in the four quarter. Year-over-year gross margins as a percentage of sales improved slightly to 36% as compared to 35% in the comparative prior year.

Selling and marketing expenditures for the fourth quarter of fiscal 2011 were \$126,000, a decrease of 40% from the \$176,000 recorded in the comparative prior period. Selling and marketing expenditures were \$525,000 for the fiscal year ended April 30, 2010 a decrease of 24% from the \$694,000 recorded for the comparative prior year. The reduction in selling and marketing expenditures was due to cost reductions and currency exchange rates utilized to translate these expenditures. The majority of the reductions in the fourth quarter of fiscal 2011 was due to a decrease in expenses necessary to support local and international sales efforts combined with ongoing cost savings realized due to the closure of the German office; while exchange rate differences accounted for 17% of the decrease. The majority of the year over year decrease was due to reduced international travel expenditures and the cost reductions associated with the closure of the German office in the prior year, while exchange rates accounted for 21% of the decrease.

General and administrative expenses for the fourth quarter of fiscal 2011 were \$158,000 an increase of 32% from the \$120,000 recorded in the comparative prior period. General and administrative expenses were \$594,000 for the fiscal year ended April 30, 2011, a decrease of 9% from the \$650,000 recorded in the comparative prior period. The increase in general and administrative expenses in the current fiscal quarter was largely as a result of the increase in the recording of bad debt provisions related to uncollectable international accounts. The year-over-year decrease was due to both cost savings realized on the closure of the German office in the previous fiscal year and a decrease in the average exchange rate required to translate general and administrative expenses.

The unrealized exchange gain of \$44,000 recorded for the fourth quarter and \$48,000 year-to-date compared with the unrealized exchange loss of \$10,000 and the gain \$60,000 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 net earnings after income taxes of \$154,000 for the fourth quarter of fiscal 2011 and net earnings after income taxes of \$172,000 year to date. This compares with a net loss after income taxes of \$18,000 and \$61,000 respectively in the comparative period periods. The improvement in the fourth quarter of fiscal 2011 as compared to the corresponding previous period is largely attributable to an improvement in margins combined with the impact of foreign currency exchange gains as compared to losses in the comparative prior period. The year-over-year improvement in operating results was largely due to continuing cost savings and the reduction in recorded expenses, which largely offset the decrease in gross margins dollars. Due to profitable operations current income taxes have been recorded compared with a future tax recovery in the comparable prior year.

### **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 April 30, 2011 an



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **APRIL 30, 2011**

unrealized translation loss in the amount of \$520,000 was recorded compared with an unrealized loss in the amount of \$373,000 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**

The Company's principal source of liquidity is derived primarily from cash flow from operations and cash on hand. Additionally, the Company has an undrawn line of credit. During fiscal 2011 there were no significant changes in the structure of the Company's credit facilities.

The Company has a \$2,550,000 available revolving operating line of credit which bears interest at the prime rate plus 0.850%. This facility is subject to annual review. 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 Company is not required to meet any financial covenants. At April 30, 2011 no amounts were drawn on this facility.

As of April 31, 2011 the Company maintained a working capital position of \$7,472,000 which includes \$3,382,000 in cash and cash equivalents. 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 funds its ongoing development programs.

### **Summary of Cash Flows**

#### **Operating Activities**

Cash flows generated from operating activities resulted primarily from net earnings, which represent the Company's principal source of cash. For the fiscal year ended April 30, 2011, the Company generated cash from operations before changes in non-cash working capital of \$1,769,000 compared to \$423,000 in fiscal 2010. This increase in cash from operations was due to the generation of net earnings as compared to a net loss in the comparative prior year adjusted for non-cash items. Non-cash operating working capital generated or consumed is largely as a result of the timing of cash receipts and payments in the normal course of business. Year-to-date non cash operating working capital consumed in the amount of \$636,000 is largely as a result of cash flow invested in inventory, accounts receivables and prepaid expenses. This compares with non cash operating working capital generated in the amount of \$650,000 largely as a result of cash flow generated from the collection of accounts receivable and the reduction in inventory offset with income taxes.

#### **Financing Activities**

In the current and prior fiscal year periods no net cash was used in financing activities.



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

### 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 fiscal 2010 the Company established a new basic architecture designed for all its next generation products. This involved investment in a new electronics platform and software operating system. During fiscal 2010 the Company selected an analyzer to incorporate this new product platform. Design and development work initiated in fiscal 2010 continued into 2011. Development work included 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 incorporates a variety of new electronic features and is currently in the commercialization phase with final testing and documentation substantially completed. Application specific software development is still ongoing. This analyzer is scheduled to be released into production in the first quarter of fiscal 2012. All costs related to this new product platform and analyzer project have been capitalized.

During fiscal 2011 the Company invested \$526,000 in product development as compared with \$724,000 in the comparative prior year. Excluding the investments in electronics, software platform and the new mechanical design in the prior fiscal year, the decrease in product development expenditures is largely due to an increase in engineering costs required to support the current product portfolio.

#### Property, Plant and Equipment

During fiscal 2011 the Company invested \$11,500 on property, plant and equipment, primarily on computer equipment and hardware upgrades as part of ongoing replacements. This compares with \$57,000 in the comparative prior period.

### CONTRACTUAL OBLIGATIONS

The Company's contractual obligations relate to minimum future lease payments primarily for operating leases for buildings under lease in Calgary, Alberta and Lowell, Massachusetts. The remaining amounts are on account of automobiles utilized for service and sales. Future minimum lease payments are as follows:

	<u>\$</u>
2012	<b>422,064</b>
2013	<b>335,290</b>
2014	<b>80,153</b>
2015	<b>812</b>
2016	-



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### OFF-BALANCE SHEET ARRANGEMENTS

At April 30, 2011 and April 30, 2010, the Company has not entered into any off-balance sheet arrangements.

### OUTSTANDING SHARE DATA

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

As of April 30, 2011 and 2010 there were 15,741,072 Common Shares issued and outstanding. During the fiscal year 120,000 options expired and 60,000 stock options were granted. As of April 30, 2011 780,000 stock options have been issued and are outstanding.

#### *Stock Option Grant*

During the fourth quarter of fiscal 2011, the Company granted options to employees of the Company to purchase 60,000 common shares at the market price of \$0.47 per common share at the date of the grant. The stock options expire April 15, 2016 and vest equally over a three-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 2.00%, expected life of the stock option of 5 years, annualized volatility rate of 97.89% and an annualized dividend rate of 0%. The fair value of the options amounted to \$20,858.

### FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, accounts receivable, investments and accounts payable and accrued liabilities. The following classifications were in effect for 2011:

- Cash and cash equivalents are classified as a financial asset held for trading
- Accounts receivable are classified as loans or receivables
- Accounts payable and accrued liabilities are all classified as other financial liabilities

#### *Fair Value of Financial Assets and Liabilities*

The fair values of cash and short-term deposits, accounts receivable, accounts payable and accrued liabilities included in the consolidated balance sheets approximates their carrying amount due to the short-term nature of these items.

#### *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



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

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 are overdue and present a credit risk. As of April 30, 2011, accounts receivable balances from international customers totaling \$120,000 or 6.4% of the accounts receivable balance were more than 90 days overdue. In the event that these customers are unable to meet their financial obligations the Company would incur a financial loss.

As of April 30, 2011, the Company has recorded an allowance for doubtful accounts of \$124,469 (\$101,430 - April 30, 2010).

### ***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 which includes monitoring forecasts of the Company's cash on the basis of projected cash flows. It also maintains sufficient operating lines of credit to meet financing requirements that exceed anticipated internally generated funds. The Company believes it has sufficient cash and cash equivalents combined with its operating lines of credit to fund its short-term and long-term liabilities.

### ***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. As at April 30, 2011, 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. Any changes in the interest rate will



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

not cause the value of the short-term investments to change and any increases in the interest rate will impact interest income.

### *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 year ended April 30, 2011, 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:

	(Loss) Earnings \$	Other Comprehensive Earnings (Loss) \$
1% decrease in value of Canadian dollar	30,446	20,768
1% increase in value of Canadian dollar	(30,446)	(20,768)

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, and restructuring accounts payable and accrued liabilities. The carrying value of these financial instruments approximates their fair values due to their short term nature.



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

The Company does not employ any financial instruments to manage risk or hedge its activities.

### **ADOPTION OF NEW ACCOUNTING POLICIES**

#### ***Business Combinations, Consolidated Financial Statements, and Non-Controlling Interests***

Effective May 1, 2011 the Company adopted Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements, and Section 1602, "Non-Controlling Interests". Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS-27, "Consolidated and Separate 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. As the Company will be required to report its results in accordance with IFRS effective May 1, 2011 with quarterly comparisons for 2010, it has developed a change-over plan to complete the transition to IFRS by May 1, 2011. The change-over plan involves a preliminary assessment, preparation of a project plan, a detailed assessment which requires more in-depth analysis and implementation.

#### ***Analysis of Differences between IFRS and Canadian GAAP***

The Company has completed its detailed assessment and analysis of accounting policy alternatives for all areas potentially affecting the Company's consolidated financial statements. This analysis includes assessing available exemptions under IFRS 1 First-time Adoption of International Financial Reporting Standard. The key areas where changes in accounting standards are expected to affect the Company's consolidated financial statements are described below. Most of the adjustments required upon transition to IFRS will be made retrospectively against opening retained earnings as at May 1, 2011, which is the first comparative balance sheet. Transition adjustments relating to those standards for which comparative figures are not required to be restated will only be made as of the date of transition, which is May 1, 2011.



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

### *Property, Plant and Equipment*

International Accounting Standard (IAS) 16 Property, Plant and Equipment required that each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item be depreciated separately. In addition IAS 16 provides a choice between using a cost model and revaluation model to measure fair value after its initial recognition. The revaluation the model does not exist under Canadian GAAP.

The Company has analyzed its components of property, plant and equipment, their respective useful lives and salvage value. The Company has determined that there were no significant parts that needed to be componentized and adoption of this standard will have no impact on the Company's method or rate of depreciation.

### *Foreign Currency Translation*

The concepts of integrated and self-sustaining foreign corporations as describe under Canadian GAAP do not appear in IAS 21. Instead IAS 21 focuses primarily on identifying the functional currency of the reporting entity and each of its foreign operations. An entity's functional currency is the currency of the primary economic environment in which it operates.

Operations with a functional currency different from the reporting entity are translated in a method similar to self-sustaining foreign operations under Canadian GAAP (referred to as the "current rate method" in the CICA Handbook.) The adoption of this standard will not affect the Company's foreign currency translation method as the Company's U.S. operation is considered to be a self-sustaining foreign operation under GAAP and its functional currency designation and its accounts are translated into Canadian dollars using the current rate method. Adjustments will be required to its Accumulated other comprehensive account for its net investment. Advances made to subsidiaries for which the settlement is not planned or anticipated in the foreseeable future are considered part of its net investment and unrealized gains and losses from these advances are recorded in Other Comprehensive Income ("OCI"). The Company treated these advances as equity and no unrealized exchange gains or losses were recognized.

### *Impairment of Assets*

Canadian GAAP uses a two step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flow to determine whether impairment exists, and then measuring any impairment by compared asset carrying values with fair values IAS 36 Impairment of Assets uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This could result in provisions for impairment in cases where the carrying values of assets cannot be supported on a discounted cash flow basis under IFRS, but had previously been supported on an undiscounted cash flow basis under Canadian GAAP. The Company has identified its cash-generating units and is in the process of assessing its assets (property, plant and equipment, deferred development costs for impairment as at May 1, 2011, which is required upon transition to IFRS.



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

### *IFRS 1*

The Company has selected its accounting policy choices available under IFRS 1, relating to business combinations, share-based payments, property, plant and equipment and foreign currency translation.

### *Project Status*

The Company's opening IFRS balance sheet as at May 1, 2010 is in the process of being finalized.

### **CRITICAL ACCOUNTING ESTIMATES**

The Company's significant accounting policies are described in Note 1 to the April 30<sup>th</sup> 2011 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. 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 that 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 April 30, 2011, April 30, 2010 and April 30, 2009 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



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

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.

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 April 30, 2011. Assumptions with respect to the market, demand, customer base, and product life cycle have not changed since April 30<sup>th</sup> of 2010. This suggests that deferred development costs, net of amortization at April 30, 2011 in the amount of \$2,532,000 are fairly stated and deferred development costs, net of amortization of \$2,381,000 at April 30, 2010 are fairly stated. 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.

### 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 April 30, 2011 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, 2010, and 2001 respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

### OUTLOOK

#### Galvanic Canada

Results from this operating segment may significantly impact revenues, margins and consolidated operating results. During the first quarter of fiscal 2012 order bookings and backlog levels have grown significantly. This improvement in backlogs has been largely driven from increased demand in international markets, partially driven by project activity due to improved industry conditions. Domestically, order backlog levels have remained steady. Due to product mix variations, analyzer configurations and lead times required for components, deliveries have been scheduled over the next two quarters of fiscal 2012. Based on these backlog levels, revenues and operating results are expected to improve in the first two quarters of fiscal 2012 relative to the last fiscal quarter of 2011. While the outlook for the first two quarters for the fiscal year has improved, the outlook remains uncertain with respect to future levels of demand for the remainder of the year. Based on quoting activities demand from international markets is expected to continue, however order bookings are difficult to predict and often require long production lead times. Revenues are therefore difficult to predict and combined with the impact of fluctuations in U. S. dollar exchange rates future revenues and operating results may be impacted. Demand and activity levels from the Canadian market are expected to remain steady. The Company remains cautiously optimistic for the balance of the year. The expectation is that the level of demand will remain strong and revenues will improve or remain flat and gross margins will be maintained. The Company has made good progress in international markets and believes that growth opportunities are still available outside of North America and will continue with its targeted sales strategy pursuing opportunities in selective geographic regions.

Revenues generated from the Company's electronic flow products are largely dependant on annual unit volume requirements from its major domestic customer. These volume requirements remain uncertain for the upcoming fiscal year. The Company is a preferred vendor and based on historical contractual requirements from this customer it is optimistic that it will be successful in securing future orders in fiscal 2012. In view of its reliance on its domestic customer the Company is focusing its efforts on expanding its customer base in domestic and U.S. markets.

#### Galvanic Lowell

The Company is cautiously optimistic that this segment will continue to improve its operating results in the upcoming fiscal year due to cost reduction measures undertaken in the prior year combined with indications of continuing and stable demand. Quoting activities and order bookings have improved significantly in the current fiscal quarter and backlogs remain strong largely due to demand from international markets. As a result the expectation for the first two quarters of fiscal 2012 is that revenues and profitability will be maintained or improve slightly relative to the comparative 2011 fiscal quarters. While the outlook for the first two quarters of fiscal 2012 has improved there remains some uncertainty for the rest of the year. Due to increased competition for orders the domestic market remains a challenge and international revenues are difficult to predict. Based on current quoting activities the Company remains confident that it will be successful in



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **APRIL 30, 2011**

maintaining revenues for the balance of the fiscal year. The Company will continue to take a disciplined approach to manage its cost structure and its goal of maintaining gross margins and profitability. The Company is also evaluating its sales efforts and distribution network and developing a strategy to improve sales which involves additions to the sales force.

#### **Product Development**

To compete effectively and ensure long-term profitability the Company plans to continue to invest in its product development program. During the fiscal year the Company completed its evaluation of its product portfolio and developed a product strategy to focus on the Company's core markets. A product has been selected for upgrade and new technologies have been identified to complement the Company's portfolio of products. Forming a part of this strategy, in house development efforts will be complimented with outsourced turnkey projects. This, combined with the successful development in fiscal 2011 of its core electronics and operating platform should allow the development group to accelerate the product development cycle and new product introductions. This strategy dictates an increased investment in product development and the Company expects to significantly increase development expenditures in the upcoming fiscal year. No product introductions are planned for fiscal 2012 as the Company is currently in the design phase of its new development cycle and project timelines have not yet been projected.

Ongoing product development is subject to significant technical and market risk. Success will be dependent on the Company's ability to project customer requirements, market demand, timely introduction, and the continued sales effort associated with its products. The Company believes it will grow as a result of upgrading its products with state-of-the-art electronics and user features that distinguish Galvanic's products from its competitors in reliability, accuracy and user interface. This strategy combined with ongoing marketing and sales is expected to increase demand and market share.

Ongoing development expenditures will continue to impact cash balances and cash flow. The Company ended the year with a strong balance sheet and believes that it has sufficient capital resources to fund its development program.

The Company will continue to monitor demand and revenues. The Company believes that cost containment is essential to maintaining positive cash flow from operations and profitability and will continue to control expenses commensurate with revenues to maintain profitability.

#### **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



## MANAGEMENT'S DISCUSSION AND ANALYSIS APRIL 30, 2011

“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 working capital and future cash flow will be sufficient to fund its ongoing development program
- Expectations of demand
- Expectation of opportunities
- Expectation of revenue
- Expectation that demand for its electronic volume products will remain static
- Expectation that the Company will be successful in securing contracts for its volume corrector
- Expectation that the increase in back logs levels will maintain gross margins and profitability.
- 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
- 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, 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



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **APRIL 30, 2011**

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**

The Company operates in a highly competitive market, and demand for the Company's products is largely a function of pipelines 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) The Company's representatives generally offer products from several different companies. Accordingly there is risk that our representative may give higher priority to other product suppliers, which could have an adverse effect on the Company's revenues.
- c) 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.
- d) 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.
- e) 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.
- f) The Company may utilize single source suppliers which enhances the Company's short-term vulnerability to supply disruptions.
- g) The Company is dependent upon propriety technology. If the Company is unable to protect its intellectual property it may be subject to increased competition that could have a material adverse effect on operating results.



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

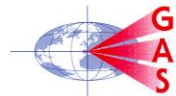
### **APRIL 30, 2011**

- h) The Company is dependent on the continued maintenance, upgrade and successful development of its product line. Product upgrades and enhancements must incorporate technical changes and industry standards. If the Company is not capable of upgrading and enhancing its products on a timely basis or meeting customer requirements, operating results could be adversely impacted.
- i) The Company's products may contain undetected software errors or failures when first commercially released, when new versions are introduced or when new applications are marketed. Despite testing, errors may not be found until after shipment, resulting in warranty expenses.
- j) 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.
- k) 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.
- l) 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.
- m) 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.
- n) 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.
- o) Cost and expense control may be critical to maintaining positive cash flow from operations and profitability. If the Company is unable to keep its costs in line with revenues net income will be adversely affected.

### **STATEMENT REGARDING INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

As at April 30, 2011 the Chief Executive Officer and the acting Chief Financial Officer have determined that the design and operation of Galvanic Applied Sciences Inc. disclosure controls were effective.

During fiscal 2011, 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.



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
APRIL 30, 2011**

**OFF-BALANCE SHEET ARRANGEMENTS**

At April 30, 2011 and April 30, 2010, 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](http://www.Sedar.com).