

Q 1
July 31, 2010



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") has been prepared by management as of September 2, 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 July 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 July 31, 2010 and 2009. It is advisable to read the MD&A in conjunction with the Company's 2010 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, 2010 and 2009 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.

Galvanic Lowell

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
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CONSOLIDATED RESULTS OF OPERATIONS
SUMMARY OF QUARTERLY RESULTS

	2011	2010				2009				2008
	July 10	April 10	Jan 10	Oct 09	July 09	April 09	Jan 09	Oct 08	July 08	April 08
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	2,915,704	2,370,386	3,264,017	2,734,803	2,863,089	3,253,998	3,763,356	3,698,965	3,177,844	3,133,035
Gross margin	1,199,209	906,347	1,300,710	1,106,828	1,172,470	1,439,942	1,414,262	1,648,687	1,129,817	905,678
Net income (loss)	265,374	(183,231)	116,008	(156,741)	(7,855)	18,216	247,221	723,624	60,109	(980,747)
Earnings per share										
Basic	0.02	(0.01)	0.00	(0.01)	0.00	0.00	0.02	0.05	0.00	(0.07)
Diluted	0.02	(0.01)	0.00	(0.01)	0.00	0.00	0.02	0.05	0.00	(0.07)

Consolidated revenue for the first quarter of fiscal 2011 remained relatively static compared to the same period of fiscal 2010, consolidated gross margins were flat at 41%, and net earnings increased to \$265,000 or \$0.02 per common share from a loss of \$8,000 or \$0.00 per common share as compared with the comparative prior period.

Operating results for the first quarter of fiscal 2011 reflect a strong improvement in the operating results from the Canadian operating segment which more than offset the unfavorable operating results from the Lowell operating segment which significantly impacted net earnings.

The Lowell operating segment was negatively impacted by a slowdown in demand resulting in a revenue decrease of 36% as compared to the first quarter of fiscal 2010. Gross margins were also impacted by the decrease in revenues. Cost savings realized in general, administrative and marketing expenses were offset by currency losses resulting in overall expenses remaining relatively the same. As a result Lowell recorded a net loss of \$77,000 as compared with net earnings of \$104,000 in the comparative prior period.

Revenue in Canada increased by 30% compared to the first quarter of fiscal 2010 due to an increase in demand resulting from an increase in industry activity. The improvement in demand for the fiscal quarter resulted in an increase in gross margin dollars of \$233,000. This combined with a foreign exchange gain of \$8,000 as compared with a loss of \$243,000 in the comparative prior period resulted in net earnings after taxes of \$343,000 as compared with a net loss of \$112,000 in the comparative prior period.

MANAGEMENT'S DISCUSSION AND ANALYSIS
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SEGMENTED OPERATING RESULTS

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

	2010			2009		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
REVENUE						
Analytical measurement equipment	1,977,608	-	1,977,609	1,567,185	-	1,567,185
Electronic flow products	164,785	-	164,785	84,069	-	84,069
Liquids process analyzers	-	773,311	773,311	-	1,211,835	1,211,835
	<u>2,142,393</u>	<u>773,311</u>	<u>2,915,704</u>	<u>1,651,254</u>	<u>1,211,835</u>	<u>2,863,089</u>
COST OF SALES	<u>1,148,836</u>	<u>567,659</u>	<u>1,716,495</u>	<u>890,299</u>	<u>800,320</u>	<u>1,690,619</u>
GROSS MARGIN	<u>993,557</u>	<u>205,652</u>	<u>1,199,209</u>	<u>760,955</u>	<u>411,515</u>	<u>1,172,470</u>
GROSS MARGIN %	<u>46%</u>	<u>27%</u>	<u>41%</u>	<u>46%</u>	<u>34%</u>	<u>41%</u>
EXPENSES						
Selling and marketing	229,118	136,013	365,131	240,543	163,241	403,784
General and administrative	232,617	138,557	371,174	239,299	205,533	444,832
Foreign exchange (gain) loss	(7,960)	5,679	(2,281)	242,790	(76,932)	165,858
Amortization	151,487	2,601	154,088	146,576	5,755	152,331
EXPENSES	<u>605,262</u>	<u>282,850</u>	<u>888,112</u>	<u>869,208</u>	<u>297,597</u>	<u>1,166,805</u>
INCOME TAXES						
Current	45,723	-	45,723	(12,000)	9,520	(2,480)
Future	-	-	-	16,000	-	16,000
	<u>45,723</u>	<u>-</u>	<u>45,723</u>	<u>4,000</u>	<u>9,520</u>	<u>13,520</u>
NET EARNINGS	<u>342,572</u>	<u>(77,198)</u>	<u>265,374</u>	<u>(112,253)</u>	<u>104,398</u>	<u>(7,855)</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.

For the three month period ended July 31, 2010, revenues generated from analytical instrument sales increased by \$410,000 or 26%, to \$1,978,000 as compared to \$1,567,000 for the comparative prior period. This improvement in revenues was largely due to the receipt of orders from export markets that were deferred in the previous year. This was partially offset by the negative impact of a weaker U.S. dollar combined with an increase in demand in the Canadian market due to an increase in industry activity.

For the first quarter of fiscal 2011 revenues generated by the Company's electronic flow products increased by 96% to \$165,000 compared to \$84,000 in the comparative prior period. This increase is primarily due to contractually scheduled unit requirements from the Company's major domestic customer.

For the three month period ended July 31, 2011, gross margin dollars increased to \$994,000 from \$761,000 in the comparative prior period, while gross margin as a percentage remained flat at 46%. Gross margins were maintained largely due to the increase in demand and revenue which offset the unfavourable impact of foreign currency on revenues, a decrease in service recoveries, and increased manufacturing costs.

Selling and marketing expenditures were \$229,000 for the first quarter of fiscal 2011 as compared to \$241,000 recorded in the comparative prior period. The reduction in selling and marketing expenditures is largely as a result of a decrease in marketing and selling wages associated with changes in the sales force offset by an increase in travel expenses necessary to support the customer base.

General and administrative expenditures were \$233,000 for the first quarter of fiscal 2011 as compared to \$239,000 recorded in the comparative prior period. General and administrative expenses remained virtually the same as all expense categories remained relatively consistent with the comparative prior period.

As of July 31, 2010 this operating segment had approximately \$2.7 million of U.S. dollar denominated current assets. Changes in the closing rate of the Canadian dollar at the month end will result in an adjustment to the carrying value of these assets. In the quarter ended July 31, 2010, the U.S. dollar appreciated from \$1.02 Canadian at April 30, 2010 to \$1.03 Canadian at July 31, 2010, resulting in an unrealized exchange gain of \$8,000. This compares with an unrealized exchange loss of \$243,000 on \$2.6 million of U.S. denominated assets resulting from the devaluation of the U.S. dollar in the corresponding prior period from \$1.19 Canadian at April 30, 2009 to \$1.08 Canadian at July 31, 2009.

Depreciation and amortization increased to \$151,000 in the first quarter of fiscal 2011 from \$147,000 recorded in the comparative prior period. Amortization is comprised of two components; amortization of development costs, and depreciation and amortization of capital assets. Depreciation expenses remained relatively constant and the increase in

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depreciation and amortization expenses was largely due to an increase in the amortization of development costs.

Net earnings in the first quarter of fiscal 2011 of \$343,000 or \$.02 per common share compared with a net loss of \$112,000 or (\$.00) per common share for the comparative prior period. This improvement in earnings was primarily due to the increase in demand, the resulting increase in gross margin dollars, and foreign currency exchange gains as compared with foreign currency exchange losses in the comparative prior period.

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 \$1.04 Canadian for the three-month period ended July 31, 2010 compared with \$1.13 Canadian in the comparative prior period.

For the first quarter of fiscal 2011 revenues generated from the liquids process analyzer market decreased by 36% to \$773,000 as compared to \$1,212,000 recorded for the comparative prior period. Recorded revenues in the quarter were impacted by both the decrease in volume shipments and 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. The decrease in revenues was largely due to the slowdown in demand for the Monitek product line in all geographic markets. The balance of the decline in revenues in the first quarter of fiscal 2011 was due to average exchange rate differences.

Gross margin was \$206,000 or 27% for the first quarter of fiscal 2011. This compares with \$412,000 or 34% for the comparative prior period. The decline in gross margin was primarily caused by a decline in sales revenues due to reduced demand for its Monitek product line combined with a change in product mix.

Selling and marketing expenses for the Lowell operating segment are primarily salaries for marketing administration, and a direct sales staff. Selling and marketing expenditures in the first quarter of fiscal 2011 decreased by 17% to \$136,000 from \$163,000 recorded in the comparative prior period. The decrease was due to both the reduction in selling expenses due to the closure of the Germany office combined with a decrease in the

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average exchange rate utilized to translate U.S. dollar denominated selling and marketing expenditures related to the Lowell office.

General and administrative expenses for the first quarter of fiscal 2011 decreased by 33% to \$139,000 from \$206,000 recorded in the comparative prior period. The reduction in general and administrative expenses in the current fiscal quarter was largely as a result of cost savings realized on the closure of the German office. The balance of the reduction was due to a decrease in management bonuses and professional fees related to the Lowell office.

The unrealized exchange gain of \$23,000 recorded for the quarter as compared with the loss of \$209,000 in the comparative prior period is due to the changes in the Euro in relation to the U.S. dollar and the exchange rate utilized to record intercompany debt from Lowell to Germany.

This operating segment reported a net loss after income taxes of \$77,000 for the first quarter of fiscal 2011. This compares with earnings after income taxes of \$104,000 in the comparative prior period. The decline in the first quarter of fiscal 2011 as compared to the corresponding previous period is largely attributable to the reduction in revenues and the resulting decline in gross margin. As a result of a net loss in the current fiscal quarter, no current income taxes payable have been recorded as compared to income taxes payable in the amount of \$10,000 in the prior period.

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 July 31, 2010 an unrealized translation gain in the amount of \$23,000 was recorded compared with an unrealized loss in the amount of \$209,000 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 2010 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, next scheduled for October 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 financial covenants require that the Company maintain a consolidated current ratio, defined as current assets net of related party receivables divided by current liabilities, of not less than 1.75 to 1.00, and a consolidated debt service coverage test,

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defined as earnings before interest and taxes divided by principal and interest payments, of no less than 125%. The covenants were all met in the first quarter of fiscal 2011. At July 31, 2010 no amounts were drawn on this facility.

As of July 31, 2010, the Company maintained a working capital position of \$6,763,000, which includes \$2,800,000 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 fund its ongoing development programs

Summary of Cash Flows

Operating Activities

Net cash used by operating activities was \$95,000 for the quarter ended July 31, 2010 compared to net cash provided by operating activities of \$502,000 in the same period of the prior year. The decrease in cash in the current fiscal quarter was primarily due to changes in non-cash working capital. In the current fiscal quarter non-cash working capital used \$524,000 as compared with cash flow generated of \$421,000 in the comparative prior period. Non-cash operating working capital generated or used is largely as a result of the timing of cash receipts and payments in the normal course of business. Non-cash working capital used in the current fiscal quarter was largely due to the increase in accounts receivables, accounts payable, and inventory. This compares with non cash operating working capital generated in the comparative prior period, largely as a result of cash flow generated from the collection of accounts receivable and a reduction in inventory and income taxes payable.

Financing Activities

No net cash was used in financing activities in the first quarter of fiscal 2011 and in the corresponding prior period.

Investing Activities

Net cash used for investment activities was \$100,000 as compared to \$171,000 used in investing activities in the comparative prior period. The decrease in cash used in investing activities was primarily attributable to a decrease in cash used for development activities.

Development Costs

The Company continually invests in development activities to support its current products and the development and introduction of new products. During the first quarter of fiscal 2011 the Company invested \$97,000 on development activities as compared with \$161,000 in the corresponding prior period. The decrease in development spending over the comparative prior period is largely due to engineering costs required to maintain the current product line. During the fiscal quarter development efforts were ongoing on its next generation analyzer.

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The decrease in the net cash position of \$178,000 in the fiscal quarter as compared to the increase of \$193,000 in the comparative prior fiscal period is primarily due to the reduction in cash generated from operating activities and the investment in ongoing development activities.

SHARE CAPITAL

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

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

During this fiscal period no options were granted. As of July 31, 2010, and April 30, 2010, 840,000 options remain outstanding.

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 2011	328,277
2012	436,474
2013	349,623
2014	84,551
2015	812

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, which includes the preparation of required comparative information. As part of its change over plan, the Company is evaluating outsourcing options to assist with the changeover and the preparing of opening balance financial statements at April 30, 2010. 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

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to change prior to 2011, the impact of IFRS on the Company's Consolidated Financial Statements is not reasonably determinable at this time.

FUTURE CHANGES IN ACCOUNTING POLICIES

Information regarding new accounting pronouncements is included in Note 1 to the interim consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 1 to the April 30th 2010 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

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 July 31, 2010. Assumptions with respect to the market, demand, customer base, and product life cycle have not changed since April 30th of 2010. This suggests that deferred development costs, net of amortization in the amount of \$2,385,852 are fairly stated at July 31, 2010.

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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. 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. Management has reviewed its estimates and has determined that there have been no changes in circumstance or occurrence of events that may suggest the value of goodwill may not be recoverable.

OUTLOOK

The outlook for the second quarter of fiscal 2011 is anticipated to be similar to the first quarter of fiscal 2011.

Galvanic Canada

The improved earnings in the first quarter of fiscal 2011 reflect operating results driven in a large part by higher activity levels outside of Canada. The expectation is that this trend will continue into the second quarter of fiscal 2011. Activity levels in the Canadian market have been steady, and the expectation is that this will continue in the fiscal year. The outlook for the second quarter of fiscal 2011 remains positive and the expectation is that revenues will remain consistent with the first quarter of fiscal 2011.

Galvanic Lowell

Weak demand experienced for its products in the first quarter of fiscal 2011 continued into the second quarter. Demand remained weak largely due to reduced levels of growth experienced in North American and the European markets. As a result revenues are expected to remain flat.

Consolidated

The Company will continue to review its cost structure to be commensurate with revenues to maintain profitability. The Company will continue with its targeted sales strategy pursuing opportunities available in international markets in selective geographic regions. The Company is continuing with its 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 on which the company can build a strong customer base.

FORWARD-LOOKING STATEMENTS

This Management's Discussions and Analysis contains certain "forward-looking statements." All statements, other than statements of historical fact, that address

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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 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
- 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 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.

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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 2010 Annual report.

STATEMENT REGARDING INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

As at July 31, 2010 the Chief Executive Officer and the Chief Financial Officer have determined that the design and operation of Galvanic Applied Sciences Inc. disclosure controls were effective.

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.

OFF-BALANCE SHEET ARRANGEMENTS

At July 31, 2010 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.

Consolidated Financial Statements of

GALVANIC APPLIED SCIENCES INC.

(Unaudited)

July 31, 2010 and July 31, 2009

The accompanying unaudited interim financial statements of the Galvanic Applied Sciences Inc. for the first quarter ended July 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


	Three Months Ended	
	July 31,	
	2010	2009
	\$	\$
	(Unaudited)	(Unaudited)
REVENUE		
Sales	2,915,704	2,863,089
Cost of sales	1,716,495	1,690,619
GROSS MARGIN	1,199,209	1,172,470
EXPENSES		
Amortization	154,088	152,331
Foreign exchange (gain) loss	(2,281)	165,858
General and administrative	371,174	444,832
Selling and marketing	365,131	403,784
	888,112	1,166,805
EARNINGS BEFORE INCOME TAXES	311,097	5,665
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	45,723	(2,480)
Future	-	16,000
	45,723	13,520
NET EARNINGS (LOSS)	265,374	(7,855)
NET EARNINGS (LOSS) PER COMMON SHARE (Note 5)		
Basic	0.02	0.00
Diluted	0.02	0.00

GALVANIC APPLIED SCIENCES INC.

Consolidated Balance Sheets

	July 31, 2010 \$ (Unaudited)	April 30, 2010 \$ (Audited)
ASSETS		
CURRENT		
Cash and cash equivalents	2,784,566	2,962,655
Restricted funds	1,200	1,200
Accounts receivable - trade	2,216,845	1,623,460
Recoverable income taxes	51,463	48,117
Inventory	2,642,817	2,450,797
Prepaid expenses	210,262	134,981
	<u>7,907,153</u>	<u>7,221,210</u>
Deferred development costs	2,385,852	2,381,265
Property, plant and equipment	533,078	591,306
Goodwill	3,442,693	3,442,693
	<u>14,268,776</u>	<u>13,636,474</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	1,084,841	777,678
Reorganization accounts payable and accrued liabilities (Note 6)	13,501	26,039
Income taxes payable	45,723	-
	<u>1,144,065</u>	<u>803,717</u>
Future income taxes	521,053	521,053
	<u>1,665,118</u>	<u>1,324,770</u>
COMMITMENTS AND CONTINGENCIES (Note 7)		
SHAREHOLDERS' EQUITY		
Retained earnings	7,002,787	6,737,413
Accumulated other comprehensive loss	(349,594)	(372,982)
	<u>6,653,193</u>	<u>6,364,431</u>
Share capital (Note 3)	5,003,473	5,003,473
Contributed surplus (Note 3)	946,992	943,800
	<u>12,603,658</u>	<u>12,311,704</u>
	<u>14,268,776</u>	<u>13,636,474</u>

APPROVED BY THE BOARD

 Walter Chayka, **Director**

 Peter Bourgeois, **Director**

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Retained Earnings

	July 31, 2010	April 30, 2010
	\$	\$
	(Unaudited)	(Audited)
Retained Earnings, Beginning of Period	6,737,413	6,943,607
Net Earnings (Loss)	265,374	(206,194)
Retained Earnings, End of Period	7,002,787	6,737,413

Consolidated Statements of Comprehensive Earnings (Loss)

	July 31, 2010	April 30, 2010
	\$	\$
	(Unaudited)	(Audited)
Net Earnings (Loss)	265,374	(206,194)
Foreign Currency Translation Adjustment	23,388	(322,204)
Comprehensive Earnings (Loss)	288,762	(528,398)

Consolidated Statements of Accumulated Other Comprehensive (Loss) Earnings

	July 31, 2010	April 30, 2010
	\$	\$
	(Unaudited)	(Audited)
Accumulated Other Comprehensive Loss, Beginning of Period	(372,982)	(50,778)
Foreign Currency Translation Adjustment	23,388	(322,204)
Accumulated Other Comprehensive Loss, End of Period	(349,594)	(372,982)

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Cash Flows

	Three Months Ended	
	July 31,	
	2010	2009
	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	265,374	(7,855)
Adjustments for non-cash items:		
Amortization	154,088	152,331
Future income taxes recovery	-	16,000
Stock-based compensation (Note 3)	3,192	3,596
Unrealized foreign exchange gain (loss)	6,120	(71,668)
Reorganization costs	-	(11,250)
	428,774	(81,154)
Changes in non-cash working capital	(523,684)	420,516
	(94,910)	501,670
FINANCING		
	-	-
INVESTING		
Property, plant and equipment	(3,209)	(10,706)
Development costs	(97,238)	(160,644)
	(100,447)	(171,350)
Change in Cash due to Foreign Exchange	17,268	(137,538)
NET (DECREASE) INCREASE IN CASH	(178,089)	192,782
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,962,655	2,832,761
CASH AND CASH EQUIVALENTS, END OF PERIOD	2,784,566	3,025,543
SUPPLEMENTARY INFORMATION		
Cash paid for interest	-	-
Cash paid for taxes	-	150,074
Cash and cash equivalents are composed of:		
Cash in banks	1,174,677	1,929,605
Term deposits	1,609,889	1,095,938
	2,784,566	3,025,543

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Three Months Ended July 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, 2010, 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, 2010.

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 May 1, 2011.

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

The CICA issued three new accounting standards in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements, and Section 1602, "Non-Controlling Interests". These new standards will be effective for fiscal years beginning on or after January 1, 2011. 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". The Company is currently evaluating the impact to the financial statements.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Three Months Ended July 31, 2010 (Unaudited)

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 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 financial covenants require that the Company maintain a consolidated current ratio, defined as current assets net of related party receivables divided by current liabilities, of not less than 1.75 to 1.00, and a consolidated debt service coverage test, defined as earnings before interest and taxes divided by principal and interest payments, of no less than 125%.

The covenants were all met and no amounts were drawn on this facility at July 31, 2010 and 2009.

3. SHARE CAPITAL

Authorized

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

Issued

Common shares

	Number of Shares	Amount \$
Balance, July 31, 2010 and April 30, 2010	<u>15,741,072</u>	<u>5,003,473</u>

Stock Option Plan

At July 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 and May 5, 2013.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Three Months Ended July 31, 2010 (Unaudited)

3. SHARE CAPITAL (Continued)

	Number of Shares Under Option	Weighted Average Exercise Price \$
Options outstanding, beginning and end of period	<u>840,000</u>	0.37
Options exercisable, end of period	<u>360,000</u>	0.37

The following table summarizes outstanding options at July 31, 2010:

Exercise Price \$	Number Outstanding July 31, 2010	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$
0.50	120,000	0.13	0.50
0.30	400,000	2.75	0.30
0.35	<u>320,000</u>	4.08	0.35
	<u>840,000</u>		

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 \$3,192 (July 31, 2009 - \$3,596), has been recorded, using the following weighted average assumptions:

Risk-free interest rate (%)	2.57%
Expected option life (years)	5
Expected volatility (%)	66.23%
Estimated annual dividend	nil

The following table presents a summary of activity related to the Company's contributed surplus:

	Three Months Ended July 31,	
	2010	2009
	\$	\$
Balance, Contributed Surplus, beginning of period	943,800	928,426
Stock option expense	<u>3,192</u>	3,596
Balance, Contributed Surplus, end of period	<u>946,992</u>	<u>932,022</u>

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Three Months Ended July 31, 2010 (Unaudited)

4. SEGMENTED INFORMATION

The Company currently has two reportable business segments identified primarily by market segment. These include (1) instrumentation for the natural gas industry, which includes the processing and distribution market, Galvanic Canada; and (2) the liquid analyzer market, Galvanic Lowell.

(1) Galvanic Canada

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.

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.

(2) Galvanic Lowell

The Company's operation in the liquids process market is operated from Lowell, Massachusetts. 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.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Three Months Ended July 31, 2010 (Unaudited)

4. SEGMENTED INFORMATION (Continued)

	Three Months Ended July 31, 2010			Three Months Ended July 31, 2009		
	Galvanic Canada	Galvanic Lowell	Total Enterprise	Galvanic Canada	Galvanic Lowell	Total Enterprise
Revenue	2,142,393	773,311	2,915,704	1,651,254	1,211,835	2,863,089
Net segment earnings (loss)	342,572	(77,198)	265,374	(112,253)	104,398	(7,855)
Amortization	151,487	2,601	154,088	146,576	5,755	152,331
Total assets of segments	9,926,389	4,342,387	14,268,776	9,397,694	4,869,341	14,267,035
Expenditures for property, plant and equipment	3,209	-	3,209	2,282	8,424	10,706
Expenditures for development costs	97,238	-	97,238	160,644	-	160,644

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

	Three Months Ended July 31,	
	2010 \$	2009 \$
Canada	585,141	307,693
United States	1,147,231	1,566,521
Other international sales	1,183,332	988,875
	<u>2,915,704</u>	<u>2,863,089</u>

5. EARNINGS PER SHARE

The number of shares used in the weighted average diluted calculation was 15,745,334 at July 31, 2010 (15,763,204 - July 31, 2009).

6. REORGANIZATION COSTS

At July 31, 2010, \$13,501 related to the reorganization of its Dusseldorf office in Germany in fiscal 2010 remains to be paid and is included in accounts payable and accrued liabilities.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Three Months Ended July 31, 2010 (Unaudited)

7. COMMITMENTS AND CONTINGENCIES

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

CORPORATE INFORMATION

DIRECTORS

Peter C. Bourgeois (2) (3) (4) (5)
Mississauga, Ontario

Robert Johnston (3) (4) (5)
North Charleston, South Carolina

Walter Chayka (3) (4) (5)
Calgary, Alberta

S. Grant Reeves (1) (3) (4) (5)
North Charleston, South Carolina

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

CORPORATE OFFICERS

Helen Cornett, C.A.
Chief Executive Officer

REGISTRAR AND TRANSFER

Computershare Trust Company of
Calgary, Alberta

Pam Clarke, C.G.A.
Chief Financial Officer

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

STOCK EXCHANGE LISTING

The TSX Venture Exchange
Trading Symbol: GAV

BANKERS

TD Canada Trust Bank
Calgary, Alberta

SOLICITOR

Macleod Dixon
Calgary, Alberta

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