



Q1
July 31, 2009

First Quarter Interim Report for the Period Ending July 31, 2009

The accompanying unaudited interim financial statements of Galvanic Applied Sciences Inc. for the first quarter ending July 31, 2009 have been approved by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

Galvanic Applied Sciences, Inc.

MESSAGE TO SHAREHOLDERS

Dear Shareholders:

The Company completed the first quarter of its fiscal year with mixed results. Continued weakness in our domestic gas markets resulted in consolidated revenues of \$2.8 million, a 12% decline from a year ago. Strength in the U.S market allowed sales from the Canadian operation to increase 26% from the comparable period last year, offset by a decline in sales to the rest of the world. The liquid analyzer segment reported sales of \$1.2 million, a 10% increase from a year ago that was mostly due to currency translation but is also reflective of historical revenue levels unchanged by the recessionary impacts felt in the gas segment side of the business. Significantly the Company was able to improve its gross margins to 41% of sales from 36% in the comparable period last year as the result of a better mix of products and manufacturing cost savings. Additional savings of 10% were realized in the period expenses offset by an unfavorable foreign exchange loss of \$166,000.

The Company achieved profitable operating results (excluding foreign exchange gains/losses) for the period ended July 31, 2009 of \$141,000 compared with \$8,000 in the comparable period last year. Net Income was a small loss of \$8,000 including currency losses or \$0.00 per share, as compared with income of \$60,000 in the first quarter last year that included a foreign exchange gain of \$57,000.

The Company maintained its strong balance sheet in the quarter with positive cash from operations of \$364,000. Cash on account remains over \$3 million with zero borrowings against its revolving term loan of \$2.5 million. The Company intends to use its cash reserves to fund product development projects and support its ongoing working capital requirements.

We are excited about the introduction of our newest product upgrade in October. The Tytronics FPA 4000 is our latest generation UV/VIS spectrophotometer built on a shared electronic platform to gain manufacturing efficiencies while providing our customers with best-in-class functionality. This marks a significant milestone in our goal to upgrade our product line to take advantage of standardization where possible and provide our sales team with the most modern line of analyzers in the market.

The Company continues to grow stronger in its products, people and processes as it executes its operating plan. While revenue growth has been difficult during the recession the underlying fundamentals of the business are well positioned to realize greater profitability when sales return to traditional levels.



Grant Reeves
Chief Executive Officer

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 August 25, 2009 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, 2009 and 2008, 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, 2009 and 2008. It is advisable to read the MD&A in conjunction with the Company's 2009 annual report and the audited consolidated financial statements, the accompanying notes to consolidated financial statements and the MD&A for the years ended April 30, 2009 and 2008 contained in the annual report.

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, changes to regulations affecting the Company's activities, and uncertainties relating to the availability and costs of financing needed in the future. Any forward-looking statement speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statement, whether as a result of new information, future events or results or otherwise. Although the Company believe 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.

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. This segment also includes a sales and service centre located in Dusseldorf, Germany, necessary to compete with local competitors and to service the European market where the company has a large installed base of Monitek products.

CONSOLIDATED RESULTS OF OPERATIONS SUMMARY OF QUARTERLY RESULTS

	2010		2009		2008			2007		
	July 09 Q1 \$	April 09 Q4 \$	Jan 09 Q3 \$	Oct 08 Q2 \$	July 08 Q1 \$	April 08 Q4 \$	Jan 08 Q3 \$	Oct 07 Q2 \$	July 07 Q1 \$	April 07 Q4 \$
Revenue	2,863,089	3,253,998	3,763,356	3,698,965	3,177,844	3,133,035	3,147,891	3,851,326	2,832,569	4,598,347
Gross margin	1,172,470	1,439,942	1,414,262	1,648,687	1,129,817	905,678	999,713	1,297,521	947,289	1,546,665
Net income (loss)	(7,855)	18,216	247,221	723,624	60,109	(980,747)	(93,969)	(279,776)	(414,353)	62,317
Earnings per share										
Basic	0.00	0.000	0.016	0.05	0.00	(0.07)	0.00	(0.01)	(0.03)	0.00
Diluted	0.00	0.000	0.016	0.05	0.00	(0.07)	0.00	(0.01)	(0.03)	0.00

For the three-month period ended July 31, 2009 the Company generated a loss after income taxes of \$8,000 or \$0.00 per common share as compared to earnings after income taxes of \$60,000 or \$0.00 per common share for the comparative prior period. Due to the appreciation of the Canadian dollar in the fiscal quarter the loss can be attributed to the foreign exchange loss of \$166,000 as compared with a gain of \$57,000 in the comparative prior period.

Consolidated revenue for the quarter totalled \$2,863,000, a decrease of 10% as compared to consolidated revenues of \$3,178,000. This decrease is largely as a result of continued weak demand in the Canadian operating segment largely driven by oil and gas capital budgets and project activity, which have slowed down or been deferred.

During the fiscal quarter, consolidated gross margins improved to 41% of revenue as compared to 36% of revenue over the comparative prior period largely as a result of a change in the revenue mix, favourable impact of foreign currency exchange on revenues, and a decrease in manufacturing expenses required for ongoing product support and service in the Canadian operating segment.

SEGMENTED OPERATING RESULTS

For the three-months ended July 31, 2009

compared with the three-months ended July 31, 2008

	2009			2008		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
REVENUE						
Analytical measurement equipment	1,567,185	-	1,567,185	1,871,439	-	1,871,439
Electronic flow products	84,069	-	84,069	201,019	-	201,019
Liquids process analyzers	-	1,211,835	1,211,835		1,105,386	1,105,386
	<u>1,651,254</u>	<u>1,211,835</u>	<u>2,863,089</u>	<u>2,072,458</u>	<u>1,105,386</u>	<u>3,177,844</u>
COST OF SALES	<u>890,299</u>	<u>800,320</u>	<u>1,690,619</u>	<u>1,290,014</u>	<u>758,013</u>	<u>2,048,027</u>
GROSS MARGIN	<u>760,955</u>	<u>411,515</u>	<u>1,172,470</u>	<u>782,444</u>	<u>347,373</u>	<u>1,129,817</u>
GROSS MARGIN %	<u>46%</u>	<u>34%</u>	<u>41%</u>	<u>38%</u>	<u>31%</u>	<u>36%</u>
EXPENSES						
Selling and marketing	240,543	163,241	403,784	317,962	124,166	442,128
General and administrative	239,299	205,533	444,832	316,890	178,097	494,987
Foreign exchange (gain) loss	242,790	(76,932)	165,858	(51,359)	(5,863)	(57,222)
Amortization	<u>146,576</u>	<u>5,755</u>	<u>152,331</u>	<u>166,843</u>	<u>18,098</u>	<u>184,941</u>
EXPENSES	<u>869,208</u>	<u>297,597</u>	<u>1,166,805</u>	<u>750,336</u>	<u>314,498</u>	<u>1,064,834</u>
INCOME TAXES						
Current	(12,000)	9,520	(2,480)		4,874	4,874
Future	<u>16,000</u>	<u>-</u>	<u>16,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>4,000</u>	<u>9,520</u>	<u>13,520</u>	<u>0</u>	<u>4,874</u>	<u>4,874</u>
NET EARNINGS	<u>(112,253)</u>	<u>104,398</u>	<u>(7,855)</u>	<u>32,108</u>	<u>28,001</u>	<u>60,109</u>

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 first quarter of fiscal 2010 revenues generated from analytical instrument sales decreased by 16% to \$1,567,000 compared to \$1,871,000 for the same period of 2009. Due to the ongoing economic downturn and a slow down in project activity in the fiscal quarter this operating segment experienced continued weak demand for analytical instruments in all geographic markets. International sales (including the United States) are transacted in U.S. dollars and subject to exchange fluctuations, therefore any significant change in the U.S. dollar exchange rate impacts the reported Canadian dollar amount of sales. During the quarter this operating segment benefited from the appreciation in the value of the U.S. dollar in relationship to the Canadian dollar as the average exchange rate utilized to record sales was \$1.13 U.S. as compared to \$1.01 U.S. in the comparative prior period. Revenue from international sales, including the United States, remained flat in the quarter largely due to the impact of favourable foreign currency exchange rates and the decrease in recorded revenues was largely due to the decrease in demand for analytical instruments in the Canadian market. As a result of the decrease in domestic revenues, international sales as a percentage of total sales have increased to 84% from 67% in the comparative prior period.

For the first quarter of fiscal 2010 revenue generated from electronic flow products decreased by 58% to \$84,000 compared to \$201,000 in the comparative prior period. The decrease in electronic flow product revenues reflects the suspension of shipments to the Company's major international customer while an evaluation of country specific certification requirements is reviewed. Until such time certification requirements are finalized, sales into international markets are expected to remain flat or deteriorate. Canadian market revenues are not expected to improve in the next quarter due to the completion of its annual upgrade and maintenance program by the Company's major domestic customer.

For the first quarter of fiscal 2010 gross margin was \$761,000 or 46% as a percentage of sales. This compares with \$782,000 or 38% for the comparative prior period. This improvement in gross margin in the first quarter of fiscal 2010 is primarily due to a change in the revenue mix, favourable impact of foreign currency exchange on revenues, and a decrease in manufacturing expenses required for ongoing product support and service.

Selling and marketing expenditures were \$241,000 for the first quarter of fiscal 2010, a decrease of \$77,000 or 24% compared to \$318,000 recorded in the comparative prior period. This reduction in selling and marketing expenditures is largely as a result of a reduction in marketing and selling wages associated with sales support functions and discretionary travel expenditures required to pursue international opportunities.

General and administrative expenditures were \$239,000 for the first quarter of fiscal 2010, a decrease of \$78,000 or 25% compared to \$317,000 recorded in the comparative prior period. This decrease is largely due a decrease in option based compensation expenses, employee training costs, professional fees, and miscellaneous smaller accounts.

As of July 31, 2009, this operating segment had approximately \$2.6 million of U.S. dollar denominated current assets. Changes in the value of the Canadian dollar will result in an adjustment to the carrying value of these assets. In the first quarter of fiscal 2010 the U.S dollar devaluated from \$1.19 Canadian at April 30, 2009 to \$1.08 Canadian at July 31, 2009, resulting in an unrealized exchange loss of \$243,000. This compares with exchange gains of \$51,000 on \$3.0 million of U.S. denominated assets resulting from the appreciation of the U.S. dollar in the corresponding prior from \$1.01 Canadian at April 30, 2008 to \$1.03 Canadian at July 31, 2008.

Amortization is comprised of two components; amortization of development costs and depreciation and amortization of capital assets. Costs related to the development of the Company's product line are capitalized until commercial production commences. These costs are then amortized using the declining balance method over the estimated average sales life of the product. The decrease in amortization expenses in the quarter was largely due to a decrease in the amortization of development costs due to the capitalization of costs incurred in the quarter related to the development of the new UV analyzer.

Largely due to the unrealized foreign exchange loss of \$243,000 as compared with a foreign exchange gain of \$51,000 in the comparative prior period this operating segment reported a loss after income taxes of \$112,000 in the quarter compared with net earnings of \$32,000 for 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 in the first quarter of fiscal 2010 was \$1.13 Canadian, an increase of 12% from the \$1.01 rate that was utilized in the comparative prior period.

For the first quarter of fiscal 2010, revenues generated from the liquids process analyzer market increased by 10% to \$1,212,000, compared to the \$1,105,000 recorded for the comparative prior period. Recorded revenues were largely impacted by the strengthening of the U.S. dollar in relationship to the Canadian dollar. U.S. dollar revenues remained flat and the increase in the average exchange rate accounted for the increase in recorded revenues in the first quarter fiscal 2010.

Gross margins as a percentage of sales were 34% for the first quarter of fiscal 2010, as compared with 31% for the comparative prior period. This slight improvement in the quarter was due to cost improvements.

Marketing and selling expenses for the Lowell operating segment are primarily salaries for marketing administration, a direct sales staff, and representatives' commissions. Selling and marketing expenditures for the first quarter of fiscal 2010 were \$163,000 compared to \$124,000 recorded in the comparative prior period. The increase in the first quarter of fiscal 2010 was largely due to an increase in selling and marketing expenses denominated in U.S. dollar currency; this included increases in discretionary travel expenses combined with increased salary and wages due to the addition of a sales employee in the quarter, and to a lesser degree the increase in the average exchange rate utilized to translate these expenses.

General and administrative expenses for the first quarter of fiscal 2009 were \$206,000, an increase of 16% from the \$178,000 recorded for the comparative prior period. Major expenditures for general and administration expenditures denominated in U.S. dollars have not changed significantly from the comparative prior period and the increase was largely due to the increase in the average exchange rate utilized to translate general and administrative expenses.

The unrealized exchange gain of \$77,000 recorded for the three-month period ended July 31, 2009 is due to the changes in the Euro in relationship 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 taxes of \$104,000 for the first quarter of fiscal 2010 as compared with net earnings after taxes of \$28,000 in the comparative prior period. This improvement in net earnings was largely due to unrealized foreign currency exchange gains recorded on intercompany advances and the improvement in gross margins.

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, 2009 an unrealized translation loss in the amount of \$209,000 was recorded. This is the result of the appreciation of the Canadian dollar against the U.S. dollar.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow from Operations

The Company's principal source of liquidity is derived primarily from cash flow from operations and from changes in its working capital.

For the quarter ended July 31, 2009, the Company's cash position increased by \$193,000, primarily as a result of the increase in cash provided by operating activities in the amount of \$364,000. The increase in cash in the quarter was primarily due to changes in non-cash working capital which contributed \$421,000, offset by cash consumed by operations of \$56,000. This compares with a net increase in cash of \$347,000 and cash provided by operating activities in the amount of \$362,000, funds generated from operating activities of \$211,000 and changes in non-cash working capital of \$151,000 in the prior period quarter.

During the current fiscal quarter and the previous corresponding fiscal period, cash flow was used primarily to finance its development program.

Financing

No financing was required in the first quarter of fiscal 2010 compared with operating line advances of \$120,000 in the comparative prior period, offset with share repurchases pursuant to the normal course issuer bid of \$19,000.

Investing

Cash used for investing in development, property, plant, and equipment totalled \$171,000 in the first quarter fiscal 2010 as compared to \$115,000 of cash used in 2009.

Development Costs

The Company invests in development activities to support its current products and the development and introduction of new products. During the first quarter of fiscal 2010 the Company invested \$161,000 in development activities compared with \$103,000 invested in the corresponding previous period. The increase in development spending over the comparative prior period is largely due to the investment in electronic testing and verification equipment. During the quarter development efforts were primarily

focused on final design verification, prototype testing and commercialization of its new UV Tytronics analyzer to be launched in the second quarter of fiscal 2010.

Property, Plant and Equipment

During the fiscal year the Company invested \$11,000 primarily on computer equipment and software required as part of ongoing replacements. This compares with \$12,000 in fiscal 2008.

Liquidity

During the first quarter of fiscal 2010 there were no significant changes in the structure of the Company's credit facilities. The existing credit facility consists of a revolving term loan in the amount of \$2,550,000. The availability of the operating facility is subject to a monthly borrowing base calculation that considers eligible accounts receivable. The loan is collateralized by a charge over all of the assets of the Company, and requires that the Company meet certain covenants. Galvanic was in full compliance with these covenants as of July 31, 2009.

As of July 31, 2009, the Company maintained a working capital position of \$6,846,000. Management believes that with its working capital position and access to funds available through its credit facility, together with positive cash from future operations, the Company should be able to meet its working capital requirements and support its product 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, 2009 and April 30, 2009 are 15,741,072 Common Shares.

COMMITMENTS

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

ADOPTION OF NEW ACCOUNTING POLICIES

Effective May 1, 2009 the Company adopted new Section 3064, "Goodwill and Intangible Assets". Section 3064 establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from standards included in the previous Section 3062. The adoption of this standard resulted in no significant impact on the Company's Consolidated Financial Statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

CRITICAL ACCOUNTING ESTIMATES

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

The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and Management's judgments, and as a result, the estimates used by Management involve uncertainty and may change, as additional experience is required.

The accounting estimates believed to be the most difficult to determine, or which depend on the most complex of judgments, and which have the most impact on the Company's result of operations and financial position are as follows:

Research and Development Costs

Costs related to development of a product are capitalized until management determines that the new product is technologically feasible and commercial production commences. These costs are then amortized using the declining-balance method over the estimated average sales life of the product. This requires the use of estimates and judgment, based on historical knowledge and experience. The Company evaluates all projects on a continual basis as to the reasonableness of the project and its average sales life. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

Goodwill

Goodwill comprises a significant component of the Company's asset base. The carrying value of this asset is reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying value may not be recovered. 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.

It has been determined that there is no impairment in the value of goodwill in the Lowell or Canada business segment in the current year.

RISK FACTORS

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

OUTLOOK

The outlook for the second quarter of fiscal 2010 is anticipated to be similar to the first quarter as a result of the ongoing slowdown and the weak demand in the gas segment, combined with the appreciation of the Canadian dollar.

The Company is continuing with its aggressive development strategy in order to sustain long-term growth. The Company will launch its new UV liquid analyzer in the second quarter of fiscal 2010. The timing of the release is not expected to have a significant impact on revenues and profitability in the present fiscal year.

A reduction in anticipated demand in the upcoming fiscal quarter and fiscal 2010 combined with increases in development spending required to upgrade the Company’s product line will adversely affect profitability and cash flow. The Company continues to control expenses to commensurate with lower revenues to maintain profitability. The Company will pursue growth opportunities available in international markets in selective geographic regions. The Company further believes it will grow as a result of upgrading its products with state-of-the-art electronics and user features that distinguish Galvanic products from its competitors in reliability, accuracy, and user interface. The combination of world-class products and international reach is expected to provide a platform which the company can build a strong customer base.

STATEMENT REGARDING INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

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

During the first quarter of fiscal 2010, 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, 2009 and April 30, 2009 the Company has not entered into any off-balance sheet arrangements.

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

Consolidated Financial Statements of
GALVANIC APPLIED SCIENCES INC.

(Unaudited)

July 31, 2009

The accompanying unaudited interim financial statements of Galvanic Applied Sciences Inc. for the first quarter ended July 31, 2009 have been approved by management and approved by the Board of Directors of the Company. These statements have not been reviewed by the Company's external auditors.

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Earnings

	Three Months Ended July 31,	
	2009 (Unaudited) \$	2008 (Unaudited) \$
REVENUE		
Sales	2,863,089	3,177,844
Cost of sales	1,690,619	2,048,027
GROSS MARGIN	1,172,470	1,129,817
EXPENSES		
Amortization	152,331	184,941
Foreign exchange loss (gain)	165,858	(57,222)
General and administrative	444,832	494,987
Selling and marketing	403,784	442,128
	1,166,805	1,064,834
EARNINGS BEFORE INCOME TAXES	5,665	64,983
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	(2,480)	4,874
Future	16,000	-
	13,520	4,874
NET (LOSS) EARNINGS	(7,855)	60,109
NET EARNINGS PER COMMON SHARE		
Basic	0.00	0.00
Diluted	0.00	0.00

GALVANIC APPLIED SCIENCES INC.

Consolidated Balance Sheets

	July 31, 2009 (Unaudited) \$	April 30, 2009 (Audited) \$
ASSETS		
CURRENT		
Cash and cash equivalents	3,025,543	2,832,761
Restricted funds	96,527	96,527
Accounts receivable - trade	1,945,331	2,400,955
Recoverable income taxes	12,000	-
Inventory	2,592,243	2,731,099
Prepaid expenses	240,363	156,957
	<u>7,912,007</u>	<u>8,218,299</u>
Deferred development costs	2,147,559	2,073,684
Property, plant and equipment	764,776	819,632
Goodwill	3,442,693	3,442,693
	<u>14,267,035</u>	<u>14,554,308</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	1,043,607	972,985
Restructuring accounts payable and accrued liabilities	-	11,250
Income taxes payable	22,628	171,808
	<u>1,066,235</u>	<u>1,156,043</u>
Future income taxes	589,537	573,537
	<u>1,655,772</u>	<u>1,729,580</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Retained earnings	6,935,752	6,943,607
Accumulated comprehensive loss	(259,984)	(50,778)
	<u>6,675,768</u>	<u>6,892,829</u>
Share capital (Note 2)	5,003,473	5,003,473
Contributed surplus	932,022	928,426
	<u>12,611,263</u>	<u>12,824,728</u>
	<u>14,267,035</u>	<u>14,554,308</u>

APPROVED BY THE BOARD



Walter Chayka, Director



Peter Bourgeois, Director

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Retained Earnings

	July 31, 2009 (Unaudited) \$	April 30, 2009 (Audited) \$
Retained Earnings, Beginning of Period	6,943,607	5,894,437
Net (Loss) Earnings	(7,855)	1,049,170
Retained Earnings, End of Period	6,935,752	6,943,607

Consolidated Statements of Comprehensive (Loss) Income

	July 31, 2009 (Unaudited) \$	April 30, 2009 (Audited) \$
Net (Loss) Earnings	(7,855)	1,049,170
Other Comprehensive (Loss) Income	(209,206)	305,771
Comprehensive (Loss) Income, End of Period	(217,061)	1,354,941

Consolidated Statements of Accumulated Comprehensive Loss

	July 31, 2009 (Unaudited) \$	April 30, 2009 (Audited) \$
Accumulated Other Comprehensive Loss, Beginning of Period	(50,778)	(356,549)
Other Comprehensive (Loss) Income	(209,206)	305,771
Accumulated Other Comprehensive Loss, End of Period	(259,984)	(50,778)

GALVANIC APPLIED SCIENCES INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended July 31,	
	2009 (Unaudited) \$	2008 (Unaudited) \$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net (loss) earnings	(7,855)	60,109
Adjustments for:		
Amortization	152,331	184,941
Future income taxes	16,000	-
Restructuring costs, net of cash payments	(11,250)	(80,465)
Stock-based compensation	3,596	18,596
Unrealized foreign exchange (loss) gain	(209,206)	27,482
	<u>(56,384)</u>	<u>210,663</u>
Changes in non-cash working capital	<u>420,516</u>	<u>151,017</u>
	<u>364,132</u>	<u>361,680</u>
FINANCING		
Increase in operating loan	-	120,000
Repurchase of shares	-	(19,350)
	<u>-</u>	<u>100,650</u>
INVESTING		
Property, plant, and equipment	(10,706)	(11,798)
Development costs	(160,644)	(103,468)
	<u>(171,350)</u>	<u>(115,266)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	192,782	347,064
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,832,761	286,257
CASH AND CASH EQUIVALENTS, END OF PERIOD	3,025,543	633,321
SUPPLEMENTARY INFORMATION		
Cash paid for interest	-	24,726
Cash paid for taxes	<u>150,074</u>	<u>-</u>
Cash and cash equivalents are composed of:		
Cash in banks	1,929,605	545,891
Term deposits	1,095,938	87,430
	<u>3,025,543</u>	<u>633,321</u>

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Three Months Ended July 31, 2009 (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Interim Consolidated Financial Statements

The interim consolidated financial statements of Galvanic Applied Sciences Inc. have been prepared in accordance with Canadian generally accepted accounting principles consistent with those used in the Company's consolidated financial statements for the year ended April 30, 2009, except as noted below. These interim financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's annual report for the year ended April 30, 2009.

Adoption of New Accounting Standards

Effective May 1, 2009 the Company adopted new Section 3064, "Goodwill and Intangible Assets". Section 3064 establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from standards included in the previous Section 3062. The adoption of this standard resulted in no significant impact on the Company's Consolidated Financial Statements.

Future Changes in Accounting Policies

International Financial Reporting Standards

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

2. SHARE CAPITAL

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Three Months Ended July 31, 2009 (Unaudited)

Authorized

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

Issued

Common shares

	<u>Number of Shares</u>	<u>Amount \$</u>
Balance, July 31, 2009 and April 30, 2009	<u>15,741,072</u>	<u>5,003,473</u>

Stock Option Plan

At July 31, 2009, the Company has a fixed stock option plan open to directors, officers and employees of the Company. Under this plan, the Company may grant options to a maximum of 10% of the issued and outstanding common shares of the Company on a non-diluted basis. Under the plan, the exercise price generally equals the market price of the Company's stock on the day prior to the date of grant and an option's maximum term is five 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.

	<u>Number of Shares Under Option</u>	<u>Weighted Average Exercise Price \$</u>
Options outstanding, beginning of period	720,000	0.36
Expired	<u>(160,000)</u>	0.30
Options outstanding, end of period	<u>560,000</u>	0.36
Options exercisable, end of period	<u>400,000</u>	0.36

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

<u>Exercise Price \$</u>	<u>Number Outstanding July 31, 2009</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price \$</u>
0.50	120,000	1.12	0.50
0.30	<u>440,000</u>	3.75	0.30
	<u>560,000</u>		

2. SHARE CAPITAL (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Three Months Ended July 31, 2009 (Unaudited)

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 \$3,596 (July 31, 2008 - \$18,596), has been recorded using the following weighted average assumptions:

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

The following table presents a summary of activity related to the Company's contributed surplus for the periods ended July 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Balance, contributed surplus, beginning of period	928,426	854,042
Stock option expense	3,596	18,596
Balance, contributed surplus, end of period	<u>932,022</u>	<u>872,638</u>

3. SEGMENTED INFORMATION

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

The operations for the natural gas industry are primarily conducted by the Company through its Calgary and Houston offices, and its products include instrumentation for the measurement of the composition of natural gas.

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

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

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

3. SEGMENTED INFORMATION (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Three Months Ended July 31, 2009 (Unaudited)

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

	July 31, 2009			July 31, 2008		
	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$
Revenue	1,651,254	1,211,835	2,863,089	2,072,458	1,105,386	3,177,844
Operating Expenses	869,208	297,597	1,166,805	750,336	314,498	1,064,834
Segment profit (loss)	(112,253)	104,398	(7,855)	32,108	28,001	60,109
Amortization	146,576	5,755	152,331	166,843	18,098	184,941
Total assets of segments	9,397,694	4,869,341	14,267,035	9,121,023	5,225,371	14,336,211
Expenditures for property, plant and equipment	(2,282)	(8,424)	(10,706)	(4,275)	(7,523)	(11,798)
Expenditures for development costs	(160,644)	-	(160,644)	(103,468)	-	(103,468)

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

	2009 \$	2008 \$
Canada	307,693	693,079
United States	1,566,521	1,237,321
Other international sales	988,875	1,247,444
	<u>2,863,089</u>	<u>3,177,844</u>

4. CAPITAL DISCLOSURES

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

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

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

4. CAPITAL DISCLOSURES (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Three Months Ended July 31, 2009 (Unaudited)

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

5. FINANCIAL INSTRUMENTS

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

Credit Risk

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

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

Standard payment terms are 30 days from invoice date, however this may vary by region and contract. Historically, payment terms for international customers allow for payment up to 90 days. Management believes that accounts receivable balances from international customers that extend beyond 90 days present a credit risk. As of July 31, 2009, three international customers had accounts receivable balance totalling \$117,000 or 6% of the accounts receivable balance which were more than 90 days overdue. In the event that these three customers are unable to meet their financial obligations the Company would incur a financial loss.

Liquidity Risk

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

Market Risk

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

5. FINANCIAL INSTRUMENTS (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Three Months Ended July 31, 2009 (Unaudited)

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 July 31, 2009, any change in the prime rate would have had no impact on income before income taxes as the Company has not drawn upon its revolving operating line of credit.

Currency Risk

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

Transaction exposure

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

Translation exposure

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

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

	Earnings \$	Other Comprehensive Income \$
	<hr/>	<hr/>
1% decrease in value of Canadian dollar	23,000	(20,000)
1% increase in value of Canadian dollar	(23,000)	20,000

6. EARNINGS PER SHARE

The number of shares used in the weighted average diluted calculation was 15,763,204 at July 31, 2009 (July 31, 2008 – 15,777,072).

7. COMMITMENTS AND GUARANTEES

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements

Three Months Ended July 31, 2009 (Unaudited)

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

CORPORATE INFORMATION

DIRECTORS

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

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

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

S. Grant Reeves
North Charleston, South Carolina

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

CORPORATE OFFICERS

S. Grant Reeves
Chief Executive Officer

REGISTRAR AND TRANSFER

Computershare Trust Company of
Calgary, Alberta

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

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

STOCK EXCHANGE LISTING

The TSX Venture Exchange
Trading Symbol: GAV

BANKERS

TD Canada Trust Bank
Calgary, Alberta

SOLICITOR

Macleod Dixon
Calgary, Alberta



Galvanic Applied Sciences Inc.

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

Houston, Texas

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

Galvanic Applied Sciences USA Inc.

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

Dusseldorf, Germany

Telephone: + 49-211-68780-40
Fax: +49-211-68780-430/5
Nightline: +49-211-68780-425

info@galvanic.com
www.galvanic.com