



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 is dated July 14, 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 should be read in conjunction with the unaudited consolidated financial statements and accompanying notes to the consolidated financial statements for the three-month periods ended January 31, 2010 and 2009. It is also 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 Annual report, which includes the MD&A, the audited consolidated financial statements and accompanying notes thereto, is reviewed and approved by the Company's Audit Committee and the Board of Directors prior to publication.

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.

CONSOLIDATED RESULTS OF OPERATIONS
Summary of Financial Performance

April 30	2010	2009	2008	2007	2006
Revenue	11,232,294	13,894,163	12,964,821	17,348,297	17,150,879
Gross margin	4,413,766	5,632,708	4,150,201	6,724,303	7,167,485
Net (loss) earnings	(206,194)	1,049,170	(1,768,845)	1,249,627	1,547,644
Earnings per share:					
Basic	(0.01)	0.07	(0.11)	0.08	0.10
Diluted	(0.01)	0.07	(0.11)	0.08	0.10
Total assets	13,636,474	14,554,308	14,266,810	17,777,393	16,332,101

In fiscal 2010 the Company's business was impacted by the economic recession and the slow down in activity. Revenues for the fiscal year ended 2010 were \$11,233,000 a decrease of 19%, when compared with revenues of \$13,894,000 for the previous fiscal year. This decrease was largely due to reduced market demand in both operating segments combined with the unfavourable impact of the strengthening of the Canadian dollar.

For the fiscal year ended April 30, 2010, the Company generated a loss after income taxes of \$206,000 or \$(0.01) per common share as compared to earnings after income taxes of \$1,049,000 or \$0.07 per common share for the fiscal year ended 2009. Despite ongoing cost improvements, these results reflect the decrease in gross margin dollars resulting from the decrease in revenues in the Canadian operating segment, reorganization costs of \$407,000 necessary to facilitate and expand the distribution of the Monitek product line in Europe, and foreign currency exchange losses in the amount of \$335,000 as compared with foreign currency gains of the amount of \$245,000 for the comparative prior period.

SUMMARY OF QUARTERLY RESULTS

	2010				2009				2008	
	April 10	Jan 10	Oct 09	July 09	April 09	Jan 09	Oct 08	July 08	April 08	Jan 08
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	2,370,385	3,264,017	2,734,803	2,863,089	3,253,998	3,763,356	3,698,965	3,177,844	3,133,035	3,147,891
Gross margin	833,758	1,300,710	1,106,828	1,172,470	1,439,942	1,414,262	1,648,687	1,129,817	905,678	999,713
Net (loss)earnings	(157,606)	116,008	(156,741)	(7,855)	18,216	247,221	723,624	60,109	(980,747)	(93,969)
Earnings per share										
Basic	(0.01)	0.01	(0.01)	0.00	0.00	0.016	0.05	0.00	(0.07)	0.00
Diluted	(0.01)	0.01	(0.01)	0.00	0.00	0.016	0.05	0.00	(0.07)	0.00

For the three-month period ended April 30, 2010 consolidated revenues generated from instrument sales declined by \$884,000 or 27% to \$2,370,000 compared to \$3,254,000 for the same period in fiscal 2009 and consolidated gross margins were 35% in the fiscal quarter as compared with 44% for the comparative prior period. For the three-month period ended April 30, 2010 the Company recorded a net loss of \$158,000 or \$(0.01) per common share as compared with net earnings of \$18,000 or \$0.00 per common share for the comparative prior period. Despite continuing cost improvements, this decline in net earnings after tax was largely due to the decline in gross margin dollars resulting from reduced market demand in all operating segments combined with the revenue impact of unfavorable foreign currency fluctuations due to the strengthening of the Canadian dollar.

For the three-months ended April 30, 2010 compared with the three-months ended April 30, 2009

	2010			2009		
	Galvanic Canada \$	Galvanic Lowell \$	Total \$	Galvanic Canada \$	Galvanic Lowell \$	Total \$
REVENUE						
Analytical measurement equipment	1,119,962	-	1,119,962	1,819,814	-	1,819,814
Electronic flow products	364,438	-	364,438	109,889	-	109,889
Liquids process analyzers	-	885,985	885,985	-	1,324,295	1,324,295
	<u>1,484,400</u>	<u>885,985</u>	<u>2,370,385</u>	<u>1,929,704</u>	<u>1,324,295</u>	<u>3,253,999</u>
COST OF SALES	<u>925,377</u>	<u>611,250</u>	<u>1,536,627</u>	<u>1,023,357</u>	<u>790,699</u>	<u>1,814,056</u>
GROSS MARGIN	<u>559,023</u>	<u>274,735</u>	<u>833,758</u>	<u>906,347</u>	<u>533,596</u>	<u>1,439,943</u>
GROSS MARGIN %	<u>38%</u>	<u>31%</u>	<u>35%</u>	<u>47%</u>	<u>40%</u>	<u>44%</u>
EXPENSES						
Selling and marketing	199,318	175,800	375,118	274,527	160,837	435,364
General and administrative	257,053	119,738	376,791	354,846	202,283	557,129
Restructuring Costs	-	(10,854)	(10,854)	-	-	-
Foreign exchange loss (gain)	74,303	9,767	84,070	127,007	(18,798)	108,209
Amortization	<u>207,221</u>	<u>(1,562)</u>	<u>205,659</u>	<u>194,238</u>	<u>12,913</u>	<u>207,151</u>
EXPENSES	<u>737,895</u>	<u>292,889</u>	<u>1,030,784</u>	<u>950,618</u>	<u>357,235</u>	<u>1,307,853</u>
INCOME TAXES						
Current	-	27,528	27,528	47,092	66,782	113,874
Future	<u>(39,505)</u>	<u>(27,443)</u>	<u>(66,948)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>(39,505)</u>	<u>85</u>	<u>(39,420)</u>	<u>47,092</u>	<u>66,782</u>	<u>113,874</u>
NET(LOSS) EARNINGS	<u>(139,367)</u>	<u>(18,239)</u>	<u>(157,606)</u>	<u>(91,363)</u>	<u>109,579</u>	<u>18,216</u>

For the year ended April 30, 2010 compared with the year ended April 30, 2009

	2010			2009		
	Galvanic Canada	Galvanic Lowell	Total	Galvanic Canada	Galvanic Lowell	Total
	\$	\$	\$	\$	\$	\$
REVENUE						
Analytical measurement equipment	5,985,478	-	5,985,478	7,386,167	-	7,386,167
Electronic flow products	677,356	-	677,356	1,193,042	-	1,193,042
Liquids process analyzers	-	4,569,460	4,569,460	-	5,314,954	5,314,954
	<u>6,662,834</u>	<u>4,569,460</u>	<u>11,232,294</u>	<u>8,579,209</u>	<u>5,314,954</u>	<u>13,894,163</u>
COST OF SALES	<u>3,866,048</u>	<u>2,952,480</u>	<u>6,818,528</u>	<u>4,770,540</u>	<u>3,490,915</u>	<u>8,261,455</u>
GROSS MARGIN	<u>2,796,786</u>	<u>1,616,980</u>	<u>4,413,766</u>	<u>3,808,669</u>	<u>1,824,039</u>	<u>5,632,708</u>
GROSS MARGIN %	<u>42%</u>	<u>35%</u>	<u>39%</u>	<u>44%</u>	<u>34%</u>	<u>41%</u>
EXPENSES						
Selling and marketing	845,839	693,534	1,539,373	1,180,706	655,871	1,836,577
General and administrative	1,066,720	649,505	1,716,225	1,320,770	729,699	2,050,469
Restructuring Costs	-	407,210	407,210	-	-	-
Foreign exchange loss (gain)	394,780	(59,881)	334,899	(436,094)	191,529	(244,565)
Amortization	659,785	14,952	674,737	693,791	52,389	746,180
	<u>2,967,124</u>	<u>1,705,320</u>	<u>4,672,444</u>	<u>2,759,173</u>	<u>1,629,488</u>	<u>4,388,661</u>
INCOME TAXES						
Current	-	-	-	116,477	82,100	198,577
Future	(25,041)	(27,443)	(52,484)	(3,700)	-	(3,700)
	<u>(25,041)</u>	<u>(27,443)</u>	<u>(52,484)</u>	<u>112,777</u>	<u>82,100</u>	<u>194,877</u>
NET (LOSS) EARNINGS	<u>(145,297)</u>	<u>(60,897)</u>	<u>(206,194)</u>	<u>936,719</u>	<u>112,451</u>	<u>1,049,170</u>

Galvanic Canada

This operating segment continues to be impacted by weak demand in all geographic markets due to the slow down in activity in the oil and gas market resulting from the economic recession and foreign currency fluctuations. For the three-month period ended April 30, 2010 revenues generated from analytical instrument sales decreased by 38% to \$1,120,000 as compared to \$1,820,000 for the comparative prior period. For the year ended April 30, 2010 revenue generated by analytical instruments decreased by 19% to \$5,985,000 compared to \$7,386,000 in the comparative prior year. The decrease in revenues in the current fiscal quarter was largely due to lower demand for all analytical instruments in all geographic markets combined with the negative foreign currency impact due to the strengthening of the Canadian dollar on revenues generated outside of Canada. The year-over-year decrease was primarily due to continued weak demand in the Canadian market and to a lesser degree reduced market demand outside of Canada. Sales outside of Canada are transacted in U.S. dollars and are subject to exchange fluctuations; therefore any significant change in the U.S. dollar exchange rate impacts the reported Canadian dollar amount of sales. Average exchange difference accounted for 25% of the decrease in recorded revenues in the current fiscal quarter and 13% year-over-year. The foreign currency rate used to translate these revenues was \$1.03 U.S. in the current fiscal quarter and \$1.07 U.S. for the year ended April 30, 2010. This compares with \$1.24 U.S. and \$1.14 U.S. respectively for the comparative prior periods. Revenues outside of Canada represented approximately 66% of the revenues in the fourth quarter of fiscal 2010 and 72% year over year. This compares with 59% and 64% respectively for the comparative prior periods.

In the upcoming year the Company sees the potential for revenue improvement outside of Canada and expects revenues outside of Canada to continue to form a significant portion of total revenues in fiscal 2011. During the last quarter of fiscal 2010 the Company received indications of strengthening demand with increased project requests and believes that export revenues should improve relative to fiscal 2010. As transactions outside of Canada are denominated in U.S. dollars, expected revenue improvement may be impacted by currency fluctuations. Due to continued weak demand combined with increased competition, the Company does not anticipate improvements in the Canadian market with analytical instrument revenues expected to remain flat or decline modestly.

For the fourth quarter of fiscal 2010, revenue generated by the Company's electronic flow products were \$364,000 compared to \$110,000 for the same period in fiscal 2009. For the year ended April 30, 2010 revenue generated from electronic flow products were \$677,000 compared to \$1,193,000 in the comparative prior year. The increase in electronic flow product revenues in the current fiscal quarter is primarily due to contractually scheduled unit requirements from the Company's major domestic customer and the year-over-year decrease was primarily due to the completion of its annual maintenance and upgrade program in fiscal 2009 by the Company's major domestic customer. The Company's major domestic customer accounted for 95% of electronic flow product revenues in fiscal 2010 as compared to 70% in the comparative prior year.

Revenues generated from the Company's electronic flow products are largely dependant on annual contracts from its major domestic customer. Contract requirements remain uncertain for the upcoming fiscal year. As a preferred vendor, the Company is optimistic that unit requirements will remain static based on historical ordering patterns. As a result, revenues from electronic flow products are expected to remain flat. In view of its reliance on its domestic customer, the Company is focusing its efforts on expanding its customer base in domestic and U.S. markets.

Gross margin was \$559,000 or 38% as a percentage of sales for the fourth quarter of fiscal 2010 and \$2,797,000 or 42% for the year ended April 30, 2010. This compares with \$906,000 or 47%, and \$3,809,000 or 44% respectively, for the comparative prior periods. The decline in gross margin for the fourth quarter of fiscal 2010 is largely due to the decrease in demand and reduction in revenues combined with the unfavourable impact of foreign currency exchange on revenues. The year-over-year decline was due to both the unfavourable impact of foreign currency on international revenues and product revenue mix, resulting from decreased sales of the Gas Micro product line. Maintenance of gross margin in fiscal 2011 is dependant on a number of factors, including maintenance of revenues, product mix and selling prices, price competition, direct vs. indirect sales and service recoveries.

Selling and marketing expenditures were \$199,000 for the fourth quarter of fiscal 2010, a decrease of \$76,000 or 28% compared to \$275,000 recorded in the comparative prior period. Selling and marketing expenditures were \$846,000 for the fiscal year ended April 30, 2010, a decrease of \$335,000 or 28% from the \$1,181,000 recorded for the comparative prior year. This reduction in selling and marketing expenditures in the fourth quarter of fiscal 2010 and year-over-year is largely as a result of the reduction in payroll related expenditures associated with changes in the sales force, and a reduction in discretionary travel expenditures required to pursue international opportunities.

General and administrative expenditures were \$257,000 for the fourth quarter of fiscal 2010, a decrease of \$98,000 or 28% compared to \$355,000 recorded in the comparative prior period. General and administrative expenditures were \$1,067,000 for the fiscal year ended April 30, 2010, a decrease of \$254,000 or 19% from the \$1,321,000 recorded for the comparative prior year. The decrease in the fourth quarter of fiscal 2010 was primarily due to the reduction in executive bonuses and employee stock option expenses. The year-over-year decrease was largely due to the decrease in option based compensation expenses, a decrease in executive bonuses, employee recruitment costs, a management support allocation charged to the Lowell operating segment and miscellaneous smaller accounts.

As a significant portion of its sales revenue is derived outside of Canada and transacted in U.S. dollars this operating segment is exposed to fluctuations in the exchange rate of U.S. dollar denominated sales, assets, purchases and liabilities. Foreign currency exchange gains and losses are largely comprised of gains or losses that are unrealized, on holding U.S. denominated assets, whereby changes in the value of the Canadian dollar results in an adjustment to the carrying value of these assets, and currency gains or losses realized, on the settlement of transactions. As of April 30, 2010 this operating segment had approximately \$2.1 million of U.S. dollar denominated current assets. As of January 31, 2010 this operating segment had approximately \$1.7 million of U.S. dollar denominated current assets. In fourth quarter of fiscal 2010 the U.S. dollar devaluated from \$1.07 Canadian at January 31, 2010 to \$1.02 Canadian at April 30, 2010 resulting in an unrealized exchange loss of \$86,000, which was offset with realized exchange

gains of \$12,000. At April 30, 2010 the devaluation in the value of the U.S dollar to \$1.02 Canadian compared with \$1.19 at April 30, 2009 resulted in an unrealized exchange loss of \$347,000 for fiscal year ended April 30, 2010, and realized exchange losses of \$48,000.

Amortization is comprised of two components: amortization of development costs and depreciation and amortization of capital assets. Costs relating to the development of a product are deferred once management determines that a new product is technologically feasible, and the Company has the ability and intent to commercially produce and market for the product exists. These costs are then amortized using the declining balance method over the estimated average sales life of the products once commercial production commences. Amortization of development costs were \$145,000 in the fourth quarter of fiscal 2010 and \$416,000 for the year ended April 30, 2010. This compares with \$119,000 and \$424,000 respectively for the comparative prior periods. The increase in amortization expenses in the fiscal quarter is largely due to the amortization of its new Tytronics UV-VIS introduced into the market. Depreciation and amortization of capital assets were \$63,000 in the fourth quarter of fiscal 2010 and \$244,000 for the year ended April 30, 2010. This compares with \$75,000 and \$269,000 respectively for the comparative prior periods. As there were not significant additions to the capital asset pool the declining balance method of depreciation resulted in the decrease in recorded depreciation and amortization expense in the current fiscal quarter and year-over-year.

This operating segment reported a net loss after income taxes of \$139,000 for the fiscal quarter and a net loss of \$145,000 year-to-date. This compares with a net loss of \$91,000 and net earnings of \$937,000 respectively for the comparative prior periods. The loss in the fourth quarter of fiscal 2010 and year-over-year is largely due to the decrease in gross margin dollars due to the decline in revenues. No current income taxes are payable due to the availability of certain product development expenditures that qualify for a 20% investment tax credit that can be applied against federal and provincial income taxes. Future tax recoveries reflect the benefit of available research and development investment tax credits that can be applied against future income taxes payable.

Galvanic Lowell

The Company's array of liquid process analytics instrumentation is marketed under three brands, with each brand targeting a particular market segment, and includes the Tytronics, Nametre and Monitek product lines. The Tytronics product line offers on-line chemical analysis of fluid processes, primarily to the water and chemical industries; due to their patented systems, the analyzers provide highly reliable and repeatable results for a variety of chemical applications. The Nametre product line offers in-line and laboratory viscosity analyzers to measure the viscosity and viscoelasticity of a wide range of materials; they are sold into polymer manufacturing, petrochemical, food, paints and coatings, and pulp and paper markets. The Monitek line of products uses a variety of technologies to provide in-line turbidity, suspended solids, and oil-on-water measurements using photometric, acoustic, and 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 \$1.03 Canadian for the three-month

period ended April 30, 2010 compared with \$1.24 Canadian in the comparative prior period and \$1.07 Canadian for the year ended April 30, 2010 compared with \$1.14 Canadian for the comparative prior year.

For the fourth quarter of fiscal 2010, revenues generated from the liquids process analyzer market decreased by 33% to \$886,000, compared to the \$1,324,000 recorded for the comparative prior period. For the fiscal year ended April 30, 2010 revenues decreased by 14% to \$4,569,000 compared to the \$5,315,000 recorded in the prior fiscal year. Recorded revenues in the quarter and year-to-date periods were impacted by both the decrease in average exchange rates utilized to translate revenues as a result of the strengthening of the Canadian dollar in relation to the U.S. dollar and decreased unit volume shipments across all product lines. Average exchange rate differences accounted for 54% of the decrease in recorded revenues in the fourth quarter of fiscal 2010 and 43% for the year ended April 30, 2010. The balance of the decline in revenues in the fourth quarter of fiscal 2010 and year-over-year was due to reduced market demand for Nametre product line and the Monitek product line in the European market.

Gross margin was \$275,000 or 31% for the fourth quarter of fiscal 2010 and \$1,617,000 or 35% for the year ended April 30, 2010. This compares with \$534,000 or 40% and \$1,824,000 or 34% respectively for the comparative prior periods. This reduction in gross margins in the fourth quarter is largely as a result of reduced revenues and the resulting lower contribution margin combined with a drop in margins due to a change in the product revenue mix. Year over year gross margins as a percentage of sales improved slightly to 35% as compared to 34% in the comparative prior year.

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 fourth quarter of fiscal 2010 were \$176,000, an increase of 9% from the \$161,000 recorded in the comparative prior period. Selling and marketing expenditures were \$694,000 for the fiscal year ended April 30, 2010, an increase of 5% from the \$656,000 recorded for the comparative prior year. The increase in selling and marketing expenditures was impacted by the currency exchange rates utilized to translate these expenditures and these expenditures denominated in U.S. dollars. Increased payroll related expenses due to additions to and a reorganization of the sales force, combined with an increase in discretionary travel expenses in the fourth quarter and year-over-year were largely offset by the decrease in exchange rate used to translate these expenditures and a reduction in variable commissions earned on European Monitek sales.

General and administrative expenses for the fourth quarter of fiscal 2010 were \$120,000 a decrease of 41% from the \$202,000, recorded in the comparative prior period. General and administrative expenses were \$650,000 for the fiscal year ended April 30, 2010, a decrease of 11% from the \$730,000 recorded in the comparative prior period. The reduction in general and administrative expenses in the current fiscal quarter and year-over-year was largely as a result of cost savings on the closure of the German office and a decrease in the average exchange rate required to translate these expenses.

On November 6, 2009 the Company announced the restructuring of the European distribution of its Monitek product line supported by the Düsseldorf, Germany office, and consolidation of this operation in Lowell, Mass. This was necessary to improve the cost structure and manage the business within current revenue levels. During the third quarter of fiscal 2010 all sales and support functions required to support European Monitek sales were consolidated in Lowell, Mass., and a new independent Representative was appointed to distribute the Monitek product line in Germany. Year-to-date costs of \$407,000 were recorded which included employee severance amounts, office closure costs, professional services, travel, equipment write-offs and distribution costs. At April 30, 2010 \$26,000 remains to be paid.

The unrealized exchange loss of \$10,000 recorded for the fourth quarter and the unrealized exchange gain of \$60,000 year-to-date compared with the gain of \$19,000 and the loss \$192,000 respectively is due to the changes in the Euro in relation to the U.S. dollar and the exchange rate utilized to record intercompany advances from Lowell to Germany.

This operating segment reported a loss after income taxes of \$18,000 for the fourth quarter of fiscal 2010 and a year-to-date loss of \$61,000 after income taxes. This compares with net earnings of \$110,000 and \$112,000 respectively in the comparative period periods. The loss in the fourth quarter of fiscal 2010 as compared to the corresponding previous period is largely attributable to the reduction in revenues and the corresponding decrease in contribution margins, and the year-to-date loss is largely due to restructuring costs of \$407,000 offset with unrealized exchange gains of \$60,000. No current income taxes are payable in fiscal 2010 due to tax losses and future tax recoveries reflect the tax benefit of loss carry forwards available to reduce future income tax liabilities. This compares to income taxes payable in the amount of \$67,000 and \$82,000 respectively in the prior periods.

OTHER COMPREHENSIVE INCOME

Exchange gains or losses on the net investment in Galvanic Lowell are accumulated in shareholders' equity as a "cumulative translation adjustment". At April 30, 2010 an unrealized translation loss in the amount of \$322,000 was recorded compared with an unrealized gain in the amount of \$306,000 in the comparative prior year. This change is the result of the appreciation of the Canadian dollar against the U.S. dollar.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

For the fiscal year ended April 30, 2010, the Company generated cash from operations before changes in non-cash working capital of \$423,000 compared to \$1,854,000 in fiscal 2009. This decrease in cash from operations was due to the year-to-date loss of \$206,000, adjusted for non-cash amortization of \$675,000, future income tax recovery of \$52,000, non-cash foreign exchange loss of \$64,000 and reorganization costs of \$55,000. This compares with earnings

generated in the amount of \$1,049,000 in fiscal 2009, adjusted for non cash amortization of \$746,000, non-cash foreign exchange gains of \$240,000 and offset by restructuring payments in the amount of \$252,000. Non-cash operating working capital generated or consumed is largely as a result of the timing of cash receipts and payments in the normal course of business. Year-to-date non cash operating working capital generated in the amount of \$650,000 is largely as a result of cash flow generated from the collection of accounts receivable and the reduction in inventory offset with income taxes. This compares with non cash operating working capital generated in the amount of \$2,030,000, largely as a result of cash flow generated from the collection of accounts receivable, recoverable income taxes, and a reduction in inventory.

As of April 30, 2010, the Company maintained a working capital position of \$6,417,000, which includes \$2.9 million 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.

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

Financing Activities

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

During fiscal 2010 there were no significant changes in the structure of the Company's credit facilities. The Company has a \$2,550,000 uncommitted revolving operating line of credit which bears interest at the prime rate plus 0.85%. This facility is subject to an annual review which is next scheduled for October of 2010. The availability of the operating facility is subject to a monthly borrowing base calculation that considers eligible accounts receivable. Operating advances are payable on demand and are secured by a general security agreement providing a general charge on all assets of the Company and its subsidiaries. The principal financial covenant requires that the Company maintain a consolidated current ratio of not less than 1.75 to 1.00. The covenants were all met throughout 2010. At April 30, 2010 no amounts were drawn on this facility.

Investing Activities

Development Costs

The Company continues to invest in development activities to support its current products and the development and introduction of new products. In order to accelerate its product development cycle the Company changed its design and development approach. This change required investment in a new software operating system and electronic platform. This new architecture will form the core of all future products and eliminates the low level software programming and hardware development required with feature sets common to all products. It

also allows the development team to accelerate the work on specific applications and focus on expanding application ranges. During the third quarter of fiscal 2010 the company undertook the development of its next generation analyzer scheduled for upgrade due to the product life cycle. Development work includes a new mechanical design, design and prototype development of application specific input/output boards, and software drivers required to integrate with the new architecture. This analyzer is the first product to incorporate this new core architecture. Subsequent to a technical feasibility review all costs related to this analyzer project have been capitalized.

During fiscal 2010 the Company invested \$724,000 in product development as compared with \$458,000 in the comparative prior year. Investment in the new architecture and development work on its new analyzer project largely accounted for the increase as compared with the comparative prior period. This investment combined with investments in FPA prototypes and electronic testing and verification equipment in the previous fiscal quarters primarily accounted for the year-over-year increase.

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

Property, Plant and Equipment

During fiscal 2010 the Company invested \$57,000 in property plant and equipment, primarily on computer equipment and hardware upgrades as part of ongoing replacements. This compares with \$39,000 in the comparative prior period.

SHARE CAPITAL

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

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

During the three-month period ended October 31, 2009, the Company granted options to employees of the Company to purchase 320,000 common shares at the market price of \$0.35 per common share at the date of the grant. The stock options expire September 4, 2014 and vest equally over a three-year period. The fair value at the date of the grant was computed using the Black-Sholes model. The assumptions used in determining the fair value of the stock option included risk free interest rate of 2.57%, expected life of the stock option of 5 years, annualised volatility rate of 66% and an annualized dividend rate of 0%. The fair value of the options amounted to \$63,844.

As of April 30, 2010, 840,000 options remain outstanding.

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

Credit Risk

The Company is subject to credit risk on accounts receivable balance, which at April 30, 2010 totaled \$1,623,000. The Company manages this risk by assessing 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 potential credit risk. As of April 30, 2010, seven international customers had accounts receivable balance totaling \$72,000 or 4.1% of the accounts receivable balance which were more than 90 days overdue. No provision has been made for these amounts and in the event that these seven customers are unable to meet their financial obligations the Company would incur a financial loss.

Liquidity Risk

Liquidity risk is the risk that the company may not to be able to meet its financial obligations as they become due. The Company manages liquidity risk through cash management and maintains sufficient operating lines of credit to meet financing requirements that exceed anticipated internally generated funds.

Market Risk and Interest Income Risk

The Company is exposed to market risk related to fluctuations in interest rates and foreign currency exchange rates. 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. The Company does not use derivative financial instruments to manage these risks.

Interest Rate Risk and Interest Income

As the Company has not drawn upon its revolving operating line of credit, the Company's exposure to changes in interest rates relates primarily to short-term invested cash. As of April 30, 2010, the Company had short-term investments of \$1,602,000. These investments consist of high liquid investment with maturities at the date of purchase averaging one month, and are classified as level 1. Any changes in the interest rate will not cause the value of these short-term investments to change and any increases in the interest rate will impact interest income.

Foreign Exchange Currency Risk

As the Company's business activities outside of Canada are primarily denominated in U.S. dollars, fluctuations in the exchange rate between the U.S./Canadian dollar can have an effect on the operating results and cash flow.

The types of foreign exchange currency risk can be categorized as follows:

Transaction exposure

The Company's business activities outside of Canada are primarily denominated in U.S. dollars and as a result the Company is exposed to fluctuations in the exchange rate on U.S. dollar denominated sales, assets, purchases and liabilities, with fluctuations in the rate recognized as foreign exchange gains or losses in the consolidated statements of earnings. As approximately 70% of the Company's revenues are earned in U.S. dollars, the Company is a net receiver of U.S. dollars and therefore is adversely affected by the strengthening of the Canadian dollar relative to the U.S. dollar. For the year ended April 30, 2010, the Company did not hedge its currency transactions.

Translation exposure

Entities with a domestic functional currency expose the Canadian company to currency risk on the translation of these entities financial assets and liabilities to Canadian dollars for consolidation. The Company's Lowell operation has a U.S. dollar functional currency, and adjustments arising when translating U.S. dollar into Canadian dollars are reflected in the consolidated statements of other comprehensive income as unrealized gains or losses on translating financial statement of self-sustaining foreign operations.

For the year ended April 30, 2010, had the Canadian dollar weakened or strengthened by 1% against the U.S. dollar, with all other variables held constant, fluctuations in the value of foreign currency would have had the following impact on net earnings and other comprehensive income.

	(Loss) Earnings \$	Other Comprehensive Earnings \$
1% decrease in value of Canadian dollar	17,000	18,639
1% increase in value of Canadian dollar	(17,000)	(18,639)

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:

	\$
2011	438,054
2012	436,474
2013	349,623
2014	84,551
2015	812

ADOPTION OF NEW ACCOUNTING POLICIES

Goodwill and Intangible Assets

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.

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations at April 30, 2010.

Amendment to Financial Instruments – Disclosures

CICA Handbook Section 3862, "Financial Instruments – Disclosures" was amended to require disclosure about the inputs used in making fair value measurements, including their classification within the hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data.

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

Management had determined that there were no significant changes in circumstance or occurrence of events that suggests that the value of its deferred development costs may not have been recoverable at April 30, 2010. Assumptions with respect to the market, demand, customer base, and product life cycle have not changed since April 30th of 2009. This combined with the assumption and that the current product introduction, the FPA UV-VIS photometer, will achieve market acceptance, and effectively compete with competitive products on the market, suggests that deferred development costs, net of amortization at April 30, 2010 in the amount of \$2,381,265 are fairly stated and deferred development costs, net of amortization of \$2,073,684 at April 30, 2009 are fairly stated. This determination was based on assumptions that the Company would continue to have a market for its products in the gas processing and distribution markets, it would be able to retain its customer base in these markets, it would have the ability to maintain its prices and demand for its portfolio of instruments, and that there would be no significant product life cycle changes or requirements. Management also assumed that new product under development would be successfully commercialized.

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

Goodwill

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

OUTLOOK

Galvanic Canada

The outlook for fiscal 2011 remains uncertain with respect to the future level of demand. Results from this operating segment may significantly impact revenues, margins and consolidated operating results. Future business and growth are largely reliant on replacement programs and pipeline expansions in the gas processing and sulphur recovery market. The outlook for the first quarter of fiscal 2011 has become more optimistic based on increased quote and orders outside of Canada with demand expected to grow. Activity levels in the Canadian market are expected to remain steady. While the first quarter outlook for fiscal 2011 has improved there remains uncertainty for the rest of the year. The Company will remain largely dependant on gas industry capital investments for the remainder of the year. Reasonable levels of demand are expected from ongoing upgrades and replacements from the current installed base of customers, but ongoing demand is expected to remain weak against low natural gas prices combined with a depressed refinery market. The Company is also experiencing increased competition from new manufacturers and new technologies. Unconventional shale gas drilling has presented some opportunities for the Company's products. The Company believes that growth opportunities are still available in international markets outside of North America and will continue to pursue these opportunities.

Galvanic Lowell

The Company has adjusted its financial outlook for Galvanic Lowell. Weak demand experienced for its products in fiscal 2010 continued into the first quarter of fiscal 2011. Revenues in the first quarter of fiscal 2011 are anticipated to be lower due to less demand for its Monitek product line in the European market combined with the weakening of the Euro relative to the U.S. dollar. Domestic revenues in the first quarter of fiscal 2011 are expected to remain flat as the outlook for demand remains steady based on its large installed base of customers and OEM arrangements. The expected decline in revenues is not expected to impact gross margins and profitability in the first quarter of fiscal 2011 largely due to reductions in the cost base resulting from the restructure undertaken in the third quarter of fiscal 2010. While the outlook for the first quarter of fiscal 2011 remains relatively stable there remains some uncertainty for the

rest of the year. Domestic revenues are largely dependant on long standing OEM arrangements. The Company remains confident that it will be successful in maintaining these customers, however if it loses any of these arrangements revenues may be impacted. The Company also expects demand to improve in the upcoming year for its Monitek product line in Europe from its new distribution arrangement in Germany. As the timing of this improvement is uncertain international revenues may be impacted.

To compete effectively and ensure long-term profitability the Company plans to continue to invest in its product development program. In order to accelerate its product development cycle the Company changed its approach in fiscal 2010 and invested in a new software and electronic architecture which would form the core platform of all new products. During the fiscal year the Company undertook the upgrade of its first analyzer to incorporate this platform, scheduled for release to the market late fiscal 2011. Due to timing of the release this analyzer is not expected to have a significant impact on revenues and profitability in the upcoming fiscal year.

The Company has several products which are approaching the end of their functional life cycle. The Company is reviewing these products and is evaluating product priorities. Due to the complexity of the product line and the difficulty in projecting the development cycle, no other product introductions are planned for fiscal 2011.

Ongoing product development is subject to significant technical and market risk. Success will be dependant on the Company's ability to project customer requirements, market demand, timely introduction, and the continued sales effort associated with its products. 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's products from its competitors in reliability, accuracy and user interface. This strategy combined with ongoing marketing and sales is expected to increase demand and market share.

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

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

FORWARD-LOOKING STATEMENTS

This Management's Discussions and Analysis contains certain "forward-looking statements." All statements, other than statements of historical fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding financial and business prospects and financial outlook) are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipated", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intent", "could", "might", "should", "believe" and similar expressions. These forward-looking statements speaks only as at the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. These forward-looking statements include, among others:

- Expectations that working capital and future cash flow will be sufficient to fund its ongoing development program
- Expectations of demand
- Expectation of opportunities
- Expectation of revenue
- Expectation that demand for its electronic volume products will remain static
- Expectation that the Company will be successful in securing contracts for its volume corrector
- Expectation that the decline in Lowell segment revenues will not impact gross margins and profitability
- Expectations that the Lowell operations segment will maintain its OEM customer base
- Expectations that the Company will be able to control expenses commensurate with revenues to maintain profitability
- The expectation that Company will develop state-of-the art products that will distinguish its products from its competitors
- Expectation of the Company's ability to successfully market its new Tytronics UV-VIS analyzer
- Expectations that the new product development strategy will accelerate the product development cycle
- Estimates of the investment required to update the company's portfolio of products
- Expectations that international markets will provide opportunities for growth
- Expectations that the Company will grow as a result of upgrading its products
- Expectations that upgraded products will achieve market acceptance
- Expectations that upgraded products will expand its customer base

These forward-looking statements reflect the current expectations or beliefs of the Company, based on information currently available to the Company. Factors that could cause actual results or events to differ materially from current expectations include, among other things, changes in general economic and market conditions, industry activity, changes to regulations affecting the Company's activities, the effects of the Company's current plans, effects of market conditions on demand for the Company's products and services, the ability of the Company to effectively market its products, customer acceptance of introduced products, the ability of the Company to effectively maintain and upgrade its products, timing and costs of new product release, currency, exchange and uncertainties relating to the availability and costs of financing needed in the future.

Forward-looking statements are subject to a number of risks, uncertainties and assumptions that may cause the actual results of the Company to differ materially from those discussed in the forward-looking statements and, even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company.

Although the Company believes that the assumptions inherent in the forward-looking statements are reasonable, forward-looking statements are not guarantees of future performance and, accordingly, undue reliance should not be put on such statements due to the inherent uncertainty therein.

RISK FACTORS

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

- a) Several instrumentation companies target the same customers as Galvanic. Some of these competitors are large, multi-national companies with greater access to resources to apply to research and development, and marketing and operations.
- b) The Company's representatives generally offer products from several different companies. Accordingly there is risk that our representative may give higher priority to other product suppliers, which could have an adverse effect on the Company's revenues.
- c) If commodity prices decrease or fail to meet expectations, pipeline expansion and equipment upgrades may be reduced significantly, which can have a material adverse effect on the Company's operations.
- d) The Company's products are marketed internationally and are to a large extent priced in US dollars, which exposes the Company to international and US dollar currency exchange risks.
- e) The Company's products are subject to domestic and international regulatory approvals. There can be no assurances that such approvals will be granted in a timely fashion or at all. Delay in securing such approvals may adversely impact the timing of introducing the Company's products into these markets.
- f) The Company may utilize single source suppliers which enhances the Company's short-term vulnerability to supply disruptions.

- g) The Company is dependant upon propriety technology. If the Company is unable to protect its intellectual property it may be subject to increased competition that could have a material adverse effect on operating results.
- h) The Company is dependant on the continued maintenance, upgrade and successful development of its product line. Product upgrades and enhancements must incorporate technical changes and industry standards. If the Company is not capable of upgrading and enhancing its products on a timely basis or meeting customer requirements, operating results could be adversely impacted.
- i) The Company's products may contain undetected software errors or failures when first commercially released, when new versions are introduced or when new applications are marketed. Despite testing, errors may not be found until after shipment, resulting in warranty expenses.
- j) The Company is focused on providing products and services to a limited geographic market. The Company's efforts to expand such market area will subject the Company to significant competition from established competitors. There can be no assurance that the Company's marketing strategy will be successful.
- k) The success of the Company is dependent upon the efforts and abilities of its management team. The loss of any member of the management team could have material adverse effect upon the Company's business and prospects.
- l) The business of the Company is subject to the operating risks inherent to the industry. On occasion, substantial liabilities to third parties may be incurred. The Company will have benefit of insurance maintained by it; however, it may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.
- m) The Company is vulnerable to market prices. Fixed costs, including costs associated with operations, leases, labor costs, and depreciation account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, or other factors could significantly affect its revenues and financial results.
- n) The Company sells its products domestically and to foreign customers and generally extends unsecured credit to these customers. The Company therefore remains subject to possible default in respect to customers to whom credit is extended.
- o) Cost and expense control may be critical to maintaining positive cash flow from operations and profitability. If the Company is unable to keep its costs in line with revenues net income will be adversely affected.

STATEMENT REGARDING INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

As at April 30, 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 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 April 30, 2010 and April 30, 2009, the Company has not entered into any off-balance sheet arrangements.

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

Consolidated Financial Statements of

GALVANIC APPLIED SCIENCES INC.

April 30, 2010 and 2009



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Auditors' Report

To the Shareholders of
Galvanic Applied Sciences Inc.:

We have audited the consolidated balance sheets of Galvanic Applied Sciences Inc. as at April 30, 2010 and 2009 and the consolidated statements of earnings, retained earnings, comprehensive (loss) earnings, accumulated other comprehensive (loss) earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Deloitte + Touche LLP". The signature is written in a cursive, flowing style.

Calgary, Alberta
July 14, 2010

Chartered Accountants

GALVANIC APPLIED SCIENCES INC.
Consolidated Statements of Earnings
Years Ended April 30, 2010 and 2009

	2010 \$	2009 \$
REVENUE		
Sales	11,232,294	13,894,163
Cost of sales	6,818,528	8,261,455
GROSS MARGIN	4,413,766	5,632,708
EXPENSES		
Amortization	674,737	746,180
Foreign exchange loss (gain)	334,899	(244,565)
General and administrative	1,716,225	2,050,469
Reorganization costs (Note 13)	407,210	-
Selling and marketing	1,539,373	1,836,577
	4,672,444	4,388,661
(LOSS) EARNINGS BEFORE INCOME TAXES	(258,678)	1,244,047
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	-	198,577
Future	(52,484)	(3,700)
	(52,484)	194,877
NET (LOSS) EARNINGS	(206,194)	1,049,170
NET (LOSS) EARNINGS PER COMMON SHARE (Note 9)		
Basic	(0.01)	0.07
Diluted	(0.01)	0.07

GALVANIC APPLIED SCIENCES INC.

Consolidated Balance Sheets Years Ended April 30, 2010 and 2009

	2010	2009
	\$	\$
ASSETS		
CURRENT		
Cash and cash equivalents	2,962,655	2,832,761
Restricted funds	1,200	96,527
Accounts receivable - trade	1,623,460	2,400,955
Recoverable income taxes	48,117	-
Inventory (Note 3)	2,450,797	2,731,099
Prepaid expenses	134,981	156,957
	<u>7,221,210</u>	<u>8,218,299</u>
Deferred development costs (Note 4)	2,381,265	2,073,684
Property, plant and equipment (Note 5)	591,306	819,632
Goodwill	3,442,693	3,442,693
	<u>13,636,474</u>	<u>14,554,308</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	777,678	972,985
Reorganization accounts payable and accrued liabilities (Note 13)	26,039	11,250
Income taxes payable	-	171,808
	<u>803,717</u>	<u>1,156,043</u>
Future income taxes (Note 6)	521,053	573,537
	<u>1,324,770</u>	<u>1,729,580</u>
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDERS' EQUITY		
Retained earnings	6,737,413	6,943,607
Accumulated other comprehensive loss	(372,982)	(50,778)
	<u>6,364,431</u>	<u>6,892,829</u>
Share capital (Note 7)	5,003,473	5,003,473
Contributed surplus (Note 7)	943,800	928,426
	<u>12,311,704</u>	<u>12,824,728</u>
	<u>13,636,474</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 Years Ended April 30, 2010 and 2009

	2010	2009
	\$	\$
Retained Earnings, Beginning of Year	6,943,607	5,894,437
Net (Loss) Earnings	(206,194)	1,049,170
Retained Earnings, End of Year	6,737,413	6,943,607

Consolidated Statements of Comprehensive (Loss) Earnings Years Ended April 30, 2010 and 2009

	2010	2009
	\$	\$
Net (Loss) Earnings	(206,194)	1,049,170
Foreign Currency Translation Adjustment	(322,204)	305,771
Comprehensive (Loss) Earnings	(528,398)	1,354,941

Consolidated Statements of Accumulated Other Comprehensive (Loss) Earnings Years Ended April 30, 2010 and 2009

	2010	2009
	\$	\$
Accumulated Other Comprehensive Loss, Beginning of Year	(50,778)	(356,549)
Foreign Currency Translation Adjustment	(322,204)	305,771
Accumulated Other Comprehensive Loss, End of Year	(372,982)	(50,778)

GALVANIC APPLIED SCIENCES INC.
Consolidated Statements of Cash Flows
Years Ended April 30, 2010 and 2009

	2010	2009
	\$	\$
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net (loss) earnings	(206,194)	1,049,170
Adjustments for non-cash items:		
Amortization	674,737	746,180
Future income taxes recovery	(52,484)	(3,700)
Stock-based compensation (Note 7)	15,374	74,384
Unrealized foreign exchange (loss) gain	(63,954)	240,386
Reorganization costs	55,229	(252,182)
	<u>422,708</u>	1,854,238
Changes in non-cash working capital (Note 8)	649,752	2,030,485
	<u>1,072,460</u>	3,884,723
FINANCING		
Repurchase of shares	-	(28,550)
Repayment of operating loan	-	(905,000)
	<u>-</u>	(933,550)
INVESTING		
Property, plant and equipment	(56,560)	(39,396)
Development costs	(723,486)	(457,960)
Decrease in restricted funds	95,327	27,302
	<u>(684,719)</u>	(470,054)
Change in Cash due to Foreign Exchange	(257,847)	65,385
NET INCREASE IN CASH	129,894	2,546,504
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,832,761	286,257
CASH AND CASH EQUIVALENTS, END OF YEAR	2,962,655	2,832,761
SUPPLEMENTARY INFORMATION		
Cash paid for interest	-	37,237
Cash paid for taxes	205,553	-
Cash and cash equivalents are composed of:		
Cash in banks	1,360,903	2,743,724
Term deposits	1,601,752	89,037
	<u>2,962,655</u>	<u>2,832,761</u>

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

1. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations. The consolidated financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of Galvanic Applied Sciences Inc. (the “Company”) and its subsidiary, Galvanic Applied Sciences USA Inc. All inter-company transactions and accounts are eliminated on consolidation.

Use of estimates

The preparation of these consolidated financial statements and related disclosures in conformity with GAAP required management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of these financial statements, and revenue and expenses during the period reported. Estimates include allowance for doubtful accounts, deferred development costs and property, plant and equipment, provisions for contingent liabilities, measurement of stock-based compensation, and valuation allowance for future income tax assets, and reflect management’s best estimates. By their nature, these estimates are subject to uncertainty and the effect of the financial statements of changes in estimates in future periods could be significant. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary.

Allowance for doubtful accounts

The Company recognizes an allowance for doubtful accounts. The allowance is assessed based on a variety of factors, including the length of time receivables are past due, circumstances relating to the customer, and historical experience. If circumstances related to the customer change, estimates of the recoverability of receivables would be adjusted prospectively.

Inventory

Raw materials and finished goods inventory is carried at the lower of cost and net realizable value. Work-in-process inventory consists of material and labour cost. Cost is determined on a weighted average basis. An estimate for obsolete inventory is made based on the age of specific product inventory, an estimation of the installed product base and ongoing service requirements. Any provision for obsolescence is written off through cost of sales.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements **Years Ended April 30, 2010 and 2009**

Research and development costs

Research costs are expensed as incurred. Reliably measured costs relating to the development of a product are deferred once management determines that a new product is technologically feasible, the Company has the ability and intent to commercially produce, and the market exists. These costs are then amortized using the declining balance method over the estimated average sales life of the products once commercial production commences.

The Company evaluates the carrying value of the development costs related to each project in order to determine if there has been impairment in value. Such evaluation is based on the marketability of the product and projected cash flows. When it is determined that the carrying value exceeds the recoverable amounts, the net asset is written down to the net recoverable amount.

Property, plant and equipment

Property, plant and equipment are recorded at cost. Amortization is provided on office, shop and demonstration equipment at a rate of 20% and computer equipment at 30%, using the declining-balance method. Manufacturing equipment is amortized on a straight-line basis over a ten-year period. Leasehold improvements are amortized on a straight-line basis over the terms of the leases, ranging from 5 to 7 years.

In the year of disposal, any gain or loss is included in the consolidated statements of earnings and the cost of assets retired or otherwise disposed and the related accumulated amortization are eliminated from these accounts.

Warranty provision

The Company provides warranties on products sold. Estimated warranty costs on these products are accrued based on management's best estimates.

Revenue recognition

Revenue consists mainly of revenue from sales of measurement instrumentation. The Company recognizes revenue when title transfers, evidence of sales arrangement exists, delivery occurs, the sales price is fixed or determinable, and collectability is reasonably assured.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements **Years Ended April 30, 2010 and 2009**

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date.

The self-sustaining foreign subsidiary is accounted for under the current rate method. Under this method, assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated at average rates for the period. The resulting translation adjustment is accumulated in accumulated other comprehensive income as a separate component of shareholders' equity until there is a reduction in the net investment.

Goodwill

Goodwill is the excess of the total purchase price over the fair value of the net identifiable assets acquired and the liabilities assumed in business acquisitions. Goodwill is assessed for impairment annually at year-end or as events occur that could indicate impairment. Impairment is recognized based on the fair value of the reporting units compared to the carrying value of their net assets. If the fair value of the reporting units is less than the book value, impairment is measured by allocating the fair value to the identifiable assets and liabilities as if the subsidiaries had been acquired in a business combination for a purchase price equal to their fair value. The excess of the fair value of the subsidiaries over the amounts assigned to the identifiable assets and liabilities is the fair value of the goodwill. Any excess of the book value of goodwill over this impaired fair value is charged to income in the period in which it occurs. The Company assesses goodwill annually, and its potential impairment, on a reporting unit basis by determining whether the balance of goodwill can be recovered through estimated future operating cash flows. Management's determination at April 30, 2010 and 2009 was that goodwill was not impaired.

Goodwill is stated at cost less impairment and is not amortized.

Cash and cash equivalents

Cash and cash equivalents are cash and short-term deposits with short-term maturity at the time of purchase of less than 90 days.

Per share amounts

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding for the period. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

Stock-based compensation plan

The Company follows the fair value method of accounting for stock options granted to employees and directors. Stock-based compensation is recorded as an expense in the period, with a corresponding increase in contributed surplus. Stock-based compensation expense is based on the estimated fair value of the related stock option at the time of the grant and is recognized over the vesting period of the option (see Note 7). When stock options are exercised, related amounts previously accumulated as contributed surplus are credited to share capital.

Future income taxes

The Company accounts for income taxes using the liability method. Future income tax assets and liabilities are measured based upon temporary differences between the carrying value of assets and liabilities and their tax basis. Future income tax expense (recovery) is computed based on the change during the year in the future tax assets and liabilities. Effects of changes in tax laws and tax rates are recognized when substantively enacted.

Financial Instruments

CICA Handbook Section 3862, "Financial Instruments – Disclosures" requires disclosure about the inputs used in making fair value measurements, including their classification within the hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

The Company's financial instruments consist of cash and cash equivalents and restricted funds, which are classified as held for trading; accounts receivable – trade, which is classified as loans and receivables; and accounts payable and accrued liabilities, reorganization accounts payable and accrued liabilities, which are classified as other financial liabilities.

The Company has not entered into any hedge contracts or other derivative arrangements. Management has also reviewed the Company's other significant contractual arrangements and determined that there are no embedded derivatives that would require disclosure and accounting for as financial instruments.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of New and Proposed Accounting Pronouncements

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 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.

Adoption of new accounting standards

Goodwill and intangible assets

Effective May 1, 2009 the Company adopted CICA Handbook Section 3064 "Goodwill and Intangible Assets", which replaced CICA Handbook Sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs", as well as EIC-27, "Revenues and Expenditures During the Pre-Operating Period", and part of Accounting Guideline 11, "Enterprises in the Development Stage". Under previous Canadian standards, a greater number of items were recognized as assets than are recognized under International Financial Reporting Standards ("IFRS"). The provisions relating to the definition and initial recognition of intangible assets reduce the differences with IFRS in the accounting for intangible assets. The objectives of CICA Handbook Section 3064 are: 1) to reinforce the principle-based approach to the recognition of assets; 2) to establish the criteria for asset recognition; and 3) to clarify the application of the concept of matching revenues and expenses such that the current practice of recognizing asset items that do not meet the recognition criteria is eliminated. The new standard also provides guidance for the recognition of internally developed intangible assets (including research and development activities), ensuring consistent treatment of all intangible assets.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements **Years Ended April 30, 2010 and 2009**

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The portion of the new standard relating to goodwill remains unchanged. The adoption of this standard resulted in no significant impact on the Company's Consolidated Financial Statements.

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The adoption of this standard had no impact on the Company's presentation of its financial position or results of operations at April 30, 2010.

Amendment to Financial Instruments – Disclosures

CICA Handbook Section 3862, "Financial Instruments – Disclosures" was amended to require disclosure about the inputs used in making fair value measurements, including their classification within the hierarchy that prioritizes their significance. The amendments apply to annual financial statements relating to fiscal years ending after September 2009. The three levels of the fair value hierarchy are:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

See Note 12 for incremental disclosures.

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 throughout 2010. At April 30, 2010 and 2009, no amounts were drawn on this facility.

3. INVENTORY

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

	2010	2009
	\$	\$
Raw materials	1,962,270	2,337,076
Work-in-progress	207,033	114,184
Finished goods	281,494	279,839
	2,450,797	2,731,099

The carrying amount of inventory charged to cost of sales in the year was \$6,241,942 (2009 \$7,539,165). There were no write-downs or write-ups of inventory during 2010 or 2009.

4. DEFERRED DEVELOPMENT COSTS

	2010	2009
	\$	\$
Deferred development costs	7,709,739	7,154,410
Less: accumulated amortization	5,328,474	5,080,726
	2,381,265	2,073,684

5. PROPERTY, PLANT AND EQUIPMENT

	2010		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Office, shop and demonstration equipment	1,032,936	877,755	155,181
Computer equipment	586,629	477,622	109,007
Manufacturing equipment	598,804	436,892	161,912
Leasehold improvements	707,905	542,699	165,206
	2,926,274	2,334,968	591,306
	2009		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Office, shop and demonstration equipment	1,001,813	833,562	168,251
Computer equipment	644,001	491,509	152,492
Manufacturing equipment	647,278	426,990	220,288
Leasehold improvements	845,564	566,963	278,601
	3,138,656	2,319,024	819,632

6. INCOME TAXES

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

The provision for income taxes differs from the amount that would be computed by applying the combined federal and provincial income tax rates to earnings (loss) before taxes as shown below:

	<u>2010</u>	<u>2009</u>
	<u>\$</u>	<u>\$</u>
Earnings (loss) before income taxes	(258,678)	1,244,047
Tax statutory rate	29.00%	29.00%
Expected income tax (recovery) expense	(75,017)	360,774
Non-deductible charges	9,132	34,465
Non deductible stock-based compensation	4,459	21,571
Non deductible restructuring costs	7,551	(67,651)
Recapture of investment tax credits	46,632	-
Tax deductible expenses	(45,241)	(154,282)
	<u>(52,484)</u>	<u>194,877</u>

The major components of the future income tax liability at April 30, 2010 using a combined federal and provincial rate of 27.3% (2009 – 27.3%) are as follows:

	<u>2010</u>	<u>2009</u>
	<u>\$</u>	<u>\$</u>
Carrying value of deferred development costs in excess of tax values	(650,085)	563,730
Difference in capital cost allowance claim for tax purposes	76,548	9,807
Tax loss carryforwards	52,484	-
	<u>521,053</u>	<u>573,537</u>

Corporate tax returns are subject to audit and reassessment by the CRA and the IRS. The results of any assessments will be accounted for in the year in which they are determined.

7. SHARE CAPITAL

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

Authorized

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

Issued

Common shares

	Number of Shares	Amount \$
Balance, April 30, 2010 and 2009	<u>15,741,072</u>	<u>5,003,473</u>

Stock Option Plan

At April 30, 2010, the Company has a fixed stock option plan open to directors, officers and employees of the Company. Under this plan, the Company may grant options to a maximum of 10% of the issued and outstanding common shares of the Company on a non-diluted basis. Under the plan, the exercise price generally equals the market price of the Company's stock on the day prior to the date of grant and an option's maximum term is six years. Options generally vest over a three to five year period. The options granted have the following expiry dates: September 16, 2010, May 5, 2013, and September 4, 2014.

	<u>2010</u>		<u>2009</u>	
	Number of Shares Under Option	Weighted Average Exercise Price \$	Number of Shares Under Option	Weighted Average Exercise Price \$
Options outstanding, beginning of year	720,000	0.33	370,000	0.50
Forfeited	(200,000)	0.30	(250,000)	0.50
Granted	<u>320,000</u>	<u>0.35</u>	<u>600,000</u>	0.30
Options outstanding, end of year	<u>840,000</u>	<u>0.37</u>	<u>720,000</u>	0.33
Options exercisable, end of year	<u>360,000</u>	<u>0.37</u>	<u>240,000</u>	0.40

7. SHARE CAPITAL (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

The following table summarizes outstanding options at April 30, 2010:

Exercise Price \$	Number Outstanding April 30, 2010	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price \$
0.50	120,000	0.38	0.50
0.30	400,000	3.00	0.30
0.35	320,000	4.33	0.35
	840,000		

Stock options issued have been accounted for using the fair-value method. The fair-value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model. Stock-based compensation expense with a corresponding amount credited to contributed surplus of \$15,374 (April 30, 2009 - \$74,384), has been recorded, using the following weighted average assumptions:

	<u>2010</u>	2009
Risk-free interest rate (%)	2.57%	3.95%
Expected option life (years)	5	5
Expected volatility (%)	66.23%	69.00%
Estimated annual dividend	nil	nil

The following table presents a summary of activity related to the Company's contributed surplus for the periods ended April 30:

	<u>2010</u>	2009
Balance, Contributed Surplus, beginning of year	928,426	854,042
Stock option expense	15,374	74,384
Balance, Contributed Surplus, end of year	943,800	928,426

8. CHANGES IN NON-CASH WORKING CAPITAL

	<u>2010</u>	2009
	\$	\$
Recoverable income taxes	(48,117)	390,928
Accounts receivable – trade	777,495	1,273,028
Inventory	280,302	377,916
Prepaid expenses	21,976	(58,992)
Reorganization costs	(14,789)	-
Accounts payable and accrued liabilities	(195,307)	(124,203)
Income taxes payable	(171,808)	171,808
	649,752	2,030,485

9. PER SHARE AMOUNTS

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

The weighted average number of common shares outstanding during 2010 and 2009 was 15,741,072.

The effect of anti-dilutive stock options has been excluded from the calculation of diluted weighted average per share the year-ended April 30, 2009 as they were anti-dilutive. As the Company has a net loss at April 30, 2010, the dilutive effect of outstanding stock options became anti-dilutive and therefore has also been excluded from the calculation of diluted weighted average per share for the year ended April 30, 2010.

10. 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.

10. SEGMENTED INFORMATION (Continued)

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

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

Summarized Segmented Financial Information			
	2010		
	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$
Revenue	6,662,834	4,569,460	11,232,294
Operating expenses	2,967,124	1,705,320	4,672,444
Net segmented loss	(145,297)	(60,897)	(206,194)
Amortization	659,785	14,952	674,737
Total assets of segments	9,325,026	4,311,448	13,636,474
Expenditures for property, plant and equipment	49,754	6,806	56,560
Expenditures for development costs	723,486	-	723,486

Summarized Segmented Financial Information			
	2009		
	Galvanic Canada \$	Galvanic Lowell \$	Enterprise Total \$
Revenue	8,579,209	5,314,954	13,894,163
Operating expenses	2,759,173	1,629,488	4,388,661
Net segmented profit	936,719	112,451	1,049,170
Amortization	693,791	52,389	746,180
Total assets of segments	9,627,833	4,926,475	14,554,308
Expenditures for property, plant and equipment	10,666	28,730	39,396
Expenditures for development costs	457,960	-	457,960

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

10. SEGMENTED INFORMATION (Continued)

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

	<u>2010</u>	<u>2009</u>
	\$	\$
Canada	2,814,542	3,778,043
United States	4,389,488	4,828,038
Germany	1,203,042	1,513,794
Other international sales	2,825,222	3,774,288
	<u>11,232,294</u>	<u>13,894,163</u>

11. CAPITAL DISCLOSURES

The Company considers its capital structure to include shareholders' equity and working capital.

	<u>2010</u>	<u>2009</u>
	\$	\$
Working Capital	6,417,493	7,062,256
Shareholders' Equity	12,311,704	12,824,728

The Company's objectives when managing its capital structure are to:

- a) finance internally generated growth; and
- b) maintain financial flexibility to preserve its ability to meet its financial obligations and preserve investor and creditor confidence.

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

The Company is subject to certain financial covenants associated with its revolving operating lines of credit as described in Note 2. As of April 30, 2010, the Company is in compliance with these requirements.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

12. FINANCIAL INSTRUMENTS

Fair Value Measurement

The CICA Handbook Section 3862, "Financial Instruments Disclosures" requires disclosure of a three-level hierarchy for fair value measurements based upon the significance of inputs used in making fair value measurements as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

At April 30, 2010, cash and cash equivalents of \$2,962,655 and restricted cash of \$1,200 were categorized as level 1.

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 are overdue and present a credit risk. As of April 30, 2010, seven international customers had accounts receivable balance totalling \$72,000 or 4.1% of the accounts receivable balance which were more than 90 days overdue. In the event that these seven customers are unable to meet their financial obligations the Company would incur a financial loss.

Liquidity Risk

Liquidity risk is the risk that the company may not be able to meet its financial obligations as they become due. The Company manages liquidity risk through cash management and maintains sufficient operating lines of credit to meet financing requirements that exceed anticipated internally generated funds. All accounts payable and accrued liability amounts are expected to be settled in 90 days.

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements Years Ended April 30, 2010 and 2009

Market Risk

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

Interest Rate Risk

The Company is exposed to interest rate risk with respect to its short-term invested cash and revolving operating lines of credit that bear interest at floating market rates. Fluctuations in the interest rate may impact the company's borrowing costs. As at April 30, 2010, any change in the prime rate would have had no impact on income before income taxes as the Company has not drawn upon its revolving operating line of credit. Any changes in the interest rate will not cause the value of the short-term investments to change and any increases in the interest rate will impact interest income.

Currency Risk

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

Transaction exposure

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

Translation exposure

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

For the year ended April 30, 2010, had the Canadian dollar weakened or strengthened by 1% against the U.S. dollar, with all other variables held constant, earnings and other comprehensive income would have been impacted as follows:

	(Loss) Earnings \$	Other Comprehensive Earnings (Loss) \$
	<hr/>	<hr/>
1% decrease in value of Canadian dollar	17,000	18,639
1% increase in value of Canadian dollar	(17,000)	(18,639)

13. REORGANIZATION COSTS

GALVANIC APPLIED SCIENCES INC.

Notes to the Consolidated Financial Statements **Years Ended April 30, 2010 and 2009**

In fiscal 2010 the Company announced the reorganization of its European distribution of its Monitek product line supported by its office in Dusseldorf, Germany. Costs which include employee severances, office closure costs, professional services, travel, equipment write-offs, and third-party distribution claims, were \$407,210. At April 30, 2010, \$26,039 remains to be paid and is included in accounts payable and accrued liabilities.

14. COMMITMENTS AND CONTINGENCIES

- a) Pursuant to its international sales agreements, the Company is sometimes required to post performance bonds as a guarantee that products shipped will be received in good working order. Performance bonds outstanding at year end have been recorded as restricted funds. Any performance bonds that expire during the fiscal year will be transferred to the Company's general cash position.
- b) The Company is committed to payments under its various leases and contracts. Payments required are as follows:

	<u>\$</u>
2011	438,054
2012	436,474
2013	349,623
2014	84,551
2015	812