



**CONDENSED CONSOLIDATED INTERIM FINANCIAL  
STATEMENTS AND NOTES**  
*(Unaudited)*  
**October 31, 2011 and October 31, 2010**

**Notice of No Auditor Review of Interim Consolidated Financial Statements**

In accordance with National Instrument 51-102 release by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements as at and for three and six months ended, October 31, 2011

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND NOTES

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

As at,	Note	October 31, 2011	April 30, 2011	May 1, 2010
(Unaudited) (Cdn \$)		\$	\$	\$
<b>Assets</b>				
Current				
Cash and cash equivalents	5	4,042,435	3,381,759	2,962,655
Trade and other receivables		3,049,993	1,881,036	1,623,460
Income taxes recoverable		-	-	48,117
Inventory	6	3,083,480	2,773,435	2,450,797
Prepaid expenses		158,890	197,816	134,981
<b>Total current assets</b>		<b>10,334,798</b>	<b>8,234,046</b>	<b>7,220,010</b>
Non-current				
Restricted cash		1,200	1,200	1,200
Investments	7	1,336,763	-	-
Intangible assets	8	3,188,146	3,141,568	2,990,248
Property, plant and equipment		294,933	352,100	591,306
<b>Total non-current assets</b>		<b>4,821,042</b>	<b>3,494,868</b>	<b>3,582,754</b>
<b>Total assets</b>		<b>15,155,840</b>	<b>11,728,914</b>	<b>10,802,764</b>
<b>Liabilities and Equity</b>				
Current				
Trade payables, accruals, provisions and deposits	9	1,986,253	720,501	803,717
Income taxes payable		397,003	42,552	-
<b>Total current liabilities</b>		<b>2,383,256</b>	<b>763,053</b>	<b>803,717</b>
Non-current				
Deferred tax liabilities		638,967	688,168	521,053
<b>Total non-current liabilities</b>		<b>638,967</b>	<b>688,168</b>	<b>521,053</b>
<b>Equity</b>				
Share capital	11	5,003,473	5,003,473	5,003,473
Contributed surplus		965,387	956,917	943,800
Accumulated other comprehensive loss		(25,011)	(147,261)	-
Retained earnings		6,189,768	4,464,564	3,530,721
<b>Total equity</b>		<b>12,133,617</b>	<b>10,277,693</b>	<b>9,477,994</b>
<b>Total liabilities and equity</b>		<b>15,155,840</b>	<b>11,728,914</b>	<b>10,802,764</b>

The notes are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

	Note	Three months ended October 31,		Six months ended October 31,	
		2011	2010	2011	2010
(Unaudited) (Cdn \$)		\$	\$	\$	\$
Revenue		<b>4,231,867</b>	3,218,926	<b>8,086,480</b>	6,134,630
Cost of sales		<b>2,237,507</b>	1,894,108	<b>4,498,214</b>	3,610,603
<b>Gross profit</b>		<b>1,994,360</b>	1,324,818	<b>3,588,266</b>	2,524,027
<b>Other expenses</b>					
Selling and marketing		<b>307,936</b>	369,246	<b>612,709</b>	734,377
Administrative expenses		<b>401,564</b>	395,658	<b>764,687</b>	766,832
Foreign exchange (gain) loss		<b>(44,552)</b>	27,094	<b>(97,977)</b>	24,813
Amortization and depreciation	8	<b>148,037</b>	154,675	<b>256,206</b>	308,763
		<b>812,985</b>	946,673	<b>1,535,625</b>	1,834,785
<b>Revenue less other expenses</b>		<b>1,181,375</b>	378,145	<b>2,052,641</b>	689,242
Investment income		<b>15,663</b>	-	<b>18,637</b>	-
<b>Income before income taxes</b>		<b>1,197,038</b>	378,145	<b>2,071,278</b>	689,242
Income taxes	10	<b>234,280</b>	71,098	<b>346,074</b>	116,821
<b>Net income</b>		<b>962,758</b>	307,047	<b>1,725,204</b>	572,421
<b>Earnings per share</b>					
	13				
Basic		<b>0.06</b>	0.02	<b>0.11</b>	0.04
Diluted		<b>0.06</b>	0.02	<b>0.11</b>	0.04

The notes are an integral part of these condensed consolidated interim financial statements.

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	Note	Three months ended October 31,		Six months ended October 31,	
		2011	2010 (note 18)	2011	2010 (note 18)
(Unaudited) (Cdn \$)		\$	\$	\$	\$
<b>Net Income</b>		<b>962,758</b>	307,047	<b>1,725,204</b>	572,421
Other comprehensive income					
Foreign currency translation adjustment		<b>59,272</b>	(12,389)	<b>70,677</b>	10,999
Unrealized change in value of investments	7	<b>57,179</b>	-	<b>51,573</b>	-
		<b>116,451</b>	(12,389)	<b>122,250</b>	10,999
<b>Total comprehensive income</b>		<b>1,079,209</b>	294,658	<b>1,847,454</b>	583,420

The notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**

	Note	Share capital	Contributed surplus	Cumulative other comprehensive loss (note 18)	Retained earnings (note 18)	Total equity (note 18)
(Unaudited) (Cdn \$)		\$	\$	\$	\$	\$
<b>Balance at May 1, 2010</b>		5,003,473	943,800	-	3,530,721	9,477,994
Net income		-	-	-	572,421	572,421
Other comprehensive income		-	-	10,999	-	10,999
Stock-based compensation expense		-	6,385	-	-	6,385
<b>Balance at October 31, 2010</b>		5,003,473	950,185	10,999	4,103,142	10,067,799
Net income		-	-	-	361,422	361,422
Other comprehensive income		-	-	(158,260)	-	(158,260)
Stock-based compensation expense		-	6,732	-	-	6,732
<b>Balance at April 30, 2011</b>		5,003,473	956,917	(147,261)	4,464,564	10,277,693
Net income		-	-	-	1,725,204	1,725,204
Other comprehensive income		-	-	122,250	-	122,250
Stock-based compensation expense		-	8,470	-	-	8,470
<b>Balance at October 31, 2011</b>		5,003,473	965,387	(25,011)	6,189,768	12,133,617

The notes are an integral part of these condensed consolidated interim financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW**

	Note	Three months ended October 31,		Six months ended October 31,	
		2011	2010	2011	2010
			(note 18)		(note 18)
(Unaudited)(CDN\$)		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Net income		962,758	307,047	1,725,204	572,421
Adjustment for non-cash items:					
Amortization and depreciation		148,037	154,675	256,206	308,763
Deferred income taxes		12,097	57,729	(49,201)	57,729
Stock-based compensation expense	14	4,235	3,193	8,470	6,385
Unrealized (gain) on marketable securities		(57,179)	-	(51,573)	-
Unrealized foreign exchange loss (gain)		42,940	(9,353)	18,533	(3,232)
		<b>1,112,888</b>	513,291	<b>1,907,639</b>	942,066
Changes in non-cash working capital	12	<b>275,071</b>	350,846	<b>222,576</b>	(172,839)
Cash generated from operating activities		<b>1,387,959</b>	864,137	<b>2,130,215</b>	769,227
Income taxes paid		-	-	(42,448)	-
<b>Net cash from operating activities</b>		<b>1,387,959</b>	864,137	<b>2,087,767</b>	769,227
<b>Cash flows used in investing activities</b>					
Purchases of marketable securities	7	(293,256)	-	(1,285,190)	-
Additions to property, plant and equipment		(2,715)	(4,413)	(3,775)	(7,622)
Deferred development costs	8	(143,728)	(111,703)	(241,842)	(208,940)
<b>Net cash used in investing activities</b>		<b>(439,699)</b>	(116,116)	<b>(1,530,807)</b>	(216,562)
Effect of exchange rate changes on cash		<b>73,510</b>	(3,036)	<b>103,716</b>	14,231
<b>Net increase in cash and cash equivalents</b>		<b>1,021,770</b>	744,985	<b>660,676</b>	566,896
<b>Cash and cash equivalents, beginning of period</b>		<b>3,020,665</b>	2,784,566	<b>3,381,759</b>	2,962,655
<b>Cash and cash equivalents, end of period</b>	5	<b>4,042,435</b>	3,529,551	<b>4,042,435</b>	3,529,551

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## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE BUSINESS

Galvanic Applied Sciences Inc. (“the Company”) designs, manufactures, services, and sells an array of analytical measurement equipment into the gas processing industry and industrial process markets. The Company was incorporated under the laws of the Province of Alberta and is headquartered in Calgary, Alberta. The address of its registered office is 7000 Fisher Rd. SE, Calgary, Alberta. The Company is a publically traded Company listed on the Toronto Stock Venture Exchange under the symbol “GAV”.

### 2. BASIS OF PREPARATION

#### Statement of compliance

The condensed consolidated interim financial statements have been prepared on a going-concern basis under the historical cost convention and are in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS1. Subject to certain transition elections disclosed in Note 18, the Company has consistently applied the same accounting policies in its opening IFRS Statement of Financial Position as May 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Comparative figures for 2011 in these interim condensed consolidated financial statements have been restated to give effect to these changes. Note 18 discloses the impact of the transition to IFRS on the Company’s previously reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company’s consolidated financial statements for the year ended April 30, 2011.

The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the Company’s Canadian GAAP annual consolidated financial statements for the year ended April 30, 2011 and its first quarter IFRS consolidated interim financial statements for the period ended July 31, 2011 and July 31, 2010.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors December 14, 2011.

#### Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for investments in marketable securities which are recorded at fair value.

#### Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars which is the Company’s presentation currency.

#### Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and judgments are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The most significant of these estimates are related to the capitalization of new product development projects, impairment of intangible assets and goodwill, estimates in the provision for current and deferred income taxes, and stock- based compensation assumptions.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in the Company's first quarter report have been applied consistently to all periods presented in these consolidated condensed financial statements and in preparing the opening IFRS statement of financial position at May 1, 2011 for the purposes of the transition to IFRS, unless otherwise indicated.

#### Standards and interpretations not yet adopted

The Company has not early adopted new and revised IFRS standards. These standards are set out in the Company's first quarter report.

### 4. CREDIT FACILITY

The Company has a \$2,550,000 undrawn revolving operating line of credit which bears interest at the prime rate plus 0.850%. This facility is subject to annual review. The availability of the operating facility is subject to a monthly borrowing base calculation that considers eligible accounts receivable. Operating advances are payable on demand and are secured by a general security agreement providing a general charge on all assets of the Company and its subsidiaries.

The Company is not required to meet any financial covenants. At October 31, 2011, April 30, 2011, and April 30, 2010, no amounts were drawn on this facility.

### 5. CASH AND CASH EQUIVALENTS

	October 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Cash on deposit	1,823,017	1,813,140	1,360,903
Short term investments	2,219,418	1,568,619	1,601,752
Cash and cash equivalents	4,042,435	3,381,759	2,962,655
The effective interest rate (%) on short term investments	0.88%	0.83%	0.83%

The carrying amounts of cash and cash equivalents approximate fair value due to the short-term maturities.

### 6. INVENTORY

	October 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Raw materials	2,199,427	2,062,091	1,962,270
Work-in-progress	661,135	419,175	207,033
Finished Goods	222,918	292,169	281,494
	3,083,480	2,773,435	2,450,797

The carrying amount of inventory charged to cost of sales during the quarter ended October 31, 2011 was \$1,632,914 (2010 - \$931,930) and \$3,366,716 for the six month period (2010 - \$2,023,138 ) During the three-month period the Company wrote-down inventory of \$20,987 and \$20,987 for the six-month period October 31, 2011. There were no write-downs or write-ups of inventory during the three-month or six-month period ended October 31, 2010.

## 7. INVESTMENTS

The Company's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, are recognized in other comprehensive income.

<b>Available for sale securities</b>	<b>\$</b>
Balance May 1, 2011	-
Purchases of marketable securities	991,934
Unrealized (loss) gain included in other comprehensive income	(5,606)
Fair Value of long term investments – July 31, 2011	<u>986,328</u>
Purchases of marketable securities	293,256
Unrealized (loss) gain included in other comprehensive income	57,179
Fair Value of long term investments – October 31, 2011	<u><u><b>1,336,763</b></u></u>

## 8. INTANGIBLE ASSETS

	Goodwill	Deferred development Costs	Total
	\$	\$	\$
<b>INTANGIBLE ASSETS</b>			
Balance, May 1, 2010	3,442,693	7,709,739	11,152,432
Additions – internally developed	-	208,940	208,940
Balance, October 31, 2010	<u>3,442,693</u>	<u>7,918,679</u>	<u>11,361,372</u>
Additions – internally developed	-	317,596	317,596
Balance, April 30, 2011	<u>3,442,693</u>	<u>8,248,355</u>	<u>11,678,968</u>
Additions – internally developed	-	241,842	241,842
<b>Balance, October 31, 2011</b>	<b><u>3,442,693</u></b>	<b><u>8,478,117</u></b>	<b><u>11,920,810</u></b>
<b>AMORTIZATION AND IMPAIRMENT LOSSES</b>			
Balance, May 1, 2010	2,833,710	5,328,474	8,162,184
Amortization for the period	-	185,809	185,809
<b>Balance, October 31, 2010</b>	<b><u>2,833,710</u></b>	<b><u>5,514,283</u></b>	<b><u>8,254,835</u></b>
Amortization for the period	-	189,407	189,407
Balance, April 30, 2011	<u>2,833,710</u>	<u>5,703,690</u>	<u>8,537,400</u>
Amortization for the period	-	195,264	195,264
<b>Balance, October 31, 2011</b>	<b><u>2,833,710</u></b>	<b><u>5,898,954</u></b>	<b><u>8,732,664</u></b>
<b>NET CARRYING AMOUNTS</b>			
May 1, 2010	608,983	2,381,265	2,990,248
October 31, 2010	<u>608,983</u>	<u>2,404,396</u>	<u>3,013,379</u>
April 30, 2011	<u>608,983</u>	<u>2,532,585</u>	<u>3,141,568</u>
<b>October 31, 2011</b>	<b><u>608,983</u></b>	<b><u>2,579,163</u></b>	<b><u>3,188,146</u></b>

## Goodwill impairment on transition to IFRS

On transition to IFRS, the Company conducted impairment tests on goodwill and development costs. As discussed in note 18, reconciliation of equity on May 1, 2010, the Company recognized impairment on the entire amount of goodwill on the Company's Lowell unit. The Company also conducted an impairment test at the date of transition on goodwill in the Canada unit and deferred development costs and determined there was no impairment on these assets.

The recoverable amounts for goodwill were based on the value in use of the respective cash generating units and, in the case of development costs, the value in use of the respective product lines. Value in use was determined by discounting the future cash flows generated using the following assumptions:

- Cash flows were projected based on the 2011 budget and adjusted for past experience from actual operating results. The cash flows were extrapolated over ten years reflecting the average life cycle for the Company's products.
- A pre-tax discount rate of 16%, reflecting management's assessment of an industry average weighted average cost of capital, including a small Company premium.

## Development costs

Development costs reflect internally generated costs accumulated in developing new products. All products have a finite useful life and the costs are then amortized using the declining balance method over the estimated average sales life of the products, which averages ten years once commercial production commences. The amortization is recognized in amortization expense.

Amortization expense recorded with respect to development costs in the three months ended October 31, 2011 was \$117,421 (2010 - \$93,159), and for the six months ended October 31, 2011 was \$ 195,264 (2010-\$ 185,809), and for the year ended April 30, 2011 was \$375,216.

## 9. TRADE PAYABLES, ACCRUALS, PROVISIONS AND DEPOSITS

	October 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Trade payables	1,136,236	453,937	476,654
Non-trade payables and accrued expenses	252,095	237,942	312,490
Customer deposits	597,922	28,622	14,573
	<b>1,986,253</b>	<b>720,501</b>	<b>803,717</b>

In order to reduce the credit risk the Company may require certain customers to make payments in advance of order acceptance, production and delivery of products. Customer deposits represent amounts received in advance on purchase commitments for instruments.

## 10. INCOME TAXES

Income tax expense is comprised of the following:

	Three months ended		Six months ended	
	October 31,		October 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current tax expense	222,183	13,369	395,275	59,092
Deferred tax expense	12,097	57,729	(49,201)	57,729
Total income tax expense	<b>234,280</b>	<b>71,098</b>	<b>346,074</b>	<b>116,821</b>

## 11. SHARE CAPITAL

### Authorized

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

### Issued

Common shares

	Number of Shares	Amount \$
<b>Balance, October 31, 2011, April 30, 2011 and May 1, 2010</b>	15,741,072	<b>5,003,473</b>

### Stock option plan

The Company has a fixed stock option plan open to directors, officers and employee to purchase shares of the Company. 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, generally vest over three year to five year period, and an option's maximum term is five years. As at October 31, 2011, 780,000 (2010 – 720,000) options were outstanding for common shares at exercise prices ranging from \$0.30 to \$0.47 per shares, expiring between 2013 and 2016 as follows:

	2011		2010	
	Number of Shares Under Option	Weighted Average Exercise Price	Number of Shares Under Option	Weighted Average Exercise Price
Outstanding, beginning of year	780,000	0.33	840,000	0.37
	-	-	-	-
Forfeited	-	-	(120,000)	0.50
Outstanding, end of period	<b>780,000</b>	<b>0.33</b>	720,000	0.32
Exercisable, end of period	<b>435,278</b>	<b>0.32</b>	386,666	0.31

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.

The following table summarizes information about outstanding stock options at October 31, 2011:

Number Outstanding October 31, 2011	Weighted Average Remaining Contractual Life (years)	Exercise Price \$	Options Exercisable	Weighted Average Exercise Price \$
400,000	1.5	0.30	300,000	0.30
320,000	2.83	0.35	124,445	0.35
60,000	4.42	0.47	10,833	0.47
<b>780,000</b>			<b>435,278</b>	

All stock options issued have been accounted for using the fair-value method estimated on the date of the grant using the Black-Scholes option-pricing model.

## 12. CHANGES IN NON-CASH WORKING CAPITAL

	Three months ended		Six months ended	
	October 31,		October 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Trade and other receivables	<b>(257,845)</b>	(211,892)	<b>(1,168,958)</b>	95,270
Income taxes recoverable	-	429,718	-	(163,668)
Inventory	<b>(185,628)</b>	32,572	<b>(310,045)</b>	78,295
Prepaid expenses	<b>27,063</b>	67,496	<b>38,926</b>	(124,525)
Trade payables, accruals, provisions and deposits	<b>467,426</b>	29,652	<b>1,265,753</b>	(45,629)
Income taxes payable	<b>224,055</b>	2,589	<b>396,900</b>	(757)
Reorganization costs	-	711	-	(11,825)
	<b>275,071</b>	350,846	<b>222,576</b>	(172,839)

## 13. EARNINGS PER SHARE

### Basic earnings per share

The calculation of basic earnings per share at October 31, 2011 was based on profit accruable to common shareholders of \$ 962,758 (2010 - \$307,047) and \$ 1,725,000 for the six-months ended October 31, 2011 (2010 - \$572,421), and a weighted average number of common shares outstanding of 15,741,072 for the three month and six month periods in 2011 and 2010.

### Diluted earnings per share

The calculation of diluted earnings per share was based on a weighted average number of common shares outstanding after adjustment for the effect of all dilutive effects of stock options calculated as follows:

	Three months ended		Six months ended	
	October 31,		October 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Weighted average number of common shares outstanding	<b>15,741,072</b>	15,741,072	<b>15,741,072</b>	15,741,072
Effect of stock options	<b>274,609</b>	92,426	<b>240,038</b>	48,344
Weighted average number of common shares (diluted)	<b>16,015,681</b>	15,833,498	<b>15,981,110</b>	15,789,416

Options are excluded from the above calculation if their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

#### 14. 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.

##### (a) 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 (H<sub>2</sub>S) 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.

##### (b) Galvanic Lowell

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

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

## SEGMENTED INFORMATION

	Three months ended October 31, 2011			Three months ended October 31, 2010 (note 18 )		
	Galvanic Canada \$	Galvanic Lowell \$	Total Enterprise \$	Galvanic Canada \$	Galvanic Lowell \$	Total Enterprise \$
Revenue - Canada	1,369,237	93,263	<b>1,462,500</b>	833,956	5,858	<b>839,814</b>
United States	679,294	411,540	<b>1,090,834</b>	763,127	489,572	<b>1,252,699</b>
Other international sales	1,106,770	571,763	<b>1,678,533</b>	743,215	383,198	<b>1,126,413</b>
Total revenue	<b>3,155,301</b>	<b>1,076,566</b>	<b>4,231,867</b>	<b>2,340,298</b>	<b>878,628</b>	<b>3,218,926</b>
Investment income	15,663	-	<b>15,663</b>	-	-	-
Operating costs	1,610,832	626,675	<b>2,237,507</b>	1,257,036	637,072	<b>1,894,108</b>
Other expenses	442,824	222,124	<b>664,948</b>	500,853	291,145	<b>791,998</b>
Amortization and depreciation	145,984	2,053	<b>148,037</b>	152,074	2,601	<b>154,675</b>
Income taxes	170,097	64,183	<b>234,280</b>	71,098	-	<b>71,098</b>
Net segment income	<b>801,227</b>	<b>161,531</b>	<b>962,758</b>	<b>359,237</b>	<b>(52,190)</b>	<b>307,047</b>
Total assets of segments	<b>1,345,786</b>	<b>441,233</b>	<b>1,787,019</b>	<b>246,233</b>	<b>(69,260)</b>	<b>176,973</b>
Expenditures for property, plant and equipment	2,715	-	<b>2,715</b>	4,413	-	<b>4,413</b>
Expenditures for development costs	143,728	-	<b>143,728</b>	111,703	-	<b>111,703</b>

	Six months ended October 31, 2011			Six months ended October 31, 2010 (note 18 )		
	Galvanic Canada	Galvanic Lowell	Total Enterprise	Galvanic Canada	Galvanic Lowell	Total Enterprise
	\$	\$	\$	\$	\$	\$
Revenue - Canada	2,680,891	140,262	<b>2,821,153</b>	1,356,046	68,908	<b>1,424,954</b>
United States	1,096,865	863,422	<b>1,960,287</b>	1,495,642	904,289	<b>2,399,931</b>
Other international sales	2,281,953	1,023,087	<b>4,781,440</b>	1,631,003	678,742	<b>2,309,745</b>
Total revenue	6,059,709	2,026,771	<b>8,086,480</b>	4,482,691	1,651,939	<b>6,134,630</b>
Investment income	18,637	-	<b>18,637</b>	-	-	-
Operating costs	3,287,132	1,211,082	<b>4,498,214</b>	2,405,872	1,204,731	<b>3,610,603</b>
Other expenses	847,035	432,384	<b>1,279,419</b>	954,628	571,394	<b>1,526,022</b>
Amortization and depreciation	252,101	4,105	<b>256,206</b>	303,561	5,202	<b>308,763</b>
Income taxes	238,799	107,275	<b>346,074</b>	116,821	-	<b>116,821</b>
Net segment income	1,453,279	271,925	<b>1,725,204</b>	701,809	(129,388)	<b>572,421</b>
Total assets of segments	12,931,410	2,224,430	<b>15,155,840</b>	10,172,622	1,439,417	<b>11,612,039</b>
Expenditures for property, plant and equipment	3,775	-	<b>3,775</b>	7,622	-	<b>7,622</b>
Expenditures for development costs	241,842	-	<b>241,842</b>	208,940	-	<b>208,940</b>

## 15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS OVERVIEW

### Risk management framework

The Board of directors has overall responsibility for the establishment and oversight of the Company's management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

### 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 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. The Company also insures its international receivables through the Export Development Corporation.

The Company makes provisions for specific accounts to recognize potential impairments which have been included in the accounts through its allowance account.

The carrying amount of these assets included on the Statement of Financial Position represents the maximum credit exposure. The credit risk is generally considered low since substantially all of its customers are well-established and financed companies.

The aging of trade and other receivables at the reporting date was:

	October 31, 2011	April 30, 2011	May 1, 2010
	\$	\$	\$
Current	1,734,511	969,490	856,994
31-60 days	902,195	596,737	471,275
61-90 days	218,261	125,400	103,121
Greater than 90 days	324,655	312,878	274,140
Allowance for doubtful accounts	(129,629)	(124,469)	(82,070)
Accounts receivable	<u>3,046,993</u>	<u>1,881,036</u>	<u>1,623,460</u>

### Liquidity risk

The Company is exposed to liquidity risk through its working capital balance. Liquidity risk is the risk that the Company may not be able to meet its financial obligations as they become due. At October 31, 2011 and April 30, 2011, this risk was limited due to having cash balances significantly in excess of total current liabilities.

### Market risk

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

#### Interest rate risk

The Company is exposed to interest rate risk with respect to its short-term invested cash and cash equivalents. Any changes in the interest rate will not cause the value of the short-term investments to change and any increases or decreases in the interest rate will have a nominal impact on 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:

##### (a) 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.

##### (b) Translation exposure

The functional currency of the Company's U.S. subsidiary is U.S. dollars. 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.

##### (c) Sensitivity analysis

At October 31, 2011, had the Canadian dollar weakened or strengthened by 1% against the U.S. dollar, with all other variables held constant, earnings and other comprehensive income would have been impacted as follows:

	Earnings (Loss)		Other Comprehensive Earnings (Loss)	
	October 31,		October 31,	
	2011	2010	2011	2010
	\$	\$	\$	\$
1% decrease in value of Canadian dollar	19,799	27,295	23,609	18,237
1% increase in value of Canadian dollar	(19,799)	(27,295)	(23,605)	(18,238)

## Financial instruments

- (a) The Company has the following non-derivative financial assets: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets.

### Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as “held for trading” or is “designated at fair value through profit or loss”. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes in fair value are recognized in profit or loss. Cash and cash equivalents and restricted funds are classified as “held for trading”.

### Loans and receivables

“Loans and receivables” are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs less any impairment losses. “Loans and receivables” comprise trade and other receivables.

### Available-for-sale financial assets

“Available-for-sale financial assets” are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Company’s investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments are recognized in other comprehensive income and presented with equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

- (b) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company has the following non-derivative financial liabilities: trade and other payables. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

## Fair value of financial assets and liabilities

The fair values of cash and cash equivalents, accounts receivable and accounts payable, accrued liabilities approximates their carrying amount due to the short-term nature of these items.

Equity securities are recorded at their fair value using quoted market prices in active markets for identical assets.

## Capital risk

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

	<b>October 31, 2011</b>	April 30, 2011
	\$	\$
Working Capital	<b>7,951,542</b>	7,470,994
Shareholders’ Equity	<b>12,133,617</b>	10,277,694

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 a normal course issuer bid.

There were no changes in the Company's approach to capital management during the three and six months ended October 31, 2011

## 16. RELATED PARTY TRANSACTIONS

### Transactions with key management personnel and directors

In addition to salaries and director fees, as applicable, Galvanic Applied Sciences Inc. also provides benefits to executive officers and directors under the stock option program (note 11). Key management personnel and director compensation is comprised of:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>October 31,</b>		<b>October 31,</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
	\$	\$	\$	\$
Compensation	<b>79,700</b>	75,003	<b>156,258</b>	149,631

### Transactions with Subsidiary – Galvanic Applied Sciences U.S.A. Inc.

In the normal course of business the Company purchases and sells certain components to its wholly owned subsidiary. These transactions are not considered to be material and have been eliminated through consolidation. These transactions are recorded at the exchange amount which approximates comparable transactions with third parties.

## 17. 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 operating leases for its facilities and vehicles. Payments required are as follows:

	<u>\$</u>
Remainder of 2012	<b>208,531</b>
2013	<b>334,195</b>
2014	<b>83,125</b>
2015	<b>3,784</b>
Thereafter	<b>2,972</b>

## 18. EXPLANATION OF TRANSITION TO IFRS

As stated in note 2, these are the Company's interim consolidated financial statements for the three and six months ended October 31, 2011 and 2010 prepared in accordance with IFRS.

The accounting policies set out in note 2 of the 2012 first quarter condensed consolidated interim financial statements have been applied in preparing the Consolidated Statement of Operations and the Consolidated Statements of Cash Flows for the three- and six-month periods ended October 31, 2011, the comparative information presented for the three- and six-month periods ended October 31, 2010, the Consolidated Statement of Financial Position at October 1, 2011 and April 30, 2011, and in the preparation of an opening IFRS Consolidated Statement of Financial Position as at May 1, 2010, the date of transition.

In preparing its opening IFRS Consolidated Statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following notes and tables.

### **Elected exemptions from full retrospective application**

IFRS allows first time adopters to IFRS to take advantage of a number of optional exemptions from the general principal of retrospective restatement. The Company has taken the following exemptions:

1. IFRS 2 – Share-based payments (“IFRS 2”)

The Company has elected to apply the exemption for retrospective application of stock-based payments that were granted and have fully vested before the transition date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to outstanding equity instruments that are unvested at the transition date to IFRS.

2. IFRS 3 – Business combinations (“IFRS 3”)

The Company has elected to apply the exemption for retrospective application of IFRS 3 to business combinations that took place before the transition date.

3. IAS 21 – The effects of changes in foreign exchange rates (“IAS 21”)

The Company has elected to apply the exemption for compliance with the requirements for cumulative translation differences existing at the date of transition and deem the cumulative translation differences for all foreign operations to be zero at the transition date.

4. IAS 23 – Borrowing costs

IAS 23 has not been applied retrospectively. As at the transition date, the Company did not have any qualifying assets.

### **IFRS exceptions**

Estimates – In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of May 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

### **Material Adjustments to the Statement of Cash Flows for 2010**

There are no material changes to the statement of cash flows for any of the periods.

## **GAAP to IFRS Financial Statement Adjustments**

In preparing its opening IFRS statements, the Company has adjusted amounts reported previously in the financial statement prepared in accordance with previous Canadian GAAP. The following explains the IFRS required adjustments to the Company's Statement of Financial Position, and Statement of Net Income and Comprehensive Income:

### a) Impairment of goodwill

Under Canadian GAAP the Company assessed goodwill annually, and its potential impairment, on a reporting unit basis. An impairment loss is recognized when the carrying amount of the assets exceeds the sum of undiscounted cash flows expected to be recovered.

Under IFRS the carrying amount of the assets is measured against the recoverable amount using the higher of the asset's fair value less costs to sell and value in use calculation. The calculation requires the measurement to use a discount rate which is based on the pre-tax rate that reflects both the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. IFRS indicates that this rate is the return that investors would require if they were to choose an investment generating cash flows that are equivalent to those the entity expects to derive from the asset. A discount rate of 16% was used.

As a result of the test at the date of transition, the Company has written off the entire value of the goodwill included in the Lowell (CGU) in the amount of \$2,834,000.

### (b) Foreign currency translation adjustment

Under Canadian GAAP, the Company's Lowell operation is considered to be a self-sustaining foreign operation and its accounts are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rate in effect at the Statement of Financial Position balance sheet date and revenue and expenses are translated at average rates for the period. Unrealized gains or losses resulting from these translation adjustments are accumulated in the Consolidated Statement of Other Comprehensive Loss.

Under IFRS the Company has utilized the IFRS 1 exemption with respect to cumulative translation differences existing at the date of transition. Under this exemption, all cumulative translation differences for all foreign operations are deemed to be zero at the date of transition and the previously accumulated translation account, which was included in Accumulated Other Comprehensive Loss, absorbed into retained earnings. As a result \$373,000 was recognized as an adjustment to retained earnings on May 1, 2010. The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRS and shall include later translation differences.

## **Reconciliations between GAAP and IFRS**

The following are reconciliations of the financial statements previously presented under Canadian GAAP to the financial statements prepared under IFRS:

- I. Statement of Financial Position at date of transition – May 1, 2010
- II. Statement of Financial Position at October 31, 2010
- III. Statement of Financial Position at April 30, 2011
- IV. Statement of Net Income and Comprehensive Income (Loss) for the three months ended October 31, 2010
- V. Statement of Net Income and Comprehensive Income (Loss) for the six months ended October 31, 2010

Reconciliation of Assets, Liabilities and Equity as reported under Canadian GAAP to IFRS

Note	April 30, 2011			October 31, 2010			May 1, 2010		
	Canadian			Canadian			Canadian		
	GAAP	Adj.	IFRS	GAAP	Adj.	IFRS	GAAP	Adj.	IFRS
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>									
<b>Current</b>									
Cash and cash equivalents	3,381,759	-	<b>3,381,759</b>	3,529,551	-	<b>3,529,551</b>	2,961,455	-	<b>2,962,655</b>
Trade and other receivables	1,881,036	-	<b>1,881,036</b>	1,787,128	-	<b>1,787,128</b>	1,623,460	-	<b>1,623,460</b>
Income taxes recoverable	-	-	-	48,874	-	<b>48,874</b>	48,117	-	<b>48,117</b>
Inventory	2,773,435	-	<b>2,773,435</b>	2,575,322	-	<b>2,575,322</b>	2,450,797	-	<b>2,450,797</b>
Prepaid expenses	197,816	-	<b>197,816</b>	180,610	-	<b>180,610</b>	136,181	-	<b>134,981</b>
<b>Total current assets</b>	<b>8,234,046</b>	-	<b>8,234,046</b>	<b>8,121,485</b>	-	<b>8,121,485</b>	<b>7,220,010</b>	-	<b>7,220,010</b>
<b>Non-current</b>									
Restricted cash	1,200	-	<b>1,200</b>	1,200	-	<b>1,200</b>	1,200	-	<b>1,200</b>
Investments	-	-	-	-	-	-	-	-	-
Intangible assets	18(a) 5,975,278	(2,833,710)	<b>3,141,568</b>	5,847,089	(2,833,710)	<b>3,013,379</b>	5,823,958	(2,833,710)	<b>2,990,248</b>
Property, plant and equipment	352,100	-	<b>352,100</b>	475,975	-	<b>475,975</b>	591,306	-	<b>591,306</b>
<b>Total non-current assets</b>	<b>6,328,578</b>	<b>(2,833,710)</b>	<b>3,494,868</b>	<b>6,324,264</b>	<b>(2,833,710)</b>	<b>3,490,554</b>	<b>6,416,464</b>	<b>(2,833,710)</b>	<b>3,582,754</b>
<b>Total assets</b>	<b>14,562,624</b>	<b>(2,833,710)</b>	<b>11,728,914</b>	<b>14,445,749</b>	<b>(2,833,710)</b>	<b>11,612,039</b>	<b>13,636,474</b>	<b>(2,833,710)</b>	<b>10,802,764</b>
<b>Liabilities and Equity</b>									
<b>Current</b>									
Trade payables, accruals, provisions and deposits	720,501	-	<b>720,501</b>	887,163	-	<b>887,163</b>	803,717	-	<b>803,717</b>
Income taxes payable	42,552	-	<b>42,552</b>	78,295	-	<b>78,295</b>	-	-	-
<b>Total current liabilities</b>	<b>763,053</b>	-	<b>763,053</b>	<b>965,458</b>	-	<b>965,458</b>	<b>803,717</b>	-	<b>803,717</b>
<b>Non-current</b>									
Deferred tax liabilities	688,168	-	<b>688,168</b>	578,782	-	<b>578,782</b>	521,053	-	<b>521,053</b>
<b>Total non-current liabilities</b>	<b>688,168</b>	-	<b>688,168</b>	<b>578,782</b>	-	<b>578,782</b>	<b>521,053</b>	-	<b>521,053</b>
<b>Equity</b>									
Share capital	5,003,473	-	<b>5,003,473</b>	5,003,473	-	<b>5,003,473</b>	5,003,473	-	<b>5,003,473</b>
Contributed surplus	956,917	-	<b>956,917</b>	950,185	-	<b>950,185</b>	943,800	-	<b>943,800</b>
Accumulated other comprehensive loss	18(b) (520,243)	372,982	<b>(147,261)</b>	(361,983)	372,982	<b>10,999</b>	(372,982)	372,982	-
Retained earnings	18(a) 7,671,256	(3,206,692)	<b>4,464,564</b>	7,309,834	(3,206,692)	<b>4,103,142</b>	6,737,413	(3,206,692)	<b>3,530,721</b>
<b>Total equity</b>	<b>13,111,403</b>	<b>(2,833,710)</b>	<b>10,277,693</b>	<b>12,901,509</b>	<b>(2,833,710)</b>	<b>10,067,799</b>	<b>12,311,704</b>	<b>(2,833,710)</b>	<b>9,477,994</b>
<b>Total liabilities and equity</b>	<b>14,562,624</b>	<b>(2,833,710)</b>	<b>11,728,914</b>	<b>14,445,749</b>	<b>(2,833,710)</b>	<b>11,612,039</b>	<b>13,636,474</b>	<b>(2,833,710)</b>	<b>10,802,764</b>

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS**

	Three months ended October 31, 2010			Six months ended October 31, 2010		
	Canadian		IFRS	Canadian		IFRS
	GAAP	Adj		GAAP	Adj	
	\$	\$	\$	\$	\$	\$
Revenue	3,218,926	-	<b>3,218,926</b>	6,134,630	-	<b>6,134,630</b>
Cost of sales	1,894,108	-	<b>1,894,108</b>	3,610,603	-	<b>3,610,603</b>
<b>Gross profit</b>	<b>1,324,818</b>	-	<b>1,324,818</b>	<b>2,524,027</b>	-	<b>2,524,027</b>
<b>Other expenses</b>						
Selling and marketing	369,246	-	<b>369,246</b>	734,377	-	<b>734,377</b>
Administrative expenses	395,658	-	<b>395,658</b>	766,832	-	<b>766,832</b>
Foreign exchange loss	27,094	-	<b>27,094</b>	24,813	-	<b>24,813</b>
Amortization and depreciation	154,675	-	<b>154,675</b>	308,763	-	<b>308,763</b>
	946,673	-	<b>946,673</b>	1,834,785	-	<b>1,834,785</b>
<b>Revenue less other expenses</b>	<b>378,145</b>	-	<b>378,145</b>	<b>689,242</b>	-	<b>689,242</b>
Investment income	-	-	-	-	-	-
<b>Income before income taxes</b>	<b>378,145</b>	-	<b>378,145</b>	<b>689,242</b>	-	<b>689,242</b>
Income taxes	71,098	-	<b>71,098</b>	116,821	-	<b>116,821</b>
<b>Net income</b>	<b>307,047</b>	-	<b>307,047</b>	<b>572,421</b>	-	<b>572,421</b>
<b>Other comprehensive income</b>						
Foreign currency translation adjustment	(12,389)	-	<b>(12,389)</b>	10,999	-	<b>10,999</b>
<b>Total comprehensive income</b>	<b>294,658</b>	-	<b>294,658</b>	<b>583,420</b>	-	<b>583,420</b>
<b>Earnings per share</b>						
Basic	0.02	-	<b>0.02</b>	0.04	-	<b>0.04</b>
Diluted	0.02	-	<b>0.02</b>	0.04	-	<b>0.04</b>