



BCSC British Columbia Securities Commission

QUARTERLY AND YEAR END REPORT

BC FORM 51-901
(previously Form 61)

Freedom of Information and Protection of Privacy Act: The personal information requested on this form is collected under the authority of and used for the purpose of administering the Securities Act. Questions about the collection or use of this information can be directed to the Supervisor, Financial Reporting (604-899-6729), PO Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver BC V7Y 1L2. Toll Free in British Columbia 1-800-373-6393

INSTRUCTIONS

This report must be filed by Exchange Issuers within 60 days of the end of their first, second and third fiscal quarters and within 140 days of their year end. "Exchange issuer" means an issuer whose securities are listed and posted for trading on the Canadian Venture Exchange and are not listed and posted on any other exchange or quoted on a trading or quotation system in Canada. Three schedules must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements prepared in accordance with generally accepted accounting principles are required as follows:

For the first, second and third financial quarters:

Interim financial statements prepared in accordance with section 1751 of the CICA Handbook, including the following: balance sheet, income statement, statement of retained earnings, cash flow statement, and notes to the financial statements.

The periods required to be presented, consistent with CICA Handbook section 1751, are as follows:

- a balance sheet as of the end of the current interim period and a comparative balance sheet as of the end of the immediately preceding fiscal year;
- a statement of retained earnings cumulatively for the current fiscal year-to-date, with a comparative statement for the comparable year-to-date period of the immediately preceding fiscal year; and
- income statements and cash flow statements for the current interim period and cumulatively for the current fiscal year-to-date, with comparative statements for the comparable interim periods (current and year-to-date) of the immediately preceding fiscal year.

For the financial year end:

Annual audited financial statements prepared on a comparative basis.

Exchange Issuers with a fiscal year of less than or greater than 12 months should refer to National Policy No. 51 *Changes in the Ending Date of a Financial Year and in Reporting Status* for guidance.

Issuers in the development stage are directed to the guidance provided in CICA Accounting Guideline AcG-11 *Enterprises in the Development Stage* that states "enterprises in the development stage are encouraged to disclose in the income statement and in the cash flow statement cumulative balances from the inception of the development stage."

Issuers that have been involved in a reverse take-over should refer to the guidance found in BCIN #52-701 (previously NIN #91/21) with respect to such transactions including the requirement for disclosure of supplementary information regarding the legal parent's prior financial operations.

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. Analysis of expenses and deferred costs

Provide a breakdown of amounts presented in the financial statements for the following: deferred or expensed exploration, expensed research, deferred or expensed development, cost of sales, marketing expenses, general and administrative expenses, and any other material expenses reported in the income statement and any other material deferred costs presented in the balance sheet.

The breakdown should separately present, at a minimum, each component that comprises 20% or more of the total amount for a material classification presented on the face of the financial statements. All other components of a material classification may be grouped together under the heading "miscellaneous" or "other" in the cost breakdown; the total for "miscellaneous" should not exceed 30% of the total for a material classification.

Breakdowns are required for the year-to-date period only.
Breakdowns are not required for comparative periods.

Issuers in the development stage are reminded that Section 3(9)(b) of the BC Securities Commission's Rules requires a schedule or note to the financial statements containing an analysis of each of exploration, research, development and administration costs, whether expensed or deferred and if the issuer is a natural resource issuer, that analysis for each material property. Because the analysis required by Rule 3(9)(b) must be included in the financial statements, the information does not have to be repeated in Schedule B. Consistent with CICA Accounting Guidelines AcG-11, staff considers an issuer to be in the development stage when it is devoting substantially all of its efforts to establishing a new business and planned principal operations have not commenced. Further, in staff's view, the lack of significant revenues for the past two years normally indicates that an issuer is in the development stage.

2. Related party transactions

Provide disclosure of all related party transactions as specified in Section 3840 of the CICA Handbook.

3. Summary of securities issued and options granted during the period

Provide the following information for the year-to-date period:

- (a) summary of securities issued during the period, including date of issue, type of security (common shares, convertible debentures, etc.), type of issue (private placement, public offering, exercise of warrants, etc.) number, price, total proceeds, type of consideration (cash, property, etc.) and commission paid, and
- (b) summary of options granted during the period, including date, number, name of optionee for those options granted to insiders, generic description of other optionees (e.g. "employees".) exercise price and expiry date.

4. Summary of securities as at the end of the reporting period Provide the following information as at the end of the reporting period:

- (a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions
- (b) number and recorded value for shares issued and outstanding,
- (c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and
- (d) number of shares in each class of shares subject to escrow or pooling agreements.

5. List the names of the directors and officers as at the date this report is signed and filed.

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

1. **General Instructions**
 - (a) Management discussion and analysis provided management with the opportunity to discuss an issuer's business, current financial results, position and future prospects.
 - (b) Focus the discussion on material information, including liquidity, capital resources, known trends, commitments, events, risks or uncertainties, that is reasonably expected to have a material effect on the issuer.
 - (c) For an issuer with active ongoing operations the discussion should be substantive (e.g. generally two to four pages in length); for an issuer with limited operations the discussion may not be as extensive (e.g. generally two to four pages in length); for an issuer with limited operations the discussion may not be as extensive (e.g. one page).
 - (d) The discussion must be factual, balanced and non-promotional.
 - (e) Where the discussion relates to a mineral project, as defined in National Instrument 43-101 "Standards of Disclosure for Mineral Projects," the disclosure must comply with NI 43-101.
2. **Description of Business**
Provide a brief description of the issuer's business. Where an issuer is inactive and has no business, disclose these facts together with a description of any plans to reactivate and the business the issuer intends to pursue.
3. **Discussion of Operations and Financial Condition**
Provide a meaningful discussion and analysis of the issuer's operations for the current year-to-date period presented in the financial statements. Discuss the issuer's financial condition as at the date of the most recent balance sheet presented in the financial statements.


The following is a list of items that should be addressed in management's discussion and analysis of the issuer's operations and financial condition. This is not intended to be an exhaustive list of the relevant items.
 - (a) expenditures included in the analysis of expenses and deferred costs required under Securities Rule 3(9)(b) and Schedule B;
 - (b) acquisition or abandonment of resource properties material to the issuer including material terms of any acquisition or disposition;
 - (c) acquisition or disposition of other material capital assets including material terms of the acquisition, or disposition;
 - (d) material write-off or write-down of assets;
 - (e) transactions with related parties, disclosed in Schedule B or the notes to the financial statements;
 - (f) material contracts or commitments;
 - (g) material variances between the issuer's financial results and information previously disclosed by the issuer, (for example if the issuer does not achieve revenue and profit estimates previously released, discuss this fact and the reasons for the variance);
 - (h) material terms of any existing third party investor relations arrangements or contracts including:
 - i. the name of the person;
 - ii. the amount paid during the reporting period; and
 - iii. the services provided during the reporting period;
4. **Subsequent Events**
Discuss any significant events and transactions that occurred during the time from the date of the financial statements up to the date that this report is certified by the issuer.
5. **Financings, Principal Purposes and Milestones**
 - (a) in a tabular format, compare any previously disclosed principal purposes from a financing to actual expenditures made during the reporting period.
 - (b) Explain any material variances and the impact, if any, on the issuer's ability to achieve previously disclosed objectives and milestones.
6. **Liquidity and Solvency**
Discuss the issuer's working capital position and its ability to meet its ongoing obligations as they become due.

How to File Under National Instrument 13-101 – System for Electronic Document Analysis and Retrieval (SEDAR)

BC Form 51-901 Quarterly and Yearly end Reports are filed under Category of Filing: Continuous Disclosure and Filing Type: Interim Financial Statements or Annual Financial Statements. Schedule A (Financial Statements) is filed under Document Type: Interim Financial Statements or Annual Financial Statements. Schedule B (Supplementary Information) and Schedule C (Management Discussion) are filed under Document Type: BC Form 51-901 (Previously Document type Form 61 (BC)).

Meeting the Form Requirements

BC Form 51-901 consists of three parts: Instructions to schedules a, B and C, issuer details and a certificate. To comply with National Instrument 13-101 it is not necessary to reproduce the instructions that are set out in BC Form 51-901. A cover page to the schedules titled BC Form 51-901 that includes the issuer details and certificate is all that is required to meet the BC Form 51-901 requirements. The form of certificate should be amended so as to refer to one or two of the three schedules required to complete the report.

ISSUER DETAILS		FOR QUARTER ENDED June 30, 2004		DATE OF REPORT		
NAME OF ISSUER HEDLEY TECHNOLOGIES INC.				YY	MM	DD
ISSUER ADDRESS 2601 MATHESON BLVD. E, SUITE 5				04	08	13
CITY MISSISSAUGA	PROVINCE ONTARIO	POSTAL CODE L4W5A8	ISSUER FAX NO. (905) 206-1413	ISSUER TELEPHONE NO. (905) 206-0013		
CONTACT NAME JOSEPH ARCURI		CONTACT POSITION CFO		CONTACT TELEPHONE NO. (905) 206-0013 X301		
CONTACT EMAIL ADDRESS: jarcuri@hedleytech.com		WEB SITE ADDRESS: www.hedleytech.com				
<i>Certificate The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.</i>						
DIRECTOR'S SIGNATURE 		PRINT FULL NAME PETER D. LOCKHARD		DATE SIGNED August 13, 2004		
DIRECTOR'S SIGNATURE 		PRINT FULL NAME RENE C. GOEHRUM		DATE SIGNED August 13, 2004		

HEDLEY TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2004 AND DECEMBER 31, 2003

	<u>June 30</u> <u>2004</u>	<u>December 31</u> <u>2003</u>
ASSETS		
Current		
Cash	\$ 175,713	\$ 183,416
Accounts receivable	75,867	77,972
Other receivable	400,000	
Inventories	70,399	70,157
Prepaid expenses and deposits	<u>27,243</u>	<u>410,045</u>
	749,222	741,590
Equipment	<u>28,155</u>	<u>31,796</u>
	<u>\$ 777,377</u>	<u>\$ 773,386</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 223,361	\$ 166,529
Deposits payable	<u>70,656</u>	<u>-</u>
	294,017	166,529
SHAREHOLDERS' EQUITY		
Share capital	6,854,829	6,842,828
Contributed surplus	23,755	23,755
Deficit	<u>(6,395,224)</u>	<u>(6,259,726)</u>
Total Shareholders' Equity	<u>483,360</u>	<u>606,857</u>
	<u>\$ 777,377</u>	<u>\$ 773,386</u>

Approved by the Directors



DIRECTOR



DIRECTOR

HEDLEY TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE THREEE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

	Six Months Ended		Three Month Period	
	June 30		April - June	
	2004	2003	2004	2003
REVENUE				
Sales	\$ 403,172	\$ 431,194	\$ 183,967	\$ 335,467
Cost of goods sold	168,837	252,653	70,846	181,973
Gross profit	<u>234,335</u>	<u>178,541</u>	<u>113,121</u>	<u>153,494</u>
EXPENSES				
Amortization and depreciation	3,571	94,625	1,803	46,279
Consultants	62,926	73,923	27,979	38,481
Management salaries	113,887	59,167	57,502	27,000
Equipment rental	479	312	160	312
Interest and bank charges	4,513	2,928	2,355	2,152
Foreign exchange	(3,893)	23,339	(3,099)	12,317
Legal and accounting	11,916	14,849	2,798	7,077
Office and miscellaneous	22,173	26,766	12,446	13,821
Printing and shareholder relations	6,248	5,612	4,970	5,140
Rent	8,087	7,591	4,077	3,879
Salary and benefits	77,976	82,329	35,837	42,071
Selling and marketing	15,482	16,559	7,966	12,244
Transfer agent and filing fees	6,859	8,842	3,550	2,234
Travel and accommodations	36,522	19,744	21,458	12,839
Warehousing	3,087	195	1,941	111
	<u>369,833</u>	<u>436,781</u>	<u>181,743</u>	<u>225,957</u>
Loss from operations	(135,498)	(258,240)	(68,622)	(72,463)
Deficit, beginning of period	<u>(6,259,726)</u>	<u>(5,844,851)</u>	<u>(6,326,602)</u>	<u>(6,030,628)</u>
Deficit, end of period	<u>(\$ 6,395,224)</u>	<u>(\$ 6,103,091)</u>	<u>(\$ 6,395,224)</u>	<u>(\$ 6,103,091)</u>
Loss per share	<u>\$ 0.011</u>	<u>\$ 0.021</u>	<u>\$ 0.006</u>	<u>\$ 0.006</u>

HEDLEY TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREEE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

	Six Months Ended		Three Month Period	
	June 30		April - June	
	2004	2003	2004	2003
OPERATING ACTIVITIES				
Net (loss) gain for the period	(\$ 135,498)	(\$ 258,240)	(\$ 68,622)	(\$ 72,463)
Items not requiring cash				
Amortization and depreciation	3,571	94,628	1,803	46,279
Other	71	-	35	-
	(131,856)	(163,612)	(66,784)	(26,184)
Change in non-cash working capital items:				
Accounts and other receivable	(397,895)	(192,000)	(326,535)	(109,572)
Inventories	(242)	45,899	(2,715)	16,251
Prepaid expenses and deposits	482,802	(370,170)	503,509	2,974
Accounts payable and accrued liabilities	(43,168)	84,214	(116,559)	109,116
Cash applied to operating activities	(90,359)	(595,669)	(9,084)	(7,415)
INVESTING ACTIVITIES				
Purchase of capital assets	-	(1,067)	-	-
Patents and deferred development costs	-	(11,806)	-	517
Cash from investing activities	-	(12,873)	-	517
FINANCING ACTIVITIES				
Proceeds form customer deposits	70,656	-	30,791	-
Proceeds from exercised warrants	12,000	400,000	5,000	-
Cash from financing activities	82,656	400,000	35,791	-
INCREASE (DECREASE) IN CASH	(7,703)	(208,542)	26,707	(6,898)
CASH, BEGINNING OF PERIOD	183,416	418,295	149,006	216,651
CASH, END OF THE PERIOD	\$ 175,713	\$ 209,753	\$ 175,713	\$ 209,753

Schedule A
To Quarterly Report of Hedley Technologies Inc.
For the Six Months Ended June 30, 2004

1. Basis of presentation

These consolidated financial statements present the accounts of Hedley Technologies Inc. (the "Company") and its two wholly owned subsidiaries, Hedley Technologies (USA) Inc. and HTI Agritech Inc. Hedley Technologies (USA) Inc. (formerly HTI Agritech (USA) Inc.) was incorporated on May 13, 1994 in the state of Washington, USA. HTI Agritech was incorporated on January 30, 1996 in the Province of British Columbia, Canada. Both subsidiaries commenced operations during 1996.

These financial statements have been prepared on the basis that the company will be able to realize its assets and satisfy its liabilities in the normal course of business. The Company has incurred substantial losses in its operating history resulting in a deficit of \$6,395,224 as at June 30, 2004. Continued operation of the Company as a going concern is dependent upon it obtaining adequate additional financing and/or generating sufficient revenues from its products.

All intercompany transactions have been eliminated in the consolidated financial statements. The accounts of Hedley Technologies (USA) Inc. have been consolidated using the temporal method of foreign currency translation.

The financial statements contained herein have neither been reviewed nor audited by the Company's auditors.

2. Significant accounting policies

The accounting policies of the Company are in accordance with Canadian Generally Accepted Accounting principles and their basis of application is consistent with that of the previous year. Outlined below are the policies considered to be particularly significant.

(a) Equipment

Equipment is stated at cost. The Company records amortization of equipment at the following rates and methods:

Furniture	20% declining balance
Equipment	20% declining balance
Mould and design drawings	20% declining balance
Computer equipment	30% declining balance

(b) Inventories

Finished goods and raw materials are stated at the lower of cost and net realizable value.

(c) Foreign currency translation

Amounts denominated in foreign currencies have been translated into Canadian dollars as follows:

- i. Monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date;
- ii. Non-monetary assets and liabilities at the rate of exchange prevailing at the time of acquisition of the assets or assumption of the liabilities; and

Schedule A
To Quarterly Report of Hedley Technologies Inc.
For the Six Months Ended June 30, 2004

- iii. Revenue and expenses at rates approximating the rates of exchange prevailing on the transaction date except for amortization, which is translated at the same rate as the assets to which it relates.

Gains or losses on translation are included in current period's operations.

(d) Future income taxes

Income taxes are accounted for under the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs.

(e) Use of estimates by management

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(f) Revenue recognition

Revenue resulting from the sale of goods is recognized when goods are shipped to and accepted by distributors, resellers or final customers.

3. Equipment

Equipment consists of the following:

June 30, 2004	Cost	Accumulated Amortization	Net Book Value
Furniture	\$ 33,022	\$ 28,219	\$ 4,803
Equipment	26,266	21,484	4,782
Mould and design drawings	24,552	13,238	11,314
Computer Equipment	68,936	61,680	7,256
	\$ 152,776	\$ 124,622	\$ 28,155

4. Income taxes

As at December 31, 2003, the Company has accumulated operating losses for Canadian tax purposes of approximately \$2,201,193 and for American tax purposes of approximately US\$451,425, which may be carried forward to reduce taxable income in future years. The Canadian losses expire between the years 2004 and 2010, and the American losses expire between the years 2017 and 2022. The potential income tax benefits arising from these losses and carryforwards are not recorded as a future income tax asset due to the uncertainty of their utilization.

Schedule A
To Quarterly Report of Hedley Technologies Inc.
For the Six Months Ended June 30, 2004

The Company also has excess of unamortized capital cost over net book value of equipment of approximately \$408,951, which can be used to reduce taxable income in future years. The company also has a carryforward of Investment Tax Credits of \$101,800 and a balance of Scientific Research and Experimental Development expenditures of approximately \$427,500 which can be carried forward and used to reduce taxable income in future years.

5. Insurance Coverage

The Company's insurance coverage expired on January 1, 2003 the Company continues to operate without insurance coverage.

6. Financial instruments and concentration of risk

The carrying values of cash, accounts receivable, long-term investment, accounts payable and accrued liabilities and notes payable approximate their respective fair values.

It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial statements.

Schedule B
To Quarterly Report of Hedley Technologies Inc.
For the Six Months Ended June 30, 2004

1. For the Six Months Ended June 30, 2004

a) Selling and marketing

	2004
Product trademark, registrations and permits	\$ 9,030
Freight-out and brokerage	391
Conferences and exhibitions	1,721
Product advertising and promotions	4,340
	\$ 15,482

b) Office and miscellaneous

	2004
Utilities and maintenance	\$ 1,461
Office supplies	3,840
Postage and courier	5,998
Insurance	-
Telephone	9,865
Other	1,009
	\$ 22,173

2. Related Party Transactions

None

3. For the Six Months Ended June 30, 2004:

a) Securities Issued

The following securities were issued during the period:

Date of Issue	Type of Security	Type of Issue	Number of Shares	Price per Share	Total Proceeds	Consideration
March 17, 2004	Common	Exercise of Warrant	70,000	\$ 0.10	\$ 7,000	Cash
May 3, 2004	Common	Exercise of Warrant	50,000	\$ 0.10	\$ 5,000	Cash

b) Options Granted

None

Schedule B
To Quarterly Report of Hedley Technologies Inc.
For the Six Months Ended June 30, 2004

4. As at June 30, 2004:

a) Share Capital

Authorized 100,000,000 common shares without par value; and
25,000,000 preferred shares without par value

b) Shares issued and outstanding

	Number of Shares	Amount
Balance at beginning of period	12,195,195	\$ 6,842,828
Exercise of Warrants	120,000	12,000
Balance at the end of the period	<u>12,315,195</u>	<u>\$ 6,854,828</u>

There are no preferred shares issued and outstanding.

Schedule B
To Quarterly Report of Hedley Technologies Inc.
For the Six Months Ended June 30, 2004

c) i) Stock Options

The Company has granted stock options to directors and employees entitling them to acquire common shares of the Company as follows

Number of Shares	Exercise Price	Expiry Date
200,000	\$0.10	January 17, 2006
100,000	\$0.10	December 19, 2007
200,000	\$0.10	January 17, 2006
70,000	\$0.10	January 17, 2006
170,000	\$0.10	January 17, 2006
70,000	\$0.10	January 17, 2006
70,000	\$0.10	January 17, 2006
20,000	\$0.10	October 31, 2007
50,000	\$0.10	December 19, 2007
55,000	\$0.10	January 17, 2006
45,000	\$0.10	January 17, 2006
Total 1,050,000		

ii) Warrants

During 2003, the Company closed a private placement which included the sale of 2,000,000 units at a price of \$0.10 per unit. Each unit consisted of one common share and one warrant to purchase one common share at \$0.10 until March 4, 2005. As at June 30, 2004 there remain 1,880,000 warrants outstanding.

c) Escrow Shares

None

5. a) List of Directors

René C. Goehrum Milton Wakefield
Douglas Larson Peter Lockhard

b) List of Officers

René C. Goehrum – Chairman and Chief Executive Officer
Douglas Larson – President and Chief Operating Officer
Joseph Arcuri – Chief Financial Officer

The following discussion is based on Hedley Technologies Inc.'s ("Hedley" or the "Company") interim consolidated financial statements for the six months ended June 30, 2004, which were prepared in accordance with Canadian generally accepted accounting principles. The discussion of financial conditions and results of operations should be read in conjunction with the consolidated financial statements and notes. These consolidated financial statements were prepared by the Company's management and were neither reviewed nor audited by the Company's auditors.

Description of Business

Hedley Technologies Inc. is a publicly traded lifescience company that develops, acquires, and commercializes proprietary science-based technologies that advance human health, public safety, and the value of agricultural production. At present the company manufactures and markets two products, namely Protect-It[®] and Insecolo[™], and also markets INSTI[®] HIV-1/HIV-2 Rapid Antibody Test ("INSTI[®]") as the Global Master Distributor under a long-term license and distribution agreement. This agreement was reached in March 2003. Since then, the Company's focus has been on pre-sale business development activity, therefore there are no sales results relating to this product to report to date.

Protect-It[®] is a non-chemical, food-safe grain insecticide. The patented formula contains a natural mineral called diatomaceous earth ("DE"). Protect-It[®] was developed through collaborative research with the Winnipeg based Cereal Research Centre of Agriculture and Agri-Food Canada. Protect-It[®] is used as a preventative treatment against insect infestations in stored grains. It is registered for use in Canada, the United States, China, Croatia and Syria.

Insecolo[™] is a natural insecticide for home and garden use made from a patented formula of DE and food grade additives. It is registered for use in Canada, the United States and Japan.

INSTI[®] HIV-1/HIV-2 Rapid Antibody Test is a rapid in vitro qualitative test for the detection of antibodies to Human Immunodeficiency Viruses Types 1 and 2 (collectively referred to as HIV-1/2) in human whole blood, serum or plasma. The test is intended for use by trained personnel in medical facilities, clinical laboratories, and emergency care situations as a point-of-care test capable of providing results in less than sixty seconds.

In late 2002 the Company made the strategic decision to focus additional resources in the area of human health. It has identified this as an area of significant growth potential. A licensing agreement with BioLytical Laboratories Inc. of Richmond, British Columbia, Canada for the INSTI[®] is the first of what the company intends will be a portfolio of licensed product offerings in the area of human health.

INSTI[®] clinical trials were completed in the second quarter by the manufacturer and a dossier has been prepared and submitted to Health Canada for product approval. Shortly following quarter end, INSTI[®] received approval and registration from the Department of Health, Bureau of Food & Drugs for the Republic of the Philippines.

Results of Operations

Sales for the six months ended June 30th, 2004 were \$403,172 down \$28,022 (6.5%) from the same period in 2003 and resulted from a combination of lower Insecolo[™] sales and an increase in sales of Protect-It[®]. Year-to-date Insecolo[™] sales decreased 47% when compared to prior year due to benefits derived in the previous year from initial investments made in inventory by our customer. This decline was expected and mitigated by an increase in sales of the higher margin Protect- It[®] of approximately \$71,598 (34%). Despite the overall decrease in dollar volume sales, aggregate gross profit increased approximately \$56,000 or 31% from the equivalent prior period. The increased year-to-date higher margin Protect- It[®] sales also improved overall gross profit margins from 41% to 58%.

The net loss for the period ended June 30, 2004 was \$135,498 (2003 - \$258,240) down \$122,742 from the equivalent prior period. The net loss per share for the six month period was \$0.01 down from \$0.02 per share for the period ending June 30, 2003. The decrease in year-to-date operating losses resulted primarily from a decrease in depreciation charges, foreign currency losses and increased gross profit and an increase in the average number of shares outstanding.

Total operating expenses for the quarter amounted to \$181,743 compared to \$225,957 for the equivalent prior year period; a decrease of \$66,948 or 15%. This decrease relates to decreased depreciation charges for the quarter off set by increased market development and human resource costs both of which were focused on INSTI[®]. Depreciation and amortization for the quarter decreased \$44,476 and is a reflection of the Company's reduced research and development initiatives and its migration to sales network and channel development. Net loss for the current quarter decreased by \$3,841 to \$68,622 when compared to the equivalent prior year quarter.

As at June 30, 2004 current assets were \$749,222, up \$7,632 from December 31, 2003. This increase resulted primarily from further deposit monies received from a distributor. Cash on hand at quarter end was down \$7,703 from December 31, 2003. Accounts receivable balances and inventory levels remained relatively constant. Accounts payable and accrued liabilities have increased by \$56,832 from fiscal 2003 year end, a significant portion of which relates to unpaid salaries to senior officers of the Company who have agreed to defer a portion of their base compensation.

During the quarter, a warrant holder exercised 50,000 warrants netting the Company \$5,000. During this fiscal year-to-date, 120,000 warrants have been exercised, at an exercise price of \$0.10, thus netting the Company a total of \$12,000. Of the 2,000,000 warrants issued as part of a 2003 private placement, 1,880,000 warrants remain outstanding and expire on March 4, 2005. As at June 30, 2004, 12,315,195 common shares were issued and outstanding.

The Company continues to operate without property and liability insurance and continues to seek appropriate coverage.

Material Differences in Actual Use of Proceeds

There has been no material difference in the actual use of proceeds from any previous disclosure by the issuer regarding the intended use of the proceeds.

Investor Relations Activities

Investor relations functions were accomplished through personnel whose duties include dissemination of news releases, investor communications and general day-to-day operations of the company. Mr. René Goehrum, Chairman and Chief Executive Officer, Mr. Douglas Larson, President and Chief Operating Officer and Mr. Joseph Arcuri, Chief Financial Officer, assist in the implementation of our investor relations program.

Legal Proceedings, Liquidity and Solvency

At this time, no legal proceedings by/or affecting the Company have been commenced. Working capital at June 30, 2004 was \$455,205 versus \$575,061 on December 31, 2003. Other than normal trade payables the Company is debt-free. Based on management's estimates and projections the Company will require further working capital, in the first quarter of 2005, to execute its business plan. In the event that material sales do not occur, management will seek additional capital through a public or private equity placement or other form of financing.