



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;
- (i) legal proceedings;
 - (j) contingent liabilities;
 - (k) default under debt or other contractual obligations;
 - (l) a breach of corporate, securities or other laws, or of an issuer's listing agreement with the Canadian Venture Exchange including the nature of the breach, potential ramifications and what is being done to remedy it;
 - (m) regulatory approval requirements for a significant transaction including whether the issuer has obtained the required approval or has applied for the approval;
 - (n) management changes; or
 - (o) special resolutions passed by shareholders
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 | | DATE OF REPORT | | |
|--|------------------|-----------------------------------|-------------------------------------|-------------------------------------|--|----|----|
| NAME OF ISSUER HEDLEY TECHNOLOGIES INC. | | | September 30, 2005 | | YY | MM | DD |
| ISSUER ADDRESS 2601 MATHESON BLVD. E., SUITE 5 | | | | | | | |
| CITY MISSISSAUGA | PROVINCE ONTARIO | POSTAL CODE L4W 5A8 | ISSUER FAX NO. (905) 206-1413 | ISSUER TELEPHONE NO. (905) 206-0013 | | | |
| CONTACT NAME JENNIFER FINDLAY | | | CONTACT POSITION CONTROLLER | | CONTACT TELEPHONE NO. (905) 206-0013 X-301 | | |
| CONTACT EMAIL ADDRESS: jfindlay@hedleytech.com | | | WEB SITE ADDRESS www.hedleytech.com | | | | |
| 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. | | | | | | | |
| DIRECTOR'S SIGNATURE  | | PRINT FULL NAME PETER D. LOCKHARD | | DATE SIGNED 2005/11/18 | | | |
| DIRECTOR'S SIGNATURE  | | PRINT FULL NAME RENE C. GOEHRUM | | DATE SIGNED 2005/11/18 | | | |

**HEDLEY TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET
AS AT SEPTEMBER 30, 2005 AND DECEMBER 31, 2004**

| | September 30 | December 31 |
|--|----------------------------|--------------------------|
| | 2005 | 2004 |
| ASSETS | | |
| Current | | |
| Cash | \$ 865,195 | \$ 89,814 |
| Accounts receivable | 166,253 | 46,733 |
| Other receivable | - | - |
| Inventories | 52,458 | 47,658 |
| Prepaid expenses and deposits | 6,565 | 410,336 |
| | <u>1,090,471</u> | <u>594,541</u> |
| Equipment (at net book value) | 20,288 | 24,376 |
| | <u>\$ 1,110,759</u> | <u>\$ 618,917</u> |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 218,956 | \$ 242,061 |
| Deposits payable | - | 70,656 |
| | <u>218,956</u> | <u>312,717</u> |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 6,854,827 | 6,842,828 |
| Contributed surplus | 23,755 | 23,755 |
| Deficit | (5,986,779) | (6,572,383) |
| | <u>891,803</u> | <u>306,200</u> |
| | <u>\$ 1,110,759</u> | <u>\$ 618,917</u> |

Approved by the Directors



DIRECTOR



DIRECTOR

**HEDLEY TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

| | Nine Months Ended | | Three Month Period | |
|-------------------------------------|--------------------------|----------------|---------------------------|----------------|
| | September 30 | | July – September | |
| | 2005 | 2004 | 2005 | 2004 |
| Revenue | | | | |
| Sales | \$ 548,644 | \$ 645,425 | \$ 248,382 | \$ 242,253 |
| Cost of goods sold | 205,874 | 250,636 | 74,759 | 81,799 |
| Gross profit | 342,770 | 394,789 | 194,623 | 160,454 |
| Royalties and other income | 613,047 | - | 3,234 | - |
| | 955,817 | 394,789 | 176,857 | 160,454 |
| Expenses | | | | |
| Amortization and depreciation | 4,087 | 5,373 | 1,362 | 1,802 |
| Consultants | 20,279 | 87,130 | 5,209 | 24,204 |
| Management salaries | 137,449 | 171,389 | 36,700 | 57,502 |
| Equipment rental | - | 479 | - | - |
| Interest and bank charges | 7,896 | 6,885 | 2,476 | 2,372 |
| Foreign exchange | (876) | 2,726 | 1,056 | 6,619 |
| Legal and accounting | 30,051 | 20,314 | 6,602 | 8,398 |
| Office and miscellaneous | 20,715 | 32,825 | 5,669 | 10,652 |
| Printing and shareholder relations | 3,146 | 7,595 | 632 | 1,347 |
| Rent | 12,546 | 12,163 | 4,195 | 4,076 |
| Salary and benefits | 103,750 | 111,955 | 40,857 | 33,979 |
| Selling and marketing | 18,014 | 39,350 | 9,601 | 23,868 |
| Transfer agent and filing fees | 13,512 | 9,119 | 2,462 | 2,260 |
| Travel and accommodations | (1,198) | 49,304 | 453 | 12,782 |
| Warehousing | 842 | 4,820 | 228 | 1,733 |
| | 370,213 | 561,427 | 117,502 | 191,594 |
| (Loss) Gain from operations | 585,604 | (166,638) | 59,355 | (31,140) |
| Gain on settlements | - | - | - | - |
| (Loss) Gain for the period | 585,604 | (166,638) | 59,355 | (31,140) |
| Deficit, beginning of period | (6,572,383) | (6,259,726) | (6,071,102) | (6,395,224) |
| Deficit, end of period | (\$ 6,096,478) | (\$ 6,426,364) | (\$ 6,046,134) | (\$ 6,426,364) |
| (Loss) Gain per share | \$ 0.048 | (\$ 0.002) | \$ 0.005 | (\$ 0.160) |

**HEDLEY TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

| | Nine Months Ended | | Three Month Period | |
|---|-------------------|-------------------|--------------------|-------------------|
| | September 30 | | July - September | |
| | 2005 | 2004 | 2005 | 2004 |
| Operating activities | | | | |
| Net (loss) gain for the period | 585,604 | (\$ 166,638) | 59,355 | (\$ 31,140) |
| Items not requiring cash | | | | |
| Amortization and depreciation | 4,087 | 5,373 | 1,362 | 1,802 |
| Other | - | 72 | - | - |
| | <u>589,691</u> | <u>(161,193)</u> | <u>60,717</u> | <u>(29,338)</u> |
| Change in non-cash working capital items: | | | | |
| Accounts and other receivable | 280,481 | (468,573) | 97,433 | (70,678) |
| Inventories | (4,800) | 10,769 | (29,050) | 11,011 |
| Prepaid expenses and deposits | 3,771 | 399,951 | 2,228 | (82,851) |
| Accounts payable and accrued liabilities | (93,762) | 54,900 | 33,390 | 98,069 |
| Cash (applied to) received from operating activities | <u>775,381</u> | <u>(164,146)</u> | <u>164,718</u> | <u>(73,787)</u> |
| Investing activities | | | | |
| Purchase of capital assets | - | - | - | - |
| Net Change in investment in securities | (600,000) | - | - | - |
| Patents and deferred costs | - | - | - | - |
| Cash used in investing activities | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Financing activities | | | | |
| Proceeds form customer deposits | - | 70,656 | - | - |
| Proceeds from shares issued | - | - | - | - |
| Proceeds from exercised warrants | - | 12,000 | - | - |
| Cash from financing activities | <u>-</u> | <u>82,656</u> | <u>-</u> | <u>-</u> |
| Increase (decrease) in cash | 174,381 | (81,490) | 164,718 | (73,787) |
| Term Deposit | 600,000 | | 600,000 | |
| Cash, beginning of period | 89,814 | 183,416 | 100,477 | 175,713 |
| Cash, end of period | <u>\$ 865,195</u> | <u>\$ 101,926</u> | <u>865,195</u> | <u>\$ 101,926</u> |

Schedule A
To Quarterly Report of Hedley Technologies Inc.
For the Nine Months Ended September 30, 2005

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 \$ 5,986,779 as at September 30, 2005. 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 Nine Months Ended September 30, 2005

- 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. See Note 4.

(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:

| September 30, 2005 | Cost | Accumulated Amortization | Net Book Value |
|---------------------------|----------------|---------------------------------|-----------------------|
| Furniture | \$ 33,022 | \$ 29,393 | \$ 3,629 |
| Equipment | 25,447 | 21,062 | 4,385 |
| Mould and design drawings | 20,852 | 13,031 | 7,821 |
| Computer Equipment | 66,243 | 61,789 | 4,453 |
| | 145,563 | \$ 125,275 | \$ 20,288 |

4. Income taxes

As at December 31, 2004, the Company has accumulated operating losses for Canadian tax purposes of approximately \$ 2,332,213 and for American tax purposes of approximately US \$ 511,783, which may be carried forward to reduce taxable income in future years. The Canadian losses expire between the years 2005 and 2014, and the American losses expire between the years 2017 and 2024. The potential income tax benefits arising from these losses

Schedule A
To Quarterly Report of Hedley Technologies Inc.
For the Nine Months Ended September 30, 2005

and carryforward amounts are not recorded as a future income tax asset due to the uncertainty of their utilization.

The Company also has excess of unamortized capital cost over net book value of equipment of approximately \$ 416,000, which can be used to reduce taxable income in future years. The company also has a carryforward of Investment Tax Credits of \$ 72,000 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.

The potential income tax benefits arising from these losses and credits are not recorded as a future income tax asset due to the uncertainty of their realization.

5. Insurance Coverage

The Company's insurance coverage has expired and the Company continues to operate without insurance coverage. Management continues to seek appropriate coverage.

6. Financial instruments and concentration of risk

The carrying values of cash, accounts receivable, long-term investment, accounts payable and accrued liabilities 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. There is an exposure to credit risk on accounts receivable which management mitigates by monitoring all accounts and following up on unpaid or overdue items.

7. Return of Distribution Rights

During 2003, the Company entered into a Distribution Agreement to distribute, on a world-wide basis, a rapid Human Immunodeficiency Virus diagnostic device. During the quarter, the Company returned the rights associated with the Distribution Agreement to the manufacturer of the diagnostic device for consideration of \$535,000 plus repayment of advances made by Hedley to the manufacturer of \$400,000. On February 2, 2005, \$750,000 in cash was received from the manufacturer plus a non-interest bearing promissory note of \$185,000 due May 1, 2005. On April 27th 2005, Hedley received the final payment of \$185,000 due from the diagnostic device manufacturer.

Schedule B
To Quarterly Report of Hedley Technologies Inc.
For the Nine Months Ended September 30, 2005

1. For the Nine Months Ended September 30, 2005

a) **Cost of Goods Sold**

| | 2005 |
|------------------------------------|-------------------|
| Inventory, beginning of the period | \$ 47,658 |
| Additions during the period | |
| Contract manufacturing costs | 9,832 |
| Freight | 13,42 |
| Raw material purchases | 173,361 |
| Foreign exchange loss (gain) | 4,800 |
| Royalties | 9,260 |
| | 210,674 |
| Goods available for sale | 258,332 |
| Inventory, end of period | (52,458) |
| Cost of goods sold | \$ 205,874 |

b) **Selling and marketing**

| | 2005 |
|--|------------------|
| Product trademark, registrations and permits | \$ 10,623 |
| Freight-out and brokerage | 345 |
| Advertising materials | 1,500 |
| Conferences and exhibitions | 0 |
| Product advertising and promotions | 7,046 |
| | \$ 18,014 |

c) **Office and miscellaneous**

| | 2005 |
|---------------------------|------------------|
| Utilities and maintenance | \$ 2,123 |
| Office supplies | 7,535 |
| Postage and courier | 3,178 |
| Insurance | 0 |
| Telephone | 6,666 |
| Other | 1,211 |
| | \$ 20,715 |

Schedule B
To Quarterly Report of Hedley Technologies Inc.
For the Nine Months Ended September 30, 2005

2. **Related Party Transactions**

None

3. **For the Nine Months Ended September 30, 2005:**

a) **Securities Issued**

There were no securities issued during the period.

b) **Options Granted**

There were no options granted during the period.

4. **As at September 30, 2005:**

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 year | 12,315,195 | \$ 6,854,828 |
| Exercise of warrants | 0 | 0 |
| 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.

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 |
|-------------------------|-----------------------|--------------------|
| 670,000 | \$0.10 | January 17, 2006 |
| 150,000 | \$0.10 | December 19, 2007 |
| 20,000 | \$0.10 | October 31, 2007 |
| 25,000 | \$0.17 | July 12, 2009 |
| 865,000 | | |

Schedule B
To Quarterly Report of Hedley Technologies Inc.
For the Nine Months Ended September 30, 2005

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 September 30, 2005 all warrants have expired.

During the year 2004, 120,000 warrants were exercised for total cash proceeds to the Company of \$12,000. The remaining 1,880,000 warrants were not exercised and expired on March 4, 2005.

d) 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

Schedule C
Management Discussion and Analysis
For the nine months ended September 30, 2005

The following discussion is based on Hedley Technologies Inc.'s ("Hedley" or the "Company") interim consolidated financial statements for the nine months ended September 30, 2005, 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.

Description of Business

Hedley Technologies Inc. is a publicly traded life science company that acquires or licenses products and commercializes these proprietary science based technologies in order to advance human health and public safety (TSX Venture Exchange trading symbol - "HED").

Hedley has embarked on a growth strategy to enter Canada's pharmaceutical industry. Hedley's focus is to: source pharmaceutical products that have been successfully developed and proven safe and effective; manage the regulatory process through to product registration (approval); and once approved, market these products in Canada. These pharmaceuticals will compete in both the branded and generic market segments and will not require further product development investment other than regulatory costs.

The Company currently manufactures and markets two products, namely Protect-It[®] and Insecolo[™]. Hedley also marketed an HIV-1/HIV-2 Rapid Antibody Test as the Global Master Distributor under a license and distribution agreement. The agreement was reached in March 2003 and the rights there under were subsequently returned to the manufacturer in February 2005.

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 between 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 and the United States and is marketed in Canada by SC Johnson and Son Limited under the Raid[®] Earthblends[™] Ant & Earwig Dust brand.

Results of Operations

Revenues

During the third quarter, product sales were \$ 248,382 compared to \$ 242,253 in the third quarter of fiscal 2004 and sales for the nine months ended September 30, 2005 were \$ 548,644 as compared to \$645,425 for the nine months ended September 30, 2004. The nine month decrease of 15% resulted primarily from timing differences of Canadian orders of Protect-It[®] and was driven by a decrease of 25.1% (\$ 28,787) in Insecolo[™] sales. The prior year period included a large out of season order of Protect-It[®] which was not duplicated this year.

Other Income for the nine months of 2005 was \$ 613,047 versus zero dollars for the nine months of 2004. This resulted primarily from the return of distribution rights to the manufacturer of the INSTI[®].

Cost of Sales

During the third quarter, cost of goods sold decreased to 30% of sales from 33.8% in the same quarter of fiscal 2004, and cost of goods sold for the nine months ended September 30, 2005 was 37.5% of sales compared to 38.8% for the nine months ended September 30, 2004. Consequently, gross margin

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increased to 71.2% in the current quarter from 66.2% in the same quarter of fiscal 2004. The three month increase in gross margin was due to the beneficial exchange rate on US purchased materials, and a modest price increase.

Operating Expenses

During the third quarter, the Company experienced a significant decrease in its selling, general and administrative costs which totalled \$ 117,502 as compared to \$ 191,594 for the same quarter of fiscal 2004. As a percentage of sales, selling, general and administrative costs declined to 47% during the quarter as compared to 79% for the same quarter in fiscal 2004. For the nine months ended September 30, 2005, selling, general and administrative expenses were \$370,213 (67.5% of product sales), as compared to \$561,427 (87% of product sales) of sales for the nine months ended September 30, 2004. The decrease of \$191,214 is a result of decreased human resources, travel and promotional expenses associated with the exit from the INSTI™ business and a change in the headcount associated with the U.S. Protect-It® business.

The Company has discontinued marketing the INSTI™. Therefore, no further investment in the form of human resources, travel, promotion, marketing and other costs will be made related to this product.

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

Net Income/(Loss)

The Net Profit for the quarter was \$ 59,355 as compared to a net loss of (\$ 31,140) for the third quarter of fiscal 2004. This increase was directly related to the decrease in to the decrease in Operating Expenses explained above. The total net income for the nine months ended September 30, 2005 was \$ 585,604 as compared to a net loss of (\$ 166,638) for the nine months ended September 30, 2004. This represents an increase of \$ 752,242 from the equivalent period of a year ago and was driven primarily by revenues associated with the return of the INSTI™ distribution rights to the manufacturer. The net profit per share for the nine month period was \$ 0.048 from a loss of (\$ 0.002) per share for the period ending September 30, 2004.

Financial Resources and Liquidity

Overall cash flows of the Company significantly increased in the quarter as compared to the third quarter of fiscal 2004 and for the nine months ended September 30, 2005, as compared to the nine months ended September 30, 2004.

Operating activities resulted in an increase in cash flows in the amount of \$ 164,718 for the quarter versus the quarter ending September 30, 2004, and an increase in cash flows in the amount of \$ 855,871 for the nine months ended September 30, 2005 as compared to same period of fiscal 2004. Positive cash flow in the three month period was a result of reduced operating expenses.

Investing activities were the same during the third quarter as compared to the previous quarter. Investing activities amounted to \$ 600,000 for the nine months ended September 30, 2005 as compared to \$ NIL for the nine months ended September 30, 2004. The Company has invested surplus cash in a term deposit.

During the quarter, there was no change in financing activities from the previous quarter and a decrease of \$ 82,656 from the nine month period for fiscal 2004. Prior year financing activities included the proceeds of customer deposits and the issuance of shares (net of issuing costs) in the first, second and third quarters of 2004.

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For the nine months ended September 30, 2005, there was an increased cash flow from operating activities as compared to the nine month period ended September 30, 2004. Overall, increased cash flow for the nine month period was a result of revenue generated through the return of INSTI® distribution rights to the manufacturer.

Disclosure of Outstanding Share Data

There were 12,315,195 common shares issued and outstanding at September 30, 2005. On March 4, 2005, 1,880,000 unexercised share purchase warrants expired. There are no share purchase warrants outstanding at September 30, 2005.

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 Relation 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 & CEO, and Mr. Douglas Larson, President & COO 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 September 30, 2005 was \$ 871,515 versus \$ 281,824 on December 31, 2004. Other than normal trade payables the Company is debt-free. The Company is in good standing and has sufficient capital, along with forecasted sales, to meet its ongoing obligations for the foreseeable future.