



HEDLEY TECHNOLOGIES INC.
Consolidated Financial Statements
Years Ended December 31, 2004 and 2005

...expectMore

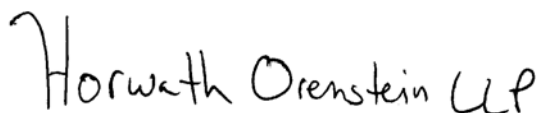
AUDITORS' REPORT

To the Shareholders of Hedley Technologies Inc.

We have audited the consolidated balance sheet of Hedley Technologies Inc. as at December 31, 2005 and December 31, 2004 and the consolidated statements of income and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and December 31, 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
February 27, 2006

Chartered Accountants

HEDLEY TECHNOLOGIES INC.
Consolidated Balance Sheet
December 31, 2005

	2005	2004
ASSETS		
CURRENT		
Cash	\$ 235,965	\$ 89,814
Term deposits	600,000	-
Accounts and other receivables	115,611	446,733
Inventories	35,400	47,658
Prepaid expenses and deposits	17,598	10,336
	1,004,574	594,541
EQUIPMENT (Note 4)	20,162	24,376
	\$ 1,024,736	\$ 618,917
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT		
Accounts payable and accrued liabilities	213,279	242,061
Deferred revenue	-	70,656
	213,279	312,717
CONTINGENCY (Note 9)	-	-
	213,279	312,717
SHAREHOLDERS' DEFICIENCY		
Share capital (Note 5)	6,854,828	6,854,828
Contributed surplus	23,755	23,755
Deficit	(6,067,126)	(6,572,383)
	811,457	306,200
	\$ 1,024,736	\$ 618,917

ON BEHALF OF THE BOARD

 _____ Director

 _____ Director

See the accompanying notes

HEDLEY TECHNOLOGIES INC.
Consolidated Statement of Income and Deficit
Year Ended December 31, 2005

	2005	2004
SALES	\$ 748,520	\$ 711,035
COST OF SALES	362,402	271,475
	386,118	439,560
EXPENSES		
Salaries and benefits	316,436	378,964
Legal and audit	45,203	35,711
Office	29,135	41,472
Consultants	26,425	112,682
Selling and marketing	22,560	49,471
Rent	16,741	16,240
Transfer agent and filing fees	14,187	9,815
Interest and bank charges	10,117	9,408
Amortization	5,872	8,628
Printing and shareholder relations	3,321	8,206
Warehousing	2,384	5,945
Travel and accommodation	2,178	69,519
Foreign exchange (gain) loss	(8,042)	6,156
	486,517	752,217
LOSS FROM OPERATIONS	\$ (100,399)	\$ (312,657)
OTHER ITEMS		
Income on return of distribution rights	605,656	-
	605,656	-
NET INCOME (LOSS) FOR THE YEAR	505,257	(312,657)
DEFICIT, BEGINNING OF YEAR	(6,572,383)	(6,259,726)
DEFICIT, END OF YEAR	\$ (6,067,126)	\$ (6,572,383)
BASIC AND DILUTED EARNINGS (LOSS) PER SHARE	\$ 0.04	\$ (0.02)

See the accompanying notes

HEDLEY TECHNOLOGIES INC.
Consolidated Statement of Cash Flows
Year Ended December 31, 2005

	2005	2004
Operating activities		
Net income (loss) for the year	\$ 505,257	\$ (312,657)
Amortization	5,872	8,628
	511,129	(304,029)
Changes in non-cash working capital items:		
Accounts and other receivable	331,122	(368,761)
Inventories	12,258	22,499
Deferred revenue	(70,656)	70,656
Prepaid expenses and deposits	(7,262)	399,709
Accounts payable and accrued liabilities	(28,782)	75,532
	747,809	(104,394)
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	-	12,000
INVESTING ACTIVITIES		
Investment in term deposits	(600,000)	-
Purchase of equipment	(1,658)	(1,208)
	146,151	(93,602)
INCREASE (DECREASE) IN CASH	146,151	(93,602)
CASH, BEGINNING OF YEAR	89,814	183,416
CASH, END OF YEAR	\$ 235,965	\$ 89,814
INTEREST PAID	\$ 8,688	\$ 7,469

See the accompanying notes

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 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 Inc. 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 \$6,067,126 as at December 31, 2005. Continued operating of the Company as a going concern is dependent upon it obtaining adequate additional financing and/or generating sufficient revenues from its products. However, no assurance can be given at this time as to whether the Company will achieve any of these conditions. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern for a reasonable period of time.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements, which have been prepared in accordance with Canadian generally accepted accounting principles, reflect the accounting policies set out below.

(a) Inventories

Finished goods and raw materials are stated at the lower of costs and net realizable value. Costs are determined on a weighted average basis.

(b) Equipment

Equipment is recorded at cost less accumulated amortization. The Company records amortization of equipment at the following rates and methods based on the assets' estimated useful lives:

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

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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
- (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 year'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 taxes rates is recognized in the period that substantive enactment or enactment occurs. The future benefit of current and past tax losses is recognized whenever it is more likely than not that the Company will generate sufficient future taxable income to utilize the tax losses before they expire.

(e) Use of estimates by management

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions. These estimates and assumptions 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 reported periods. Actual results may differ from estimates.

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) **Revenue recognition**

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

(g) **Stock-based compensation**

The Company has a stock-based compensation plan which is described in note 6. Any consideration paid by employees upon the exercise of any stock options increases share capital. The Company does not repurchase stock options from optionees.

Compensation costs attributable to all stock options granted are measured at fair value at the grant date and expensed over the vesting period with a corresponding increase to contributed surplus. Upon the exercise of the option, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(h) **Earnings per share**

Basic net earnings per share is computed by dividing the net earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share information is calculated using the treasury stock method. The treasury stock method assumes the notional exercise of all in-the-money stock options and that all notional proceeds to the Company are used to repurchase the Company's stock at the average market price during the period. No adjustment to diluted earnings per share is made if the result of this calculation is anti-dilutive.

3. PATENTS, TRADEMARKS AND DEFERRED DEVELOPMENT COSTS

In 1992, the Company acquired the patent and distribution rights to a line of non-toxic insecticides market under the trade name INSECOLO™.

The Company holds a 50% patent ownership and 100% of the licensed rights to distribute a non-toxic insecticide marketed under the name PROTECT-IT®. The Company pays a royalty of 2% of sales of the product annually. These assets are fully amortized.

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

4. EQUIPMENT

Equipment consists of the following:

	Cost	Accumulated amortization	2005 Net book value	2004 Net book value
Furniture	\$ 33,765	\$ 29,755	\$ 4,010	\$ 4,269
Equipment	25,447	21,320	4,127	5,159
Mould and design drawings	20,852	13,490	7,362	9,202
Computer equipment	67,157	62,494	4,663	5,746
	\$ 147,221	\$ 127,059	\$ 20,162	\$ 24,376

5. SHARE CAPITAL

(a) Authorized

The authorized share capital of the Company consists of 100,000,000 common shares without par value and 25,000,000 preferred shares without par value.

(b) Issued and outstanding common shares

	Shares	Amount
Balance, December 31, 2004	12,315,195	\$ 6,854,828
	-	-
Balance, December 31, 2005	12,315,195	\$ 6,854,828

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

6. STOCK BASED COMPENSATION

On April 30, 2003 the Company adopted a stock option plan. The Stock Option Plan provides that the directors of the Company may grant options to purchase common shares to directors, officers, employees and service providers (the "optionees") of the Company on terms that the directors of the Company may determine within the limitations set forth in the Stock Option Plan or by security regulators. The options currently outstanding have vesting dates which may vary according to certain terms and conditions and have expiring dates between January 2006 and October 2009.

The maximum number of common shares of the Company issuable upon the exercise of options granted pursuant to the Stock Option Plan is 2,503,000 common shares.

As at December 31, 2005, there were 865,000 (2004 - 1,145,000) options outstanding, as shown below:

	2005		2004	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	1,145,000	\$ 0.12	1,015,000	\$ 0.12
Granted	-	-	130,000	0.16
Expired or cancelled	(280,000)	-	-	-
Outstanding, end of year	865,000	0.10	1,145,000	0.12

Options outstanding and exercisable are as follows:

	Weighted Average Exercise price	Options outstanding	Weighted average remaining contractual life (years)	Options exercisable
Balance, December 31, 2004	\$ 0.12	1,145,000	1.93	1,021,250
Balance, December 31, 2005	\$ 0.10	865,000	0.46	846,250

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

6. STOCK BASED COMPENSATION (continued)

(a) Warrants

As at December 31, 2005, there were no (2004 - 1,880,000) warrants outstanding.

	2005		2004	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Outstanding, beginning of year	1,880,000	\$ 0.10	2,000,000	\$ 0.10
Expired	(1,880,000)	-	(120,000)	0.10
Outstanding, end of year	-	\$ -	1,880,000	\$ 0.10

(b) Pro forma earnings and earnings per share

Canadian Institute of Chartered Accountants Handbook Section 3870 required the disclosure of pro forma net earnings and earnings per share information as if the Company had accounted for employee stock options granted after January 1, 2002 under the fair value method. The fair value of the options issued in the year was determined using the Black-Scholes option pricing model.

No stock options were issued during the year.

For the year ended December 31, 2005, the Company's pro forma net income (loss) is \$504,516 (2004 - \$(313,384)) and the basic earnings (loss) per share is \$0.04 (2004 - \$(0.02)).

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

7. INCOME (LOSS) PER SHARE

The following table reconciles the numerator and denominator for the calculation of basic and diluted earnings (loss) per share:

	2005	2004
Numerator:		
Income (Loss) available to common shareholders	\$ 505,257	\$ (312,657)
Denominator:		
Basic		
Weighted average number of shares outstanding	12,315,195	12,279,810
Effect of dilutive securities	-	-
Diluted loss per share:		
Weighted average number of shares outstanding	12,315,195	12,279,810
Basic and diluted loss per share	\$ 0.04	\$ (0.02)

The dilutive effect of outstanding stock options was determined to be nil as the year-end market price of the shares of the Company did not materially exceed the the exercise price of the options.

The stock options outstanding for each of the years reported (Note 6) were not included in the computation of the 2004 or 2005 diluted loss per share because the effect was immaterial.

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

8. INCOME TAXES

The component of the future income tax liability and the country of origin at December 31, 2005 and 2004 are as follows (applying the combined Canadian federal and provincial statutory income tax rate of 36.12% and the U.S. income tax rate of 34.00%):

	Canada		US	
	2005	2004	2005	2004
Future income tax assets:				
Non-capital losses carried forward	558,564	558,928	US 165,680	174,006
Property plant and equipment	34,966	150,259	-	-
SR&ED expenditures (carried forward without expiry)	99,330	99,330	-	-
Investment tax credits (expires 2006-2012)	18,999	26,006	-	-
	711,859	834,523	165,680	174,006
Future income tax liabilities:				
	-	-	-	-
Net future income tax asset before valuation allowance	711,859	834,523	165,680	174,006
Valuation allowance	(711,859)	(834,523)	(165,680)	(174,006)
Net future income tax asset	-	-	US -	-

The Company has \$1,546,413 in Canadian non-capital losses and \$487,293 in US non-capital losses available to claim against future taxable income. The non-capital losses expire as follows:

	Canada		US
	\$		\$
2006	389,104	2017	186,611
2007	399,759	2018	109,428
2008	-	2019	56,960
2009	75,946	2021	8,969
2010	403,050	2022	39,502
2014	278,554	2023	25,465
		2024	60,358
	1,546,413	US	487,293

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.

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

Net income	505,257
Expected income tax expense	181,870
Recognized benefit of non-capital losses carried forward	(181,870)
Total income tax recovery	-

HEDLEY TECHNOLOGIES INC.
Notes to Consolidated Financial Statements
Year Ended December 31, 2005

9. CONTINGENCY

The Company's insurance coverage has expired. As at the date of the Auditors' Report, the Company operated without insurance coverage. Management continues to seek appropriate coverage.

10. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISK

The carrying values of cash, term deposits, accounts and other receivables, accounts payable and accrued liabilities approximate their respective fair values. The carrying value of term deposits approximates fair value because of the relatively short period of time between the origination of the instruments and their expected realization

It is management's opinion that the Company is not exposed to significant interest or currency risk 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.

11. SEGMENTED INFORMATION

Revenues

The following table sets forth external revenues by geographic region based on the location of the customer for each of the years ended December 31:

	2005	2004
Canada	\$ 642,886	\$ 571,276
USA	105,634	139,759
	\$ 748,520	\$ 711,035

12. RELATED PARTY TRANSACTIONS

During the year, the Company paid \$12,000 to one of its directors for professional services rendered. Such payments were made at fair market values equal to what the Company would have paid third parties for equivalent services.

Included in accounts payable and accrued liabilities is \$143,767 (2004 - \$158,855) in unpaid remuneration to certain management employees which resulted from a deferral of a portion of their base compensation. Interest of 6% per annum is accrued on these unpaid balances and during the year, \$8,688 (2004 - \$7,469) in interest was accrued thereon.