



HEDLEY TECHNOLOGIES INC.

Quarterly Financial Statements For three months ended March 31st, 2006

Notice: The interim financial statements have not been examined by the Company's external auditors.

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HEDLEY TECHNOLOGIES INC.
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2006 AND DECEMBER 31, 2005

	March 31 2006 Unaudited	December 31 2005 Audited
ASSETS		
Current		
Cash	\$ 240,457	\$ 235,965
Term deposits	613,668	600,000
Accounts receivable	143,882	115,611
Inventories	38,064	35,400
Prepaid expenses and deposits	13,905	17,598
	<u>1,049,976</u>	<u>1,004,574</u>
Equipment (note 3)	19,037	20,162
	<u>\$ 1,069,013</u>	<u>\$ 1,024,736</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 217,786	\$ 213,279
Deposits payable	-	-
	<u>217,786</u>	<u>213,279</u>
SHAREHOLDERS' EQUITY		
Share capital	6,854,828	6,854,828
Contributed surplus	23,755	23,755
Deficit	(6,027,356)	(6,067,126)
Total Shareholders' Equity	<u>851,227</u>	<u>811,457</u>
	<u>\$ 1,069,013</u>	<u>\$ 1,024,736</u>

Approved by the Directors



DIRECTOR



DIRECTOR

HEDLEY TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	Three Months	
	Ended March 31	
	2006	2005
	<u>Unaudited</u>	<u>Unaudited</u>
REVENUE		
Sales	\$ 267,778	\$ 126,701
Cost of goods sold	99,162	74,480
Gross profit	<u>168,616</u>	<u>52,221</u>
EXPENSES		
Amortization and depreciation	1,125	1,362
Consultants	4,915	7,358
Management salaries	39,250	57,501
Interest and bank charges	2,757	2,687
Foreign exchange	659	(602)
Legal and accounting	13,500	11,413
Office and miscellaneous	5,053	5,500
Printing and shareholder relations	329	-
Research & development (Net)	-	580
Rent	4,289	4,156
Salary and benefits	44,042	26,941
Selling and marketing	6,107	4,326
Transfer agent and filing fees	5,371	3,608
Travel and accommodations	1,173	(4,743)
Warehousing	276	446
	<u>128,846</u>	<u>120,533</u>
Profit (Loss) from operations	39,770	(68,312)
Other Items		
Income on return of distribution rights	-	605,656
Profit (Loss) from operations after Other items	<u>39,770</u>	<u>537,344</u>
Deficit, beginning of period	<u>(6,067,126)</u>	<u>(6,572,383)</u>
Deficit, end of period	<u>(\$ 6,027,356)</u>	<u>(\$ 6,036,039)</u>
Profit (Loss) per share	<u>\$ 0.003</u>	<u>\$ 0.044</u>

HEDLEY TECHNOLOGIES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	Three Months	
	Ended March 31	
	2006	2005
	<u>Unaudited</u>	<u>Unaudited</u>
OPERATING ACTIVITIES		
Net (loss) gain for the period	\$ 39,770	\$ 537,344
Items not requiring cash		
Amortization and depreciation	1,125	1,362
Other		
	<u>40,895</u>	<u>538,706</u>
Change in non-cash working capital items:		
Accounts receivable	(28,271)	183,048
Inventories	(2,664)	24,250
Prepaid expenses and deposits	3,693	1,543
Accounts payable and accrued liabilities	4,507	(56,496)
Deferred revenue	-	(70,656)
Increase (decrease) from operating activities	<u>18,160</u>	<u>620,395</u>
INVESTING ACTIVITIES		
Purchase of capital assets	-	-
Investment in term deposit	(13,668)	(600,000)
Patents and deferred development costs	-	-
Increase (decrease) from investing activities	<u>(13,668)</u>	<u>(600,000)</u>
FINANCING ACTIVITIES		
Proceeds from issuance of common shares	-	-
Proceeds from exercised warrants	-	-
Increase (decrease) from financing activities	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN CASH	<u>4,492</u>	<u>20,395</u>
CASH, BEGINNING OF PERIOD	235,965	89,814
CASH, END OF THE PERIOD	\$ 240,457	\$ 110,209
TERM DEPOSITS	<u>613,668</u>	<u>600,000</u>
CASH AND EQUIVALENTS – END OF PERIOD	<u>\$ 854,125</u>	<u>\$ 710,209</u>

Schedule A
Notes to the Quarterly Financial Statements of Hedley Technologies Inc. (Unaudited)
For the Three Months Ended March 31, 2006

1. Basis of presentation and Going Concern

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 \$6,027,356 as at March 31, 2006. 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 inter-company 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
Notes to the Quarterly Financial Statements of Hedley Technologies Inc. (Unaudited)
For the Three Months Ended March 31, 2006

- 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:

March 31, 2006	Cost	Accumulated Amortization	Net Book Value
Furniture	\$ 33,765	\$ 29,955	\$ 3,809
Equipment	25,447	21,526	3,921
Mould and design drawings	20,852	13,859	6,993
Computer Equipment	67,157	62,844	4,313
	\$ 147,221	\$ 128,184	\$ 19,037

4. Income taxes

As at December 31, 2005, the Company has accumulated operating losses for Canadian tax purposes of approximately \$1,546,413 and for U.S. tax purposes of approximately US\$487,293, which may be carried forward to reduce taxable income in future years. The Canadian losses expire between the years 2006 and 2014, and the U.S. losses expire between the years 2017 and 2024. The potential

Schedule A
Notes to the Quarterly Financial Statements of Hedley Technologies Inc. (Unaudited)
For the Three Months Ended March 31, 2006

income tax benefits arising from these losses and carry-forwards 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 \$96,805, which can be used to reduce taxable income in future years. The company also has a carry-forward of Investment Tax Credits of \$52,600 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 has expired. The Company is currently operating 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. There is an exposure to credit risk on accounts receivable which management mitigates by monitoring all accounts and following up on unpaid or over-due items.

Schedule B
Schedules to the Quarterly Financial Statements of Hedley Technologies Inc. (Unaudited)
For the Three Months Ended March 31, 2006

1. For the Three Months Ended March 31, 2006

a) Cost of Goods Sold

	2006
Inventory, beginning of the period	\$ 35,400
Additions during the period	
Contract manufacturing costs	4,087
Freight Expenses	4,047
Raw material purchases	87,132
Foreign exchange loss (gain)	2,665
Royalties	3,895
	<u>101,825</u>
Goods available for sale	137,226
Inventory, end of period	(38,064)
Cost of goods sold	<u>\$ 99,162</u>

b) Selling and marketing

	2006
Product trademark, registrations and permits	\$ 4,470
Freight-out and brokerage	287
Commissions	1,350
Product advertising and promotions	-
	<u>\$ 6,107</u>

c) Office and miscellaneous

	2006
Utilities and maintenance	\$ 1,395
Office supplies	627
Postage and courier	284
Insurance	0
Telephone	1,567
Other	1,180
	<u>\$ 5,053</u>

Schedule B
Schedules to the Quarterly Financial Statements of Hedley Technologies Inc. (Unaudited)
For the Three Months Ended March 31, 2006

2. Related Party Transactions

There were no related party transactions during the period.

3. For the Quarter Ended March 31, 2006:

a) Securities Issued

None

b) Options Expired

On January 17, 2006, 670,000 unexercised stock options expired.

c) Options Granted

On February 13, 2006, the Company issued 750,000 stock options to certain directors, officers, employees and consultants to the Company.

These stock options can be exercised at \$0.10 until February 12, 2011 and are subject to other terms and conditions stipulated in the Incentive Stock Option Plan previously approved by shareholders of the Company.

4. As at March 31, 2006:

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

	<u>Number of Shares</u>	<u>Amount</u>
Balance at beginning of period	12,315,195	\$ 6,854,828
Exercise of Warrants	-	-
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
Schedules to the Quarterly Financial Statements of Hedley Technologies Inc. (Unaudited)
For the Three Months Ended March 31, 2006

c) i) **Stock Options**

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

Number of Shares	Exercise Price	Expiry Date
20,000	\$0.10	October 31, 2007
150,000	\$0.10	December 19, 2007
25,000	\$0.17	July 12, 2009
750,000	\$0.10	February 12, 2011
Total	945,000	

ii) **Warrants**

There are no issued or outstanding stock warrants.

d) **Escrow Shares**

None

5. a) **List of Directors**

René C. Goehrum
Douglas Larson
Peter Lockhard
Milton Wakefield

b) **List of Officers**

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