



HEDLEY TECHNOLOGIES INC.

**Management's
Discussion & Analysis**
For three months ended March 31st, 2006

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The following discussion is based on Hedley Technologies Inc.'s ("Hedley" or the "Company") interim consolidated financial statements for the three months ended March 31, 2006, 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.

The interim financial statements have been prepared by and are the responsibility of the Company's management. These financial statements, for the period ended March 31, 2006, were not reviewed by the Company's independent auditor in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Forward Looking Statements

Certain statements in this document constitute "forward-looking statements", which were made as of the date hereof. The Company undertakes no obligation to publicly update any such statements to reflect new information or the occurrence of future events or circumstances. Management believes that any forward-looking statements are based on reasonable assumptions, but can give no guarantees or assurances that actual results will be consistent with such statements.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors remain substantially unchanged since our last public disclosure.

Readers should not place undue reliance on any forward-looking statements contained herein.

Description of Business

Hedley Technologies Inc. is a publicly traded life science company that acquires or licenses products and commercializes proprietary science-based technologies that 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: sourcing pharmaceutical products that have been successfully developed and proven safe and effective; managing the regulatory process through to product registration (approval); and once approved, marketing these products in Canada. These pharmaceuticals compete in both the branded and generic market segments and do not require further product development investment other than regulatory costs.

The Company currently manufactures and markets two products from its legacy business, namely Protect-It[®] and Insecolo[™]. Hedley also marketed an HIV-1/HIV-2 Rapid Antibody Test (INSTI) as the Global Master Distributor under a license and distribution agreement. The agreement to distribute INSTI 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, 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 is marketed by SC Johnson and Son Limited under the Raid® Earthblends™ Ant & Earwig Dust brand.

Results of Operations

Accounting Estimates

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.

Revenues

Product sales for the first three months of 2006 were \$267,778, up significantly from \$126,701 during the same period in 2005. The \$141,077 (+111%) increase resulted primarily from timing differences of Canadian orders of Protect-It®.

The increase in sales, when compared to the prior year first quarter results, was driven by the following:

- \$137,896 increase in Canadian Protect-It® sales compared to the prior year period which included a large early order from one of our distributors in Western Canada.
- \$25,471 increase in sales from international Protect-It® customers, including a new Croatian distributor.
- Offset of \$2,875 decrease in other Protect- It® accessory sales as compared to the prior year, same period.
- \$19,415 decrease in Insecolo™ sales resulting from lower volume from our sole Insecolo™ customer.

Other income for the first three months of 2006 was zero versus \$605,656 dollars for the first three months of 2005. In 2005 the \$605,656 of other income resulted from the return of distribution rights to the manufacturer of the INSTI®. This was a one-time, non-recurring revenue event.

Cost of Sales

Although product sales significantly increased over the three month period compared to the same period, prior year, the cost of goods sold only increased 33% from \$74,480 in the Q1 2005 to \$99,162 in 2006. The primary variance was due to a change in product mix sold. Higher margin Protect-It® contributed a greater percentage of overall sales in 2006 versus 2005. A secondary driver of improved gross margin was the increased Canadian dollar purchasing power for U.S. dollar priced raw materials.

The resulting gross margin was 61.7% for the first quarter of 2006 versus 41% for the prior year, same period.

Operating Expenses

Total operating expenses for the quarter, amounted to \$128,846 compared to \$120,533 for the equivalent prior year period; an increase of \$8,313 or 7%. This increase is a result of the following factors:

- Increased accruals for legal and accounting fees;
- Renewal costs for trademarks and patents were incurred that would normally be renewed every 7 years and 11 years;
- A modest increase in expenses related to regulatory compliance; and
- Comparatively higher travel and accommodation expenses because year ago expenses reflected a large credit from 2004.

Net Income

Net income from operations before other items, for the first quarter of 2006 was \$39,770 as compared to a net loss of \$68,312 for the first quarter of 2005. This represents an increase of \$108,082 or 158.2% from the equivalent period a year ago. Other income items a year ago consisted of \$505,257 from the return of the INSTI™ distribution rights to the manufacturer which was a one time extraordinary event.

The net income for the first quarter of 2006 was \$39,770, compared to a net income of \$537,344 in the first quarter of 2005. The primary difference was due to the income on the return of INSTI™ distribution rights in 2005 affecting net income for that year by \$605,656. These results were produced by higher sales volumes, a new foreign customer, a change in product mix, foreign exchange transaction gains, and offset by a slight increase in operating expenses.

The net profit per share, for the three months ending March 31, 2006, was \$0.003 compared to a profit of \$0.044 per share, in the same period in 2005.

Financial Resources and Liquidity

Assets as at March 31, 2006 were \$1,049,976, a slight increase of \$44,277 (4%), compared to \$1,004,574 on December 31, 2005. As at March 31, 2006, the Company had cash and short term deposits of \$854,125, an increase of \$18,160 from December 31, 2005 (\$835,965).

Liabilities on March 31, 2006 were \$217,786, an increase of \$4,507 versus December 31, 2005 (\$213,279).

Working capital on March 31, 2006 was \$832,190, an increase of \$40,895 (5%) versus December 31, 2005. This was primarily due to an increase in accounts receivable, and inventory – both as a result of increased sales activity during the three month period.

Operating activities resulted in a cash increase of \$18,160 for the three month period ending March 31, 2006, versus cash flow inflows of \$620,395 for the three month period ending March 31, 2005. Positive cash flow for the three month period during 2005 was attributed to the return of the INSTI™ distribution rights.

Disclosure of Outstanding Share Data

There were 12,315,195 common shares issued and outstanding at March 31, 2006. On January 17, 2006, 670,000 stock options expired. On February 13, 2006, a total of 750,000 new stock options were issued to employees, directors, officers and consultants of the Company. These new stock options are exercisable at \$0.10 per share and will expire on February 12, 2011. There are no share purchase warrants outstanding as at March 31, 2006.

Risks and Uncertainties

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

Disclosure Controls

The Company has disclosure controls and procedures in place in order to reasonably assure that material information relating to the issuer and its consolidated subsidiaries is made known to the Company's senior officers. The Chief Executive Officer and the Controller (acting as the Chief Financial Officer), after evaluating the effectiveness of the Company's disclosure controls and procedures as at March 31, 2006, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its subsidiaries would have been known to them.

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 & CEO, and Mr. Douglas Larson, President & COO, assist in the implementation of our investor relations program.

Related Party Transactions

Included in accounts payable and accrued liabilities is \$145,932 (December 31st, 2005 - \$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.



Legal Proceedings, Liquidity and Solvency

At this time, no legal proceedings by/or affecting the Company have been commenced.

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.

Subsequent Events

On April 6, 2006 the Company incorporated a 100% owned subsidiary, BioSyent Pharma Inc. ("BioSyent Pharma"). BioSyent Pharma is the commercial entity for the Company's pharmaceutical operations.