

Management's Discussion and Analysis

The following Management's Discussion and Analysis as of August 5, 2005, should be read in conjunction with the Company's financial statements and notes to the financial statements that appear on pages 25 to 47 of this report. Unless otherwise indicated, references to years refer to the Company's fiscal years ending June 30.

The financial data in the Management's Discussion and Analysis has been prepared in accordance with Canadian generally accepted accounting principles (GAAP). All amounts are in U.S. dollars unless otherwise specified.

U.S. Dollar Reporting

On July 1, 2004, the Company changed its reporting currency to the U.S. dollar. The Company decided, for financial statement reporting purposes, to effect the change to U.S. dollar reporting retroactive to July 1, 2000. In accordance with GAAP, all opening balances of assets, liabilities and shareholders' equity were translated to U.S. dollars using the exchange rate in effect on that date.

For periods subsequent to July 1, 2000, assets and liabilities of self-sustaining entities denominated in Canadian dollars or U.K. sterling are translated to U.S. dollars at the period-end exchange rate. Revenue and expenses are translated at the weighted average exchange rate for the period. Unrealized gains and losses on the net investment in self-sustaining entities are deferred and included in cumulative foreign currency translation adjustments in shareholders' equity.

Comparative financial information for all periods prior to fiscal 2005 has been restated in U.S. dollars.

Results of Operations

Overview

Livestock production economics were generally favorable in fiscal 2005. Swine producers are enjoying a second year of strong market prices after having survived a long period of price depression. Despite swine producers being at a favorable point in the production cycle, there is little evidence of a build-up in market hog inventories, freezer supplies are being cleared, and the breeding herd has grown only modestly in the past year. With domestic demand being stable and export demand remaining strong, these conditions suggest that swine producers should be able to expect market prices to follow historical patterns, with a gradual reduction in market prices to the end of the calendar year, and subsequent strengthening in the new year, allowing them to continue to operate profitably.

U.S. dairymen went through a period of record low prices for milk in calendar years 2002 and 2003, rising to record highs in 2004. Milk prices have remained strong in the U.S. in 2005, and increasing cow productivity will likely be countered by gradual changes in the dairy cow herd, allowing milk production to track population growth. Milk prices should remain at profitable levels, although moderating from the record highs of 2004, allowing for reasonable producer returns. In Canada, milk, eggs and poultry are quota-managed and therefore producers are not subject to the full extent of market price fluctuations.

In fiscal 2005, beef producers on both sides of the border operated under conditions that largely mirrored the highly uncertain situation in fiscal 2004. In the U.S., the BSE situation and the related ban on most U.S. beef exports did not drastically impact the

domestic producer. Excess supplies were offset by the reduction of Canadian beef imports. Canadian beef producers, however, continued to struggle, as the U.S. and some other countries continued their restrictions on the importation of Canadian live cattle. Canada has historically been a net exporter of beef, with the U.S. being its key beef consumer.

The Canadian beef industry has responded by expanding domestic slaughter capacity, and in the meantime U.S. beef processors have been reducing capacity in reaction to insufficient supply of cattle. Some of the uncertainty appears to have been resolved by the decision of a U.S. appeals court on July 14, 2005 to overturn a temporary injunction banning imports of Canadian cattle. The border has been partially re-opened and cattle under 30 months old are being shipped to the U.S., but it is unknown whether the situation has been completely resolved. Looking ahead, assuming the border remains open, the spread between U.S. and Canadian cattle prices should narrow considerably, as Canadian producers access the increased domestic slaughter capacity as well as U.S. processors. U.S. beef producers will likely see stable prices for their cattle as the expected inflow of Canadian cattle is offset by cow/calf operators increasing their breeding herds.

U.S. poultry producers are seeing high prices, which should lead to production increases in 2005. Steady growth in per capita chicken consumption is expected to continue, and the rapid expansion in production in 2005 will moderate on a longer-term basis. Very rapid recent expansion in the U.S. layer flock has occurred and created an over-supply situation for eggs and deteriorating conditions for egg prices in the coming year. As noted earlier, eggs and poultry are quota-managed in Canada and fluctuations in market prices are small, leading to stable market conditions for Canadian producers.



M.S. Mitchell
Chief Financial Officer

New Segment Reporting

On July 1, 2004, the Company changed its segment reporting from a geographic basis to an operational basis. Please refer to "Recently Adopted Accounting Standards and Reporting" on page 22 for more information and a description of the segments.

The following table summarizes the Company's operating results and key balance sheet metrics for fiscal 2005 and fiscal 2004.

Business Segment Financial Results (in US\$000)

	Ridley Feed Operations		Ridley Nutrition Solutions		Unallocated		Total	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
Revenue	399,960	426,441	78,574	48,202	–	–	478,534	474,643
Cost of sales	333,023	354,835	58,094	33,051	–	–	391,117	387,886
Gross profit	66,937	71,606	20,480	15,151	–	–	87,417	86,757
	16.7%	16.8%	26.1%	31.4%	–	–	18.3%	18.3%
Operating expenses								
Selling, G&A	46,417	51,115	10,165	6,420	3,811	2,798	60,393	60,333
Amortization	6,084	6,040	1,643	1,433	293	344	8,020	7,817
Research & development	936	522	255	457	–	–	1,191	979
Claim settlement	(2,484)	–	–	–	–	–	(2,484)	–
Asset impairment loss	1,218	–	–	–	–	–	1,218	–
	52,171	57,677	12,063	8,310	4,104	3,142	68,338	69,129
Operating income	14,766	13,929	8,417	6,841	(4,104)	(3,142)	19,079	17,628
Interest expense							3,160	3,836
Interest income							(800)	(930)
Earnings before income taxes							16,719	14,722
Provision for income taxes							5,433	5,345
Minority interest share of net earnings							143	84
Net earnings from continuing operations							11,143	9,293
Attributed to discontinued operations							(395)	(1,170)
Net earnings for the year							10,748	8,123
Total assets – continuing operations	163,014	165,952	56,443	33,822	3,918	9,430	223,375	209,204
Property, plant and equipment – continuing operations	72,324	72,909	23,496	13,507	27	41	95,847	86,457
Goodwill & other intangibles – continuing operations	29,132	28,181	22,305	14,810	–	–	51,437	42,991
Total assets – discontinued operations	–	–	–	–	796	3,729	796	3,729

"Operating income" as described above does not have a standardized meaning prescribed by Canadian GAAP, therefore it is unlikely to be comparable to similar measures presented by other companies.

Income From Operations

On a consolidated basis, revenue from continuing operations for 2005 increased by \$3.9 million, or 0.8%, to \$478.5 million compared with \$474.6 million in 2004.

Cost of sales increased by \$3.2 million, to \$391.1 million compared with \$387.9 million in the previous year. Gross profit for 2005 of \$87.4 million was \$0.6 million or 0.8% higher than the 2004 total of \$86.8 million. As a percentage of revenue, the gross profit in both years was 18.3%.

Total operating expenses, including selling, general and administrative expenses, amortization, and research and development, were \$68.3 million for the year, or \$0.8 million lower than the 2004 total of \$69.1 million. Operating expenses in 2005 include a write-down of \$1.2 million for the St. Paul feed mill that was closed in October.

Ridley's operating income of \$19.1 million was \$1.5 million higher than the \$17.6 million recorded in 2004. Interest expense net of interest income was \$2.4 million in 2005 compared with \$2.9 million the previous year. The loss attributed to the discontinued Cotswold operations was \$0.4 million in 2005 and \$1.2 million in 2004.

Net earnings in fiscal 2005 were \$10.7 million, compared with net earnings of \$8.1 million in 2004.

The following discussion of division results provides a more detailed analysis of these changes.

Ridley Feed Operations

The Ridley Feed Operations (RFO) segment consists of full-line feed mills operating in the United States and Canada, producing and marketing products for the core animal nutrition market, and a plant in Mendota, Illinois, that produces micro feed ingredients, vitamin and trace mineral premixes and feed additives. RFO's reported results encompass 13 full-line plants in Canada, 22 full-line plants in the U.S., and the Mendota feed ingredients plant. RFO plants derive most of their business by manufacturing and marketing a broad range of complete feeds, supplements and premixes to meat, milk and egg producers, owners of equine and companion animals located mostly in the upper midwestern U.S. and prairie provinces of Canada.

Revenue decreased by \$26.4 million or 6.2%, from \$426.4 million in 2004 to \$400.0 million in 2005. Generally, a comparison of revenue on a dollar basis is not necessarily indicative of the strength of Ridley's business because revenue can be influenced by fluctuating commodities prices. This is the result of a sales volume decline of 4.7% from the prior year and a rapid decline in feed ingredient prices experienced in the first quarter of fiscal 2005. The lower sales volume was entirely in the Canadian plants, as the U.S. plants generated a modest 1% volume increase. The Canadian plants were affected throughout the year by cross-border issues affecting the ability of beef and swine producers to ship their product to the United States. The reported cases of BSE in Alberta produced repercussions for the North American beef industry, and resulted in closure of the U.S./Canada border for shipments of live Canadian cattle. Canadian pork producers had experienced a significant degree of producer liquidation and consolidation in the two years prior to fiscal 2005, reducing complete feed sales to this sector. In addition, a proposed countervailing duty on Canadian hogs entering the U.S. created enough uncertainty to halt any planned growth or expansion in the Canadian industry, hampering feed sales. A planned transition to more sales of low inclusion products such as premixes and supplements and less reliance on sales of complete feeds was another factor in the reduced volumes.

Cost of sales decreased by \$21.8 million to \$333.0 million compared with \$354.8 million in 2004. The volume decline and lower commodity prices, particularly for soybean meal and canola meal, drove the decrease in cost of sales.

Gross profit decreased by \$4.7 million, or 6.5% to \$66.9 million in 2005 from \$71.6 million in 2004. The lower gross profit reflects lower sales volumes and a slight decrease in percentage margins. As a percentage of revenue, gross profit decreased to 16.7% in 2005 from 16.8% in 2004. Margins slumped badly in the first quarter when there was unusual volatility in feed ingredient prices. The rapid and unexpected drop in price for soybean meal and canola meal that took place early in fiscal 2005 resulted in losses on inventory and existing purchasing positions, impacting gross profit by approximately \$1.5 million. Ridley's margins returned to more satisfactory levels for the balance of the year, reflecting better product mix and increased focus on margin management.

Total operating expenses decreased by \$5.5 million, to \$52.2 million in 2005 from \$57.7 million in 2004. Of this amount, selling, general and administrative expenses decreased by \$4.7 million, to \$46.4 million in 2005 from \$51.1 million in 2004. There were two primary contributors to lower selling, general and administrative expenses. The first was a cost reduction plan introduced in October 2004. In response to the demanding operating environment in fiscal 2005, Ridley examined all areas of the business, implementing stringent cost controls in a changing environment. Targeted manpower reductions and cost containment programs were initiated. The net benefit of the cost containment program after severance costs was \$5.5 million. Secondly, Ridley incurred \$0.9 million in loan impairments in fiscal 2005, a reduction of \$3.8 million from the fiscal 2004 total. Offsetting these savings were higher costs for health care in the U.S. and inflationary cost increases throughout RFO.

Amortization increased slightly by \$0.04 million to \$6.08 million compared to \$6.04 million in 2004.

Research and development costs increased by \$0.4 million, to \$0.9 million from \$0.5 million in 2004, due to expanded research efforts mainly in the area of swine and dairy feeds.

RFO operating expenses in fiscal 2005 include a \$1.2 million asset impairment loss taken when a decision was made to close the St. Paul, Alberta, feed mill. The St. Paul facility was closed in the second quarter because it operated in a marketplace experiencing reduced livestock numbers and it was no longer profitable. A claim settlement of \$2.5 million was received in fiscal 2005 from a U.S. supplier, and is netted against operating expenses.

Operating income of Ridley Feed Operations increased by \$0.8 million to \$14.7 million in 2005 from \$13.9 million in 2004.

Ridley Nutrition Solutions

The Ridley Nutrition Solutions (RNS) segment consists of the low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition business. The low moisture block operations have four production facilities and trade as Ridley Block Operations (RBO). The Sweetlix feed supplements business was acquired in late July 2004 and operates from three production facilities, and the equine business consists of McCauley Bros., Inc. in Versailles, Kentucky, and the Ridley Equine Center that opened in May 2005 in Chambersburg, Pennsylvania.

RNS revenues increased by \$30.4 million, or 63.0%, to \$78.6 million in 2005 from \$48.2 million in 2004. As noted earlier, sales on a dollar basis are not an accurate measurement of Ridley businesses as they are affected by fluctuating commodity prices. All of the increase in fiscal 2005 revenues is attributable to the Sweetlix business, that was acquired on July 30, 2004. Exclusive of the Sweetlix operations, RBO recorded sales volumes that were 5.0% lower than last year, while the equine business increased sales volumes by 13.4%.

Product sales for Ridley Nutrition Solutions were hampered early in fiscal 2005 by plentiful moisture, producing good forage for cattle, and by a lack of winter snow cover until well into the winter season. Good moisture conditions prevailed again in the spring. Tight molasses supplies created production scheduling problems, particularly for the RBO plants, causing production to be shifted between plants to meet customers' needs, with consequent higher transportation costs. RBO and Sweetlix were also impacted by the uncertainties created by the BSE situation and the resulting market instability. RNS implemented an aggressive campaign of promotional activity, combined with better sales and profitability performance in the equine business, to offset the effects of adverse weather conditions and generate satisfactory operating results. Sweetlix volumes recovered well after a slow first quarter when hurricanes in the southeastern U.S. significantly disrupted business activity.

Cost of sales for 2005 increased by \$25.0 million, or 75.5%, to \$58.1 million from \$33.1 million in 2004. The increase in cost of sales primarily reflects the addition of Sweetlix sales volumes in fiscal 2005, a business with a different product mix than the low moisture block and equine nutrition businesses. Higher molasses costs, transportation and utilities also contributed to the higher costs. The reduction in gross margin percentages is indicative of an inability to pass on all of the cost increases to customers, as well as a different product mix with the addition of the Sweetlix product line.

Total operating expenses increased by \$3.8 million, or 45.2%, to \$12.1 million in 2005 from \$8.3 million in 2004, with virtually all of the increase being attributable to the addition of the Sweetlix operations early in fiscal 2005. Overall Selling, G&A costs in RBO and the equine business were flat. Although health care costs were higher, they were offset by savings in other areas from cost containment efforts put in place throughout the year.

Research and development costs declined by \$0.2 million, to \$0.3 million from \$0.5 million in 2004, as part of the cost containment effort.

Operating income for Ridley Nutrition Solutions increased by \$1.6 million, or 23.0%, to \$8.4 million from \$6.8 million in 2004. The increase was from the acquired Sweetlix business as the rest of the RNS segment reported slightly lower operating income, in line with the reduction in sales volumes.

Unallocated Costs

Unallocated costs increased by \$1.0 million in 2005, to \$4.1 million from \$3.1 million in 2004. Fiscal 2005 costs reflect higher wages and benefits, \$0.5 million for legal fees associated with the BSE lawsuits, and include higher professional fees associated with a potential corporate tax restructuring.

Interest Expense

Interest expense decreased by \$0.7 million, or 17.6%, to \$3.2 million from \$3.8 million in 2004. This resulted from a reduction in the average level of debt in fiscal 2005 compared with fiscal 2004. The total short-term and long-term debt was reduced from \$56.4 million at the beginning of fiscal 2004 to \$41.3 million at the end of fiscal 2004 and then to \$40.4 million at the fiscal 2005 year-end.

Interest Income

Interest income consists primarily of interest received on loans and accounts receivable from third parties. Interest income was \$0.8 million in fiscal 2005, down from \$0.9 million in fiscal 2004. The interest received on loans decreased in 2005, reflecting stable interest rates and reduced loan levels.

Income Taxes

Income taxes as a percentage of net earnings before income taxes decreased from 36.3% in 2004 to 32.5% in 2005, reflecting a reduction in statutory rates and favorable adjustments to prior year estimates.

Discontinued Operations – Cotswold Swine Genetics

In the first quarter of fiscal 2004, the Company sold key assets of its North American swine genetics business (Cotswold Swine Genetics) to a genetics company. Ridley committed to maintain certain swine production on a sub-contract basis for a period of one year. The remaining facilities were sold to various swine producers during fiscal 2004. The wind-down was completed as scheduled in the first quarter of fiscal 2005.

Losses on discontinued operations of \$0.4 million after income taxes were recorded in fiscal 2005. In fiscal 2004, these losses totalled \$1.2 million.

Net Earnings for the Year

Net earnings for the year increased by \$2.6 million, from \$8.1 million in 2004 to \$10.7 million in 2005. Net earnings from continuing operations also increased, by \$1.8 million, from \$9.3 million in 2004 to \$11.1 million in 2005. Diluted earnings per share for fiscal 2005 were \$0.77, an increase from \$0.59 diluted earnings per share in 2004.

Outstanding Share Data

The Company's authorized share capital consists of an unlimited number of common shares, with no par value. The number of shares outstanding at June 30, 2004, was 13,727,300. In fiscal 2005, an additional 45,000 shares were issued for exercised shares under the Company's stock option plan. The number of shares outstanding at June 30, 2005, was 13,772,300.

The following stock options to purchase common shares were outstanding as of June 30, 2005:

Date granted	Exercise price	Vesting date	Expiry date	Number outstanding
Dec. 01, 1999	\$6.50	Dec. 01, 2001	Nov. 30, 2005	94,100
Nov. 06, 2000	\$5.38	Nov. 06, 2002	Nov. 06, 2006	162,500
				256,600

Exercise price per share is indicated in Canadian dollars.

All options are fully vested and subject to the terms and conditions set out in the stock options agreement.

Selected Annual Information

Fiscal Year	2005	2004	2003
Revenue (\$000)	478,534	474,643	462,758
Operating income (\$000)	19,079	17,628	27,575
Net earnings from continuing operations (\$000)	11,143	9,293	15,091
Net earnings from continuing operations – per share			
– Basic	\$0.81	\$0.68	\$1.12
– Diluted	\$0.80	\$0.67	\$1.10
Net earnings (\$000)	10,748	8,123	5,989
Net earnings – per share			
– Basic	\$0.78	\$0.59	\$0.44
– Diluted	\$0.77	\$0.59	\$0.44
Total assets (\$000)	224,171	212,933	214,416
Total debt (\$000)	40,395	41,341	56,380
Cash dividends declared – per share	\$0.00	\$0.00	\$0.00

The following factors affect the comparability of the data in the previous three-year summary of financial data:

2005

Operating income for fiscal 2005 continued to be impacted by the BSE incidents and by mild winter weather conditions. Current year results include \$2.5 million received from a supplier in the United States in settlement of a claim. This was offset to a large degree by \$1.5 million in asset impairment losses and closing costs associated with the St. Paul facility. Current year acquisitions contributed about \$2.0 million to operating income. Income tax expense as a percentage of pre-tax income of 32.5% in fiscal 2005 reflects an improvement over previous years' rates. This is attributed to statutory rate declines over the past three years and favorable adjustments to prior year estimates. Net earnings from continuing operations reflects improvements in operating income while income tax expense remained flat.

The Cotswold Swine Genetics (CSG) business was sold in the first quarter of fiscal 2004 (see Discontinued Operations above). Ridley committed to maintain certain swine production on a sub-contract basis for a period of one year. The remaining facilities were sold to various swine producers during fiscal 2004. The

wind-down was completed as scheduled in the first quarter of fiscal 2005.

A loss of \$0.4 million on discontinued operations reflects additional expenses in the U.K., a loss on the sale of the Sioux Falls property, and a small gain on the final Cotswold Swine Genetics wind-down.

2004

Operating income was off significantly from fiscal 2003 mainly due to volume declines. The mild winter in the midwestern U.S. and carryover inventories in the U.S. from the USDA drought assistance program that was introduced in fiscal 2003 reduced both low moisture block sales and seasonal beef feed sales in the U.S. in fiscal 2004. Beef feed sales were also reduced as higher U.S. cattle prices pulled forward live cattle sales to feedlots by cow/calf operators, reducing the number of cattle on pasture. Canadian feed sales volumes were negatively impacted by the BSE incidents with lower Canadian cattle prices resulting from the border closure; as well, feed exports to the U.S. were temporarily restricted because of concerns over prohibited animal protein products. In addition to the impact of declining volumes, expenses were higher in the areas of insurance and bad debts in the U.S. and Canada. The U.S. recorded a significant charge of \$4.7 million relating to a loan impairment.

The process of divesting CSG, the Company's North American swine genetics business, proceeded according to plan in fiscal 2004 and was substantially complete by the end of the year. The net losses from the discontinued Cotswold operations of \$1.2 million reduced the Company's earnings from continuing operations of \$9.3 million to net earnings of \$8.1 million for the year.

2003

In fiscal 2003, the Company decided to exit the swine genetics business and recorded an after-income tax charge of \$6.4 million to reflect the impairment of CSG assets. Included in the loss on discontinued operations is a tax benefit of \$2.4 million as a result of amalgamating the wholly-owned Cotswold Canada subsidiary with Ridley Inc. Total losses on discontinued operations after income taxes were \$9.1 million.

Summary of Quarterly Results

Quarterly Segment Results Fiscal 2005

	30-June-05 (\$000)	31-Mar-05 (\$000)	31-Dec-04 (\$000)	30-Sep-04 (\$000)	Fiscal 2005 (\$000)
Revenue					
Ridley Feed Operations	93,468	97,993	105,629	102,870	399,960
Ridley Nutrition Solutions	15,639	23,678	24,286	14,971	78,574
Total revenue	109,107	121,671	129,915	117,841	478,534
Operating income					
Ridley Feed Operations	2,881	7,804	5,512	(1,431)	14,766
Ridley Nutrition Solutions	(58)	3,601	3,688	1,186	8,417
Unallocated	(1,091)	(1,250)	(976)	(787)	(4,104)
Total operating income (loss)	1,732	10,155	8,224	(1,032)	19,079
Net earnings (loss) from continuing operations	1,221	5,681	5,328	(1,087)	11,143
Net earnings (loss) from discontinued operations	(190)	22	20	(247)	(395)
Net earnings (loss)	1,031	5,703	5,348	(1,334)	10,748
Earnings (loss) per share from continuing operations					
– Basic	0.09	0.41	0.39	(0.08)	0.81
– Diluted	0.08	0.41	0.39	(0.08)	0.80
Net earnings (loss) per share					
– Basic	0.08	0.41	0.39	(0.10)	0.78
– Diluted	0.07	0.41	0.39	(0.10)	0.77

Quarterly Segment Results Fiscal 2004

	30-June-04 (\$000)	31-Mar-04 (\$000)	31-Dec-03 (\$000)	30-Sep-03 (\$000)	Fiscal 2004 (\$000)
Revenue					
Ridley Feed Operations	104,377	107,686	116,146	98,232	426,441
Ridley Nutrition Solutions	9,133	14,089	14,104	10,876	48,202
Total revenue	113,510	121,775	130,250	109,108	474,643
Operating income					
Ridley Feed Operations	2,287	1,046	6,381	4,215	13,929
Ridley Nutrition Solutions	443	2,139	2,642	1,617	6,841
Unallocated	(820)	(780)	(776)	(766)	(3,142)
Total operating income	1,910	2,405	8,247	5,066	17,628
Net earnings from continuing operations	1,107	1,037	4,543	2,606	9,293
Net earnings (loss) from discontinued operations	255	(600)	(709)	(116)	(1,170)
Net earnings	1,362	437	3,834	2,490	8,123
Earnings per share from continuing operations					
– Basic	0.08	0.08	0.33	0.19	0.68
– Diluted	0.08	0.07	0.33	0.19	0.67
Net earnings per share					
– Basic	0.10	0.03	0.28	0.18	0.59
– Diluted	0.10	0.03	0.28	0.18	0.59

Fourth Quarter Results

Sales revenues decreased 3.9% to \$109.1 million compared to \$113.5 million in the fourth quarter of fiscal 2004. Generally, a comparison of revenue on a dollar basis is not necessarily indicative of the strength of Ridley's business because revenue can be influenced by fluctuating commodities prices. In fiscal 2005, reported revenue includes the sales volumes generated by the Company's Sweetlix feed supplement business, which was acquired in July 2004, offset by lower volumes in the existing businesses and lower selling prices per ton associated with lower input prices. Overall sales volumes were up by about 2.0%, but ingredient prices in the 2004 fourth quarter were much higher, as were selling prices per ton. Ingredient prices dropped precipitously in the fiscal 2005 first quarter, and then gradually strengthened during the year, although not returning to the same levels as at the end of fiscal 2004.

Fiscal 2005 fourth quarter margins have improved over the comparative fiscal 2004 period in Ridley Feed Operations (RFO), reflecting better product mix and increased focus on margin management. A planned focus on lower-inclusion products with higher per-ton margins, particularly in the Canadian operations, has helped to return RFO margins to last year's levels. Percentage margins in Ridley Nutrition Solutions (RNS) are lower than in 2004, reflecting two factors. First, the acquisition of Sweetlix

in the first quarter of fiscal 2005 has strengthened the overall business, allowing a wider range of product offerings and broader geographic distribution, but its feed supplement product line does not carry margins comparable to the existing low moisture block, specialty products and equine nutrition businesses. Secondly, the low moisture block business, Ridley Block Operations (RBO), was dealing with molasses shortages in the fourth quarter, resulting in higher ingredient costs. In order to meet production requirements, a significant amount of production was re-directed to the plant in Buffalo, Texas, with higher delivery costs to customers.

Overall, even with a reduction in total revenues, the improvement in RFO margins enabled Ridley to increase gross profit to \$18.8 million compared with \$17.5 million in the fourth quarter of fiscal 2004. After the unusual volatility in feed ingredient prices in the first quarter, Ridley's margins recovered through the balance of the year.

Fiscal 2005 operating expenses increased by \$1.5 million, to \$17.1 million in 2005 from \$15.6 million in 2004, with most of the increase being attributable to the addition of the Sweetlix operations. Other contributors to the higher costs include health care costs and legal fees related to the BSE lawsuits, offset somewhat by savings from the cost reduction program initiated in October.

Operating income for the quarter was \$1.7 million compared with \$1.9 million in the fourth quarter of fiscal 2004. Overall debt service costs are lower in the fiscal 2005 fourth quarter, resulting in a \$0.2 million reduction in interest expense, from \$0.8 million to \$0.6 million.

Income taxes for the fourth quarter of both years reflect favorable adjustments made to prior year estimates.

Earnings from continuing operations were \$1.2 million for the fiscal 2005 fourth quarter compared with \$1.1 million in 2004. The reported fourth quarter fiscal 2005 loss in discontinued operations is related to funding of pension obligations in the U.K. In the fourth quarter of fiscal 2004, discontinued operations reported a small profit on operations.

The Company's net income of \$1.0 million in the fourth quarter of fiscal 2005 (\$0.07 per diluted share) compares to net income of \$1.4 million (\$0.10 per diluted share) in fiscal 2004.

Liquidity

Ridley's consolidated balance sheet at June 30, 2005, together with comparative final 2004 and 2003 figures, is summarized as follows:

	Balances as of June 30		
	2005 (\$000)	2004 (\$000)	2003 (\$000)
Current assets	70,535	74,627	73,389
Current liabilities	45,296	50,373	45,743
Working capital	25,239	24,254	27,646
Property, plant & equipment	95,847	86,457	83,881
Goodwill & other intangibles	51,437	42,991	42,387
Other non-current assets	6,352	8,858	14,760
Long lived assets	153,636	138,306	141,028
Long-term portion of debt	32,024	27,134	44,629
Future tax liability	23,624	25,518	22,498
Other long-term liabilities	4,505	4,332	3,671
Long-term liabilities	60,153	56,984	70,798
Equity	118,722	105,576	97,876

The debt to equity relationship as of June 30, 2003 through 2005, is summarized below:

	2005 (\$000)	2004 (\$000)	2003 (\$000)
Debt defined as bank obligations and capital leases	40,395	41,341	56,380
Equity	118,722	105,576	97,876
Debt to equity	34%	39%	58%

The change in cash balances, including discontinued operations for the twelve months ending June 30 for the following fiscal years is summarized below:

	2005 (\$000)	2004 (\$000)	2003 (\$000)
Provided from operations before working capital requirements	21,748	19,747	24,168
Provided from (used for) working capital requirements	2,545	4,755	(8,309)
Provided from operations	24,293	24,502	15,859
Net utilized for investing activities	(23,687)	(6,948)	(7,363)
Net utilized for financing activities	(3,074)	(14,456)	(9,221)
Effect of exchange rate changes on cash	(51)	13	117
Increase (decrease) in cash balances	(2,519)	3,111	(608)

The Company has consistently generated cash from operations over the past three years, allowing for significant debt repayments. The debt to equity ratio is currently at 34%, a significant reduction from the level at the fiscal 2003 year-end. During fiscal 2005, capital expenditures of \$8.8 million were at about normal historical levels, but the acquisition of the Sweetlix business and the Beloit, Kansas, plant in 2005 for \$18.2 million was significantly larger than the business acquisitions of \$4.3 million in 2004 and \$2.0 million in 2003. Reductions in customer loans outstanding and proceeds from sale of capital assets in fiscal 2005 reduced the total cash utilized for investing activities to \$23.7 million. Cash proceeds in fiscal 2004 include \$3.5 million on the sale of the capital assets associated with discontinued operations. Offsetting a large portion of these proceeds were losses and contract settlements associated with the discontinued operations. The Company generated sufficient cash from operations in fiscal 2005 to repay all of the debt incurred for the acquisition of Sweetlix.

The Company's major borrowing capabilities are covered under a global banking agreement with a syndicate of five international banks. At June 30, 2005, the borrowing limit under this agreement was \$49.6 million, which is \$12.4 million above the outstanding debt level associated with the facility. The Company is positioned to fund acquisitions through standard debt facilities.

Working capital exclusive of all future income tax benefits/liabilities and debt as of June 30, 2003 through 2005, is summarized below:

	2005 (\$000)	2004 (\$000)	2003 (\$000)
Current assets, excluding future income tax benefits	68,522	70,012	70,707
Current liabilities, excluding current debt	36,925	36,166	33,992
Working capital excluding current debt	31,597	33,846	36,715

Working capital excluding current debt and future income tax benefits reflects the Company's position in maintaining operating activities. The level of working capital to support business activity has remained relatively flat. A gradual decrease in net working capital assets and liabilities is due primarily to liquidating discontinued operations, mitigated somewhat by acquisition of a small feed mill in each of fiscal 2003 and 2004, and by the Sweetlix and Beloit acquisitions in fiscal 2005.

Contractual Obligations

The following table summarizes the Company's obligations to make future payment on long-term debt, lease obligations and other obligations at June 30, 2005, as well as expected timing of the payments.

Contractual Obligations	Payments Due by Period				
	Total (\$000)	Less than 1 Year (\$000)	1-2 Years (\$000)	2-3 Years (\$000)	After 3 Years (\$000)
Debt	40,009	8,224	31,739	40	6
Capital leases	386	147	239	-	-
Operating leases	5,806	1,788	1,264	752	2,002
Purchase contracts	22,628	22,628	-	-	-

Capital Resources

Capital asset expenditures during the year were \$8.8 million, compared with \$7.4 million in 2004. During 2005, \$3.1 million was spent on new business opportunities and \$0.7 million for profit improvement projects. The balance of the expenditures was to support ongoing operations. New business and profit improvement projects are prioritized based on discounted rate of return analysis that exceeds the Company's targets.

Ridley expects to spend its historical average of approximately \$7.5 million during fiscal 2006 to support ongoing operations and \$1.4 million for projects that support the strategic plan and meet return criteria. All capital projects during fiscal 2006 are expected to be funded from operating cash flow.

Risk Management

The Company's businesses are subject to a number of risk factors including: commodity prices, hog prices, interest rate and foreign currency volatility, customer credit performance, weather conditions, environmental regulations, and the loss of facilities and inventories from fire and other perils. The Company mitigates these risks through a variety of methods. A risk management committee has taken on a higher profile in recent years for this strategically important area of the Company. Significant progress has been made in identifying risks, taking corrective actions, and encouraging a more proactive approach in the Company's manufacturing facilities to making risk management a high priority.

Environment

Ridley has a comprehensive program to oversee environmental, crisis management and health and safety matters. Management has concluded, based on existing information and applicable laws and regulations, that the amounts expended or anticipated to be expended by the Company on these matters, other than as specifically provided for, are not likely to be material to Ridley's operations or financial condition. Management is unaware of any instance of non-compliance with environmental laws and regulations that is not already being responsibly addressed.

Grains and Protein Meals

Commodity grains and protein meals constitute a significant component of the Company's complete feed production. Complete feed is sold through either spot orders, or through longer-term, fixed-price sales contracts. In order to meet short-term production requirements, the Company maintains inventories of grains and protein meals to meet production requirements.

The grains and protein meals market is such that the Company is subject to a risk of movement in price between the time that grains and protein meals are purchased and the time they are sold as part

of a feed product. The Company is subject to a risk of movement in price between the time that the commodities are sold as part of a feed product through long-term supply contracts and the time they are purchased to fulfill the contract.

The Company mitigates its exposure to commodity price risk to the extent practicable through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and hedging on regulated futures and options markets. The degree to which the Company remains at risk at any time due to an incomplete hedge, however, poses no material risk to the Company's earnings.

Seasonality and Weather Conditions

The beef cattle feed segment of the Company's business is seasonal, with a higher percentage of feed sold and earnings generated during the second and third fiscal quarters. This seasonality is driven largely by weather conditions. If the weather is particularly cold during the winter, sales of feed for cattle increase as compared with normal seasonal patterns, because the cattle are unable to graze under those conditions and have high energy requirements. If the weather is relatively warm during the winter, sales of feed for cattle may decrease as compared with normal seasonal patterns, because the cattle are better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

The Company manages the risk associated with abnormal weather patterns by marketing a diversified product line which, besides beef cattle feed, includes feed for other livestock (dairy cattle, hogs, poultry, horses, sheep, etc.). It also manages this risk by geographically distributing its operations and hence, the market for its products. As a result, regional variations in weather impact only a portion of the Company's earnings at any one time.

Interest Rates

The Company finances a portion of its business through the use of long-term variable rate credit facilities, which exposes the Company to some risk of loss as a result of interest rate movement.

The Company has implemented a strategy to hedge interest rates on a significant portion of the total bank debt outstanding at any time. This strategy may utilize several hedging instruments, but primarily involves the use of interest rate swaps. At June 30, 2005, 91% of the Company's outstanding bank debt was hedged, using interest rate swaps with a variety of maturity dates extending for up to two and one-half years.

Credit

The Company is subject to potential credit risk in the event of non-performance by its customers. This risk is minimized by a number of factors. The Company deals with a large customer base, consisting of both individuals and corporations, with no single customer representing more than 1.5% of the Company's total gross sales. The Company's customer base is geographically dispersed and comprised of livestock producers representing several different livestock species. This tends to minimize the risk posed to the Company by economic downturns that are either species or regionally based.

In line with feed industry practice, the Company has entered into certain loans and collateral agreements with third parties to facilitate growth and strengthen long-term relationships with key customers. Loans are established within strict Company policy, which typically requires secured collateral from the customer and appropriate signed contractual documentation, which is reviewed by legal counsel. Generally, the acquired security is subordinate to a primary commercial lender.

Insurance

The Company has significant investments in manufacturing and distribution facilities and inventory, and is subject to the risk of loss or impairment of earnings as a result of the partial or complete destruction of one or more of these facilities.

The Company manages this risk in several ways. First, the Company's facilities are geographically distributed across the continental United States and Canada. The risk of multiple facilities being lost as a result of a single peril is, therefore, minimized. Second, regular inspections of the Company's facilities are conducted by both management and representatives of the Company's insurance carrier, in order to minimize potential safety hazards. Finally, the Company maintains insurance coverage sufficient to cover any foreseeable material loss. A very tight insurance market in recent years has forced the Company to pay higher premium costs.

Foreign Exchange

The Company's Canadian entities are considered to be self-sustaining and use the Canadian dollar as their functional currency. These entities enter into some purchase contracts and sales contracts denominated in U.S. dollars. The Company manages the risk associated with holding U.S. currency by monitoring its net position and entering into forward exchange contracts when warranted for material net positions. The Company at times maintains inter-company loans between U.S. and Canadian entities. In these situations, forward exchange contracts are utilized to hedge fluctuations in foreign currency translation rates.

The Company's U.S. operations are considered to be self-sustaining. Furthermore, there are no material transactions denominated in currencies other than U.S. dollars. Consequently, no hedging tools are employed by this operation.

Critical Accounting Estimates

The Company does not have estimates included in the financial statements that meet the criteria described as critical accounting estimates and has made no changes from the prior year.

Recently Adopted Accounting Standards and Reporting

Asset Retirement Obligations

On July 1, 2004, the Company adopted CICA 3110, *Accounting for Asset Retirement Obligations*. This pronouncement requires that the fair value of liabilities for asset retirement obligations be recognized in the period in which they are incurred. An asset retirement is a legal obligation associated with the retirement of a long-lived tangible asset. Presently, the Company has no such obligations.

Generally Accepted Accounting Principles

On July 1, 2004, the Company adopted CICA 1100, *Generally Accepted Accounting Principles*. CICA 1100 establishes standards for financial reporting in accordance with Canadian GAAP. It describes what constitutes Canadian GAAP and its sources. The new standard eliminates industry practices as a possible source to consult. The Company's implementation of this new standard resulted in reclassification of shipping and handling costs. The Company's prior practice of netting related shipping and handling revenues and expenses in revenue on the grounds of industry practice is no longer acceptable. This standard did not have any other material effect on the consolidated financial statements.

New Segment Reporting

On July 1, 2004, the Company changed its segment reporting due to a change in the management structure and a recent acquisition in one of the segments. A segment called "Ridley Nutrition Solutions" consisting of the block operations, equine, and specialty products is reported separately due to the scope of the operations and the way the businesses will be managed. The other segment of the Company is Ridley Feed Operations consisting of both the U.S. and Canadian feed operations that are now managed as one business. This will provide a better picture of where profits are being generated within the Company. This change was adopted on a retroactive basis and the financial statements have been restated on a comparative basis.

Future Changes in Accounting Standards and Reporting

The Company expects no significant changes in 2006 to its accounting policies and presentation of financial statements for anticipated revisions to pronouncements and guidelines as issued by the CICA.

Litigation/Contingency

Lawsuits filed in Alberta, Saskatchewan, Quebec and Ontario against the Government of Canada also name Ridley Inc. and Ridley Corporation Limited as co-defendants.

The proposed representative plaintiffs are seeking to certify class actions to include all Canadian cattle farmers who allegedly suffered damage as a result of the imposition of international bans on the export of Canadian beef and cattle following the May 2003 diagnosis of BSE in a cow in Alberta. The Ontario action seeks a national class to include affected cattle farmers residing in the six remaining Canadian provinces.

The proposed representative plaintiffs seek general, aggravated and punitive damages on behalf of themselves and each of the proposed Canadian cattle farmer class members. Full particulars of the claims are yet to be provided.

Each of the four proceedings is at an early stage. Ridley Inc. is and will continue to, actively defend each of the actions.

At this time Ridley Inc. cannot determine what impact, if any, these lawsuits may have on it, or its future earnings, and no accruals have been made in respect of the actions.

The Company also has been named as a co-defendant in certain product liability legal actions. Management believes that these claims are without merit. The Company has insurance coverage for these claims and the insurance companies have undertaken the defense of these claims. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in the financial statements.

Acquisitions

On November 1, 2004, the Company acquired the accounts receivable, inventory and specified transportation equipment of The Farmway Co-op, Inc.'s (Farmway) feed business located in Beloit, Kansas, for \$1.0 million. As part of the agreement, the Company will lease the facility and production equipment for a period of five years with an option to renew the lease on a month-to-month basis. The total lease obligation over the initial five year period is \$611,000, payable in equal monthly instalments.

On July 30, 2004, the Company acquired the assets of the livestock feed supplement business of Sweetlix, LLC (Sweetlix) for approximately \$17.6 million. Sweetlix includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas.

Forward-Looking Information

Ridley Inc., as a company, began a Safety First initiative in fiscal 2005 in the belief that all accidents can be prevented. The Company and its operations are committed to this initiative and the objectives established for fiscal 2006.

Net earnings for fiscal 2005 ended the year with a 32% increase over fiscal 2004 but it was a very challenging year as described earlier in this report. Livestock production economics for the animal nutrition business were generally favorable in fiscal 2005 and can best be described as stable as we enter the new year. The outlook for swine producers, dairy producers and U.S. beef producers is for continued profitability while the Canadian beef sector and U.S. layer industry will be under pressure. Ridley is diversified in all the sectors, and with

normal weather patterns, we are looking forward to improved results for the Company in fiscal 2006.

Ridley Feed Operations (RFO) looks for improvement in fiscal 2006. RFO anticipates volume increases due to new distribution and a return to a normal winter-feeding season. Increased volumes, along with the continued cost containment program implemented in fiscal 2005, are a major focus for the division. Challenges entering the new year for RFO will be the U.S./Canadian border issue relating to BSE and rising health care and energy costs.

Ridley Nutrition Solutions (RNS) also expects volume increases through new distribution and a return to normal winter weather conditions. A strong cattle economy and a breeding herd expansion should provide for a good year for Ridley Block Operations. The second full year of the Sweetlix acquisition will provide for strategy synergies and improved profitability. The new Chambersburg plant will provide growth opportunities in the equine market along with continued growth of the McCauley label, and new products recently introduced. The major challenge for RNS relates to molasses supplies and prices in a tight market.

A challenge facing the Company is the lawsuits filed against Ridley Inc. and the Government of Canada. At this time the Company cannot determine what impact, if any, these lawsuits, referred to above under "Litigation Contingency," may have on future earnings. The Company will continue to strengthen its balance sheet by effectively managing working capital and investing in capital projects that add plant efficiency and provide a safe work environment.

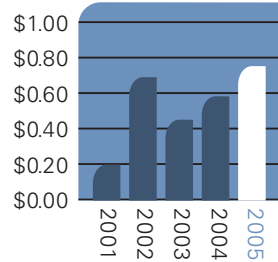
Forward-Looking

This report contains “forward-looking” information. The forward-looking information includes statements concerning the Company’s outlook for the future, as well as other statements of beliefs, plans and strategies or anticipated events, and similar expressions concerning matters that are not historical facts. Forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, contemplated or implied by, such statements. These risks and uncertainties include the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations, the availability and prices of raw materials and supplies, livestock disease, product pricing, the competitive environment and related market conditions, operating efficiencies, access to capital, the cost of compliance with environmental and health standards and other regulatory requirements affecting the Company’s business, adverse results from ongoing litigation and actions of domestic and foreign governments. Other risks are outlined in the Risk Management section above. Unless otherwise required by applicable securities law, the Company disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. The Company cautions readers not to place undue reliance upon forward-looking statements.

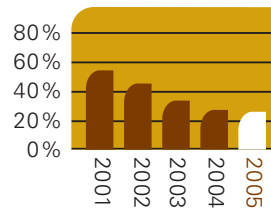
Other

Additional information relating to Ridley Inc., including the Company’s Annual Information Form, can be found on SEDAR at www.sedar.com, or on Ridley’s web site at www.ridleyinc.com.

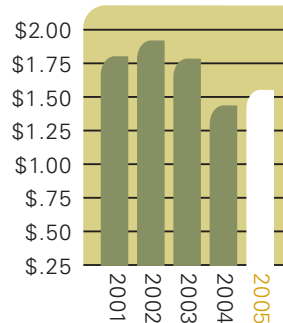
EARNINGS PER DILUTED SHARE (US\$)



DEBT TO TOTAL CAPITALIZATION

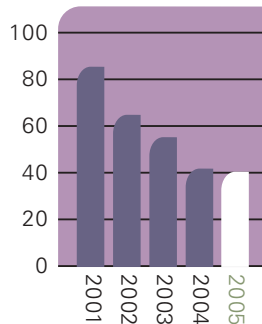


CASH FLOW* PER DILUTED SHARE (US\$)



* Cash flow generated from operations before changes in non-cash working capital.

BANK DEBT (US\$ millions)



CAPITAL SPENDING (US\$ millions)

