

2005 Consolidated  
**Financial Statements**

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## Management Report

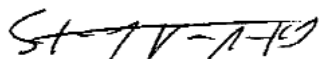
The accompanying consolidated financial statements of Ridley Inc. and all the information in this annual report are the responsibility of management and have been reviewed and approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts based on management's estimates and judgements. The financial information presented throughout the annual report is consistent with that contained in the consolidated financial statements.

To assist management in fulfilling its responsibilities, a system of internal controls has been established to provide reasonable assurance that assets are safeguarded and that the financial records are accurate and reliable.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Audit Committee is appointed by the Board, and all of its members are outside, unrelated directors. The Committee meets with management, as well as external auditors, on a regular basis throughout the year to review internal accounting controls, audit results and other financial reporting issues. In addition, the Audit Committee considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors and reviews the consolidated financial statements with management and the external auditors prior to recommending their approval by the Board.

The consolidated financial statements as of June 30, 2005 and 2004 for the years then ended have been audited on behalf of the shareholders by the external auditors, PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.



S.J. VanRoekel  
President & Chief Executive Officer

August 5, 2005



M.S. Mitchell  
Chief Financial Officer

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## Auditors' Report

### To the Shareholders of Ridley Inc.:

We have audited the consolidated balance sheets of Ridley Inc. as of June 30, 2005 and 2004 and the consolidated statements of earnings and retained earnings and of 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 audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP  
Chartered Accountants  
Winnipeg, Canada  
August 5, 2005

# Ridley Inc. 2005 Financial Statements

## Consolidated Balance Sheets

(expressed in thousands of U.S. dollars)

	As Of June 30	
	2005 (\$000)	2004 (\$000)
<b>Assets</b>		
<b>Current Assets</b>		
Cash and short-term deposits	1,280	3,500
Accounts receivable	26,392	25,829
Inventories (Note 6)	37,286	34,032
Prepays and other current assets	1,143	1,515
Current portion of loans receivable (Note 8)	2,421	3,818
Current assets of discontinued operations (Note 4)	-	1,318
Future income tax benefit (Note 19)	2,013	4,615
	<b>70,535</b>	74,627
<b>Loans receivable, less current portion (Note 8)</b>	<b>3,269</b>	4,094
<b>Property, plant and equipment (Note 9)</b>	<b>95,847</b>	86,457
<b>Other assets</b>	<b>2,287</b>	2,353
<b>Other intangibles (Note 7)</b>	<b>4,026</b>	54
<b>Goodwill</b>	<b>47,411</b>	42,937
<b>Non-current assets of discontinued operations (Note 4)</b>	<b>796</b>	2,411
	<b>224,171</b>	212,933
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	36,555	33,346
Income taxes payable	81	1,251
Short-term debt (Note 10)	2,298	2,524
Current portion of long-term debt (Note 11)	6,073	11,683
Current liabilities of discontinued operations (Note 4)	289	1,569
	<b>45,296</b>	50,373
<b>Long-term debt, less current portion (Note 11)</b>	<b>32,024</b>	27,134
<b>Future income tax liability (Note 19)</b>	<b>23,624</b>	25,518
<b>Other accrued liabilities</b>	<b>4,038</b>	3,968
<b>Minority interest</b>	<b>467</b>	364
	<b>105,449</b>	107,357
<b>Shareholders' Equity</b>		
<b>Share capital (Note 13)</b>	<b>57,191</b>	56,972
<b>Cumulative foreign currency translation adjustment (Note 14)</b>	<b>7,128</b>	4,949
<b>Retained earnings</b>	<b>54,403</b>	43,655
	<b>118,722</b>	105,576
	<b>224,171</b>	212,933

The accompanying notes constitute an integral part of the consolidated financial statements.

Approved by the Board of Directors

  
J.S. Keniry, Director

  
M.P. Bickford-Smith, Director

# Consolidated Statements of Earnings and Retained Earnings

(expressed in thousands of U.S. dollars)

	Year Ended June 30	
	2005 (\$000)	2004 (\$000)
<b>Revenue</b>	<b>478,534</b>	474,643
<b>Cost of sales</b>	<b>391,117</b>	387,886
<b>Gross profit</b>	<b>87,417</b>	86,757
<b>Operating expenses</b>		
Selling, general and administrative	<b>60,393</b>	60,333
Amortization of property, plant and equipment	<b>7,581</b>	7,324
Research and development	<b>1,191</b>	979
Other amortization	<b>439</b>	493
Claim settlement (income) (Note 16)	<b>(2,484)</b>	–
Asset impairment loss (Note 15)	<b>1,218</b>	–
	<b>68,338</b>	69,129
<b>Operating income</b>	<b>19,079</b>	17,628
<b>Interest expense</b> (Note 11)	<b>3,160</b>	3,836
<b>Interest income</b>	<b>(800)</b>	(930)
<b>Earnings before income taxes</b>	<b>16,719</b>	14,722
<b>Provision for income taxes</b> (Note 19)	<b>5,433</b>	5,345
<b>Minority share of net earnings</b>	<b>143</b>	84
<b>Net earnings from continuing operations</b>	<b>11,143</b>	9,293
<b>Loss from discontinued operations</b> (Note 4)	<b>(395)</b>	(1,170)
<b>Net earnings</b>	<b>10,748</b>	8,123
<b>Retained earnings, beginning of period</b>	<b>43,655</b>	35,532
<b>Retained earnings, end of period</b>	<b>54,403</b>	43,655
<b>Earnings per share from continuing operations</b>		
– basic	<b>0.81</b>	0.68
– diluted	<b>0.80</b>	0.67
<b>Net earnings per share</b>		
– basic	<b>0.78</b>	0.59
– diluted	<b>0.77</b>	0.59

The accompanying notes constitute an integral part of the consolidated financial statements.

## Consolidated Statements of Cash Flows

(expressed in thousands of U.S. dollars)

	Year Ended June 30	
	2005 (\$000)	2004 (\$000)
<b>Cash flow from operating activities:</b>		
Net earnings for the period	10,748	8,123
Add (deduct) items not affecting cash:		
Amortization of property, plant and equipment	7,581	7,324
Future income taxes	431	513
Loss on sale of property, plant and equipment	2	37
Asset impairment loss	1,218	–
Loss (gain) on discontinued assets (Note 4)	251	(1,530)
Amortization	439	497
Loan impairments	948	4,708
Other items not affecting cash	130	75
<b>Cash flow from earnings</b>	<b>21,748</b>	<b>19,747</b>
Net change in non-cash working capital balances related to operations:		
Accounts receivable	3,351	2,824
Inventories	1,077	(812)
Prepaid expenses	537	(223)
Accounts payable, accruals and other liabilities	(859)	(684)
Income taxes payable (recoverable)	(1,561)	3,650
<b>Net cash from operating activities</b>	<b>24,293</b>	<b>24,502</b>
<b>Cash flow from investing activities</b>		
Proceeds on disposal of property, plant and equipment	640	472
Proceeds on discontinued assets (Note 4)	1,100	3,523
Business acquisitions (Note 5)	(18,191)	(4,342)
Purchase of property, plant and equipment and investments	(8,773)	(7,446)
Decrease in loans receivable	1,537	845
<b>Net cash utilized for investing activities</b>	<b>(23,687)</b>	<b>(6,948)</b>
<b>Cash flow from financing activities</b>		
Repayment of short- and long-term debt	(38,745)	(35,054)
Proceeds from short- and long-term debt	35,452	20,351
Payment of finance costs	–	(95)
Issuance of share capital	219	342
<b>Net cash utilized for financing activities</b>	<b>(3,074)</b>	<b>(14,456)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(51)</b>	<b>13</b>
<b>Increase (decrease) in cash and short-term deposits</b>	<b>(2,519)</b>	<b>3,111</b>
<b>Net cash and short-term deposits – beginning</b>	<b>3,799</b>	<b>688</b>
<b>Net cash and short-term deposits – end</b>	<b>1,280</b>	<b>3,799</b>
<b>Cash of discontinued operations (Note 4)</b>	<b>–</b>	<b>(299)</b>
<b>Net cash and short-term deposits</b>	<b>1,280</b>	<b>3,500</b>

The accompanying notes constitute an integral part of the consolidated financial statements.

# Notes to Consolidated Financial Statements

## 1. Basis of presentation

These consolidated financial statements are expressed in U.S. dollars and prepared in accordance with Canadian generally accepted accounting principles (GAAP) which require Ridley Inc. ("the Company") to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses and disclosures of contingencies. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. All amounts are in U.S. dollars unless otherwise specified.

### Reporting currency

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 into 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 into 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.

## 2. Significant accounting policies

### Basis of consolidation

These consolidated financial statements include the assets and liabilities and results of operations of the Company and all controlled entities.

### Revenue recognition

Revenues from the sale of livestock feed, animal health supplies, and farm supplies are recognized upon shipment from the mill or facility.

### Cash and short-term deposits

Cash and short-term deposits consist of cash and temporary investments with maturities of three months or less when purchased.

### Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at amounts due from customers based on agreed-upon payment terms. The Company makes an allowance to reduce the carrying value of accounts receivable identified as uncollectible to their estimated realizable amount. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in its existing accounts receivable. The Company determines the allowance for doubtful accounts based on specifically identified accounts as well as less specific reserves established based upon historical collection and write-off experience. The Company reviews its allowance for doubtful accounts on a periodic basis. Past due accounts are reviewed individually for collectibility while all remaining accounts are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

### Inventories

Inventories include raw materials and finished goods. Significant portions of inventories consist of commodities. Inventories are recorded at the lower of weighted average cost and net realizable value. Net realizable value is based on valuing the ingredient component at current commodity prices and deducting costs of realization.

### Impaired loans

The Company makes an allowance for doubtful loans to reduce the carrying value of loans identified as impaired to their estimated realizable amount. Loans are considered impaired if, in management's view, collection is unlikely. Estimated realizable amounts are determined by estimating the fair value of security underlying the loans and deducting the cost of realization.

# Ridley Inc. 2005 Financial Statements

## Property, plant and equipment and amortization

Property, plant and equipment are recorded at historical cost less accumulated amortization. Amortization is provided on a straight-line basis at the following annual rates:

Buildings	40 years
Machinery and equipment	10-30 years
Computer equipment	3-5 years
Furniture and fixtures	10 years
Trucks, trailers and automobiles	5-10 years
Leasehold improvements	Term of the lease

## Impairment of long-lived assets

Long-lived assets are reviewed for impairment when events and circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the assets exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and is recognized as an expense in the period of impairment. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

## Other assets

Other assets consist primarily of deferred financing and investments in non-related corporations and are accounted at cost. Amortization of deferred financing costs is provided on a straight-line basis over the term of the related debt.

## Other intangibles

Other intangibles include trademarks, trade names, product certifications and patents.

Patents and product certifications are amortized on a straight-line basis over fifteen years. The carrying value of these assets is reviewed periodically for impairment and will be written down to their fair value by a charge to amortization expense if a decline in carrying value is identified.

Trademarks and trade names are subject to annual impairment tests and will be written down from carrying value to their fair value by a charge to amortization expense at the time a decline in fair value occurs.

## Goodwill

Goodwill represents the excess cost of acquisitions over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is not amortized but is subject to a fair value impairment test on at least an annual basis, or more frequently if events or circumstances indicate that goodwill could be impaired. Testing for impairment is accomplished mainly by determining whether the fair value of a reporting unit, based upon discounted cash flows, exceeds the net carrying amount of the reporting unit as of the assessment date. If the fair value is greater than the carrying amount, no impairment is necessary. In the event that the carrying amount exceeds fair value, a second step must be performed whereby the fair value of the reporting unit's goodwill must be determined if it is less than its carrying amount. Any impairment of goodwill is recognized as an expense in the period of impairment. The Company has performed the impairment test of its goodwill and has determined that no write-down for impairment was necessary.

## Accounts payable and accrued liabilities

Accounts payable and accrued liabilities include trade payables, outstanding checks in excess of bank balance, employee-related obligations, and accrued expense, all payable in less than one year.

## Income taxes

The Company uses the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are recognized for future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future income tax assets and liabilities are measured using the enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect of changes in income tax rates is recognized in the period in which the rate change occurs. When necessary, a valuation allowance is recorded to reduce future income tax assets to an estimated realizable amount that more likely than not will be realized.

### **Foreign currency translations**

The accounts of self-sustaining entities denominated in Canadian dollars or U.K. sterling are translated into U.S. dollars on the following basis:

- assets and liabilities at the exchange rate prevailing at the balance sheet date; and
- revenue and expenses at weighted average exchange rates for the year.

Adjustments arising from this translation are deferred and recorded as a separate item under shareholders' equity and are included in income only when a reduction in the net investment in these entities is realized. Gains or losses on foreign currency balances and transactions that are designated as hedges of a net investment in self-sustaining foreign operations are offset against exchange losses or gains included in the separate item under shareholders' equity.

### **Foreign currency transactions and balances**

Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date. Exchange differences on these items are included in income as they arise. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the transaction date.

### **Derivative instruments**

The Company manages its exposure to changes in interest rates, ingredient prices, and foreign exchange rates through the use of derivative instruments. The Company does not use derivative instruments for trading or speculative purposes.

The Company follows AcG13-Hedging relationships. This guideline establishes the criteria for determining whether effective hedging relationships exist between derivative financial instruments and the existing assets, liabilities or anticipated transactions ("hedged items"). Derivative financial instruments that are designated as hedges and are effective are accounted for on the same basis as the hedged items. Derivative financial instruments that do not qualify for hedge accounting are recognized in the balance sheet and measured at fair value, with changes in fair value recognized in earnings.

Realized and unrealized gains or losses associated with derivative instruments used in a hedging relationship, that have been terminated or cease to be effective prior to maturity, are deferred and recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedge item is sold, extinguished or matures prior to the termination of the related derivative instrument, any deferred amount related to the derivative instrument is recognized in earnings.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. Interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

The Company hedges its foreign currency exposures on foreign currency denominated intercompany debt by entering into offsetting forward exchange contracts, when it is deemed appropriate. Corresponding translation losses and gains on the related foreign currency denominated debt offset translation gains and losses on the forward exchange contracts. The Company hedges its foreign currency exposure on sales and purchases denominated in foreign currency if the net position is deemed material.

The Company enters into derivative commodity instruments such as future contracts, put options and similar instruments which are used to manage the prices on commodities such as corn, soy meal, grains, molasses and other proteins ("ingredients") used in the production of animal feeds. The hedging activity is limited to the volume of commodities used in manufactured products that are supported by a firm sale price commitment. The derivatives associated with ingredients do not meet the definition of derivative financial instruments; and therefore, do not qualify for hedge accounting. Accordingly, the commodity instruments are recorded at fair value in the consolidated balance sheet with changes in fair value recorded in cost of sales.

In the normal course of business, the Company enters into various contracts to purchase commodities. These contracts qualify as normal purchases and are exempt from mark-to-market accounting treatment as the Company expects to use or sell the commodities over a reasonable period in its normal course of business. For contracts that qualify as normal purchases, no recognition of the contract's fair value is required until settlement of the contract.

## **Employee future benefits**

The Company maintains both defined benefit and defined contribution pension plans. The Company accrues its obligations for employee pension plans and the related costs, net of plan assets. The cost of pensions is actuarially determined using the projected benefits method calculated based on employee service, salary escalation and retirement age, together with the expected return on plan assets. For the purpose of calculating the expected return on plan assets, those assets are valued at fair market value.

The excess of the net actuarial gain (loss) in excess of 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the remaining service period of active employees. The average remaining service period of the active employees covered by the pension plans is 12 years.

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

The Company provides health care benefits for eligible retired employees and their covered dependants. The Company accrues for these benefits over the period in which employees provide service to the date of their first eligibility for such benefits. The amount of the obligation is based on actuarial valuations.

## **Earnings per share**

Basic earnings per share are calculated using the daily weighted average number of shares outstanding during the year.

The dilutive effect of outstanding stock options on earnings per share is based on the application of the treasury stock method. Under this method, the proceeds from the potential exercise of such stock options are assumed to be used to purchase common shares.

## **Stock option plan**

The Company has a stock option plan that is described in Note 13. No compensation expense is recognized for the plan when stock options are issued to employees. Any consideration paid by employees on exercise of stock options is credited to share capital. The Company last issued new stock options on November 6, 2000.

## 34 3. **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 are managed. The other segment of the Company is Ridley Feed Operations consisting of both the U.S. and Canadian feed operations that are managed as one business. This provides 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.

## 4. **Disposal of long-lived assets and discontinued operations**

On December 31, 2004, the Company sold its Sioux Falls, South Dakota, property to a development company for total consideration of \$1,100,000. This property consisted of land and an abandoned feed mill. The Company recorded a \$251,000 pre-tax charge as a result of this sale.

On September 23, 2003, the Company sold key assets of its North American swine genetics business (Cotswold Swine Genetics) to a genetics company for total consideration of \$2,843,000.

The Company committed to maintain certain swine production on a sub-contract basis for a period of one year, which ended on September 23, 2004. The remaining facilities were sold to various swine producers during fiscal 2004 for total consideration of \$379,000. The wind-down was completed on September 30, 2004. An after-tax profit of \$460,000 was realized during fiscal 2005 while after-tax losses of \$933,000 were incurred in fiscal 2004.



# Ridley Inc. 2005 Financial Statements

The increase (decrease) in cash of discontinued operations is summarized below:

	Year Ended June 30	
	2005 (\$000)	2004 (\$000)
<b>Net cash utilized for operating activities</b>	<b>(247)</b>	(872)
<b>Net cash from investing activities</b>	<b>1,100</b>	3,574
<b>Net cash utilized for financing activities</b>	<b>(1,152)</b>	(2,442)
<b>Increase (decrease) in cash of discontinued operations</b>	<b>(299)</b>	260

## 5. Business 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 \$994,000. 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 installments. This acquisition is recorded within the Ridley Feed Operations segment.

On July 30, 2004, the Company acquired the assets of the livestock feed supplement business of Sweetlix, LLC (Sweetlix) for \$17,587,000. Sweetlix includes three manufacturing facilities located in Montgomery, Alabama; Syracuse, Indiana; and Fort Worth, Texas. This operation is recorded within the Ridley Nutrition Solutions segment.

On August 11, 2003, the Company acquired the assets and business of Heartland, Inc. (Heartland), located in Bismarck, North Dakota, for an aggregate consideration of \$4,283,000.

Heartland manufactures a complete line of animal feeds. Heartland and Hubbard Feeds were previously involved in a joint venture. This acquisition is recorded within the Ridley Feed Operations segment.

These acquisitions were accounted for using the purchase method of accounting and accordingly, these consolidated financial statements include the results of operations of the acquired businesses from the dates of acquisition. Details of the net assets acquired on the basis of fair value and the consideration given were as follows:

	Sweetlix 2005 (\$000)	Farmway 2005 (\$000)	Heartland 2004 (\$000)
<b>Assets</b>			
Accounts receivable	1,918	283	386
Inventories	2,216	540	1,133
Prepaid and other current assets	55	-	2
Property, plant and equipment	7,388	129	2,979
Other assets	-	42	-
Other intangibles (Note 7)	4,050	-	-
Goodwill	3,386	-	563
	<b>19,013</b>	<b>994</b>	5,063
<b>Liabilities</b>			
Accounts payable and accrued liabilities	1,426	-	780
	<b>1,426</b>	-	780
<b>Consideration</b>			
Cash	17,587	994	4,283

The goodwill associated with the Sweetlix and Heartland acquisitions is fully deductible for income tax purposes.

## 6. Inventories

	2005 (\$000)	2004 (\$000)
<b>Raw materials</b>	<b>18,941</b>	16,659
<b>Finished goods</b>	<b>18,345</b>	17,373
	<b>37,286</b>	34,032

## 7. Other intangibles

	2005		2004	
	Gross carrying amount (\$000)	Accumulated amortization (\$000)	Gross carrying amount (\$000)	Accumulated amortization (\$000)
Trade names / Trademarks	2,850	–	–	–
Product certifications	1,200	73	–	–
Patents	66	17	66	12
<b>Total</b>	<b>4,116</b>	<b>90</b>	<b>66</b>	<b>12</b>

## 8. Loans receivable

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. The loans generally bear interest at rates between 4.00% and 10.00% with average terms of four years.

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. Current policy generally restricts the granting of loans in excess of \$500,000 to any one customer.

Loans receivable are presented net of allowances for impaired loans. The total loans receivable balance before allowances, as of June 30, 2005, is \$8,440,000 (2004 – \$16,310,000).

The following schedule provides the activity through the allowance for impaired loans during the year:

	2005 (\$000)	2004 (\$000)
Balance – beginning of year	8,398	3,901
Impairment provisions	948	4,708
Loans written off	(8,962)	(36)
Transfer from discontinued operations	2,303	–
Foreign currency translation	63	(175)
<b>Balance – end of year</b>	<b>2,750</b>	<b>8,398</b>

## 9. Property, plant and equipment

	2005		
	Cost (\$000)	Accumulated amortization (\$000)	Net book value (\$000)
Land	5,785	–	5,785
Buildings	42,209	8,191	34,018
Machinery and equipment	77,112	31,374	45,738
Computer equipment	3,331	2,768	563
Furniture and fixtures	4,192	2,783	1,409
Trucks, trailers and automobiles	6,295	4,582	1,713
Leasehold improvements	703	285	418
Construction in progress	6,203	–	6,203
	<b>145,830</b>	<b>49,983</b>	<b>95,847</b>

# Ridley Inc. 2005 Financial Statements

## Property, plant and equipment (continued)

	<b>2004</b>		
	<b>Cost</b> (\$000)	<b>Accumulated amortization</b> (\$000)	<b>Net book value</b> (\$000)
Land	4,918	–	4,918
Buildings	37,833	6,671	31,162
Machinery and equipment	69,222	26,174	43,048
Computer equipment	2,900	2,284	616
Furniture and fixtures	3,544	2,348	1,196
Trucks, trailers and automobiles	6,403	4,497	1,906
Leasehold improvements	678	238	440
Construction in progress	3,171	–	3,171
	<b>128,669</b>	<b>42,212</b>	<b>86,457</b>

## 10. Short-term debt

	<b>2005</b> (\$000)	<b>2004</b> (\$000)
<b>Unsecured open lines of credit</b>	<b>2,114</b>	–
<b>Secured overdraft line of credit</b>	–	2,524
<b>Notes payable</b>	<b>184</b>	–
<b>Short-term debt</b>	<b>2,298</b>	2,524

### Unsecured open lines of credit

The Company has unsecured open lines of credit authorized up to \$4,000,000 (2004 – \$2,000,000). The interest rate is based on the bank's prime rate. The interest rate, including applicable margin, was 5.13% during fiscal 2005 (2004 – 3.25%). As of June 30, 2005, \$2,114,000 (2004 – nil) was outstanding.

### Secured overdraft line of credit

The Company has a secured overdraft line of credit authorized up to C\$5,000,000. The interest rate is based on the bank's prime rate plus an applicable margin. The interest rates ranged from 4.00% to 4.50% during fiscal 2005 (2004 – 4.00% to 5.25%). As of June 30, 2005, the secured overdraft line of credit was not in an overdraft position (2004 – \$2,524,000 outstanding).

### Notes payable

A subsidiary has unsecured notes payable on demand of \$184,000 at a 6.00% interest rate as of June 30, 2005 (2004 – nil).

## 11. Long-term debt

	<b>2005</b> (\$000)	<b>2004</b> (\$000)
<b>Term loan facilities</b>	<b>5,631</b>	16,452
<b>Revolving loan facilities</b>	<b>31,503</b>	20,870
<b>Other facilities and debt</b>	<b>577</b>	931
<b>Capital lease obligations</b>	<b>386</b>	564
	<b>38,097</b>	38,817
<b>Less current portion</b>	<b>6,073</b>	11,683
<b>Long-term debt</b>	<b>32,024</b>	27,134

The Company has a North American loan note subscription agreement with a syndicate of five international banks. The agreement is subordinated and bound to the general loan facility held by its affiliate, Ridley Corporation Limited. As of June 30, 2005, the multi-currency facility totalled \$49.6 million. Interest rates for loan notes issued under the Canadian facilities are based on the Canadian loan note rate. This rate is the weighted average of the annual rates quoted by the lenders under the loan note agreement. Interest rates for loan notes issued under the U.S. facilities are based on the London Inter-bank Offer Rate. A general security agreement over all property is maintained as collateral for the facility.

Interest expense incurred on long-term debt, less current portion in fiscal 2005 is \$2,304,000 (2004 – \$2,712,000).

#### **Term loan facilities**

As of June 30, 2005, the term loan facilities consist of the following:

- A facility authorized up to C\$2,000,000 (2004 – C\$6,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the Canadian loan note rate.

As of June 30, 2005, C\$2,000,000 (2004 – C\$6,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 3.91% (2004 – 3.34%).

- A facility authorized up to \$4,000,000 (2004 – \$12,000,000). At the Company's option, the interest rates on these facilities may be fixed for varying periods based on the London Inter-bank Offer Rate.

As of June 30, 2005, \$4,000,000 (2004 – \$12,000,000) was outstanding and the weighted average effective cost of borrowing, including the applicable margin, was 4.35% (2004 – 2.76%).

The term loan facilities are repayable in quarterly principal installments commencing July 18, 2002, with a final payment of the balance of principal and interest due on October 18, 2005. The quarterly installments on the separate facilities are C\$1,000,000 and \$2,000,000, respectively.

#### **Revolving loan facilities**

As of June 30, 2005, the revolving loan facilities consist of the following:

- A facility authorized up to C\$26,000,000 (2004 – C\$36,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the Canadian loan note rate.

As of June 30, 2005, C\$19,000,000 (2004 – C\$16,000,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 3.86% (2004 – 3.34%).

- A facility authorized up to \$22,726,357 (2004 – \$38,000,000). At the Company's option, the interest rates on the facility may be fixed for varying periods based on the London Inter-bank Offer Rate.

As of June 30, 2005, \$16,000,000 (2004 – \$9,000,000) was outstanding on this facility and the weighted average effective cost of borrowing, including the applicable margin, was 4.55% (2004 – 2.73%).

The revolving loan facilities expire on October 18, 2007.

#### **Other facilities and debt consist of:**

A subsidiary has bank debt of \$577,000 as of June 30, 2005 (2004 – \$931,000). The weighted average effective cost of borrowing, including applicable margin, was 5.62% (2004 – 5.34%).

#### **Capital lease obligations**

Capital lease obligations consist of the present value of payments related to specified leased transportation equipment, payable at various dates through fiscal 2009.

# Ridley Inc. 2005 Financial Statements

## Summary of long-term debt and capital lease obligations

As of June 30, 2005, the aggregate amount of principal payments estimated in each of the next three fiscal years and thereafter are as follows:

	(\$000)
<b>June 30, 2006</b>	6,073
<b>2007</b>	31,978
<b>2008</b>	40
<b>Thereafter</b>	6
<b>Total</b>	<b>38,097</b>

## 12. Pensions and post-retirement benefits

The Company has non-contributory defined benefit pension plans covering substantially all of its U.S. employees. Benefits for salaried employees are based on years of service and the employees' level of compensation during specified periods of employment. The plan covering hourly employees generally provides benefits of stated amounts for each year of service. The Company's funding policy is consistent with statutory regulations and equals the amount deducted for income tax purposes. Prior service costs are amortized over the average future service period of active plan participants. Plan assets include equity and fixed-income securities.

The Company provides post-retirement health care benefits for U.S. employees. These benefits are supplemental to statutory provided health care costs. Post-retirement life insurance benefits are provided for a limited period of time. The components of these expenses are not shown separately as they are not material. The costs of post-retirement health care and life insurance benefits are determined under the per capita claims cost method. Under this method, the Company's obligations are fully accrued by the date the employees attain full eligibility for such benefits. The Company's funding policy is to pay covered benefits as they are incurred; these plans are unfunded.

The Company measures its accrued benefit obligations (both pension and post-retirement health care) and fair value of plan assets for accounting purposes as of April 30 of each year. The most recent actuarial valuation of the pension plans for funding purposes was April 30, 2005, and the next required valuation will be April 30, 2006. The Company's funding policy with regard to the non-contributory defined benefit pension plans is to contribute to each plan an amount equal to or in excess of the annual Minimum Funding Requirements as determined by an Enrolled Actuary and in accordance with Section 412 of the Internal Revenue Code. The Company exceeded this requirement for the most recent plan year ending April 30, 2005.

The change in the financial status of the pension plans and other post-retirement obligations and amounts recognized in the consolidated financial statements as of June 30, 2005 and 2004, are:

	Pension		Other benefits	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
<b>Accrued benefit obligation</b>				
Balance at beginning of year	<b>15,844</b>	14,621	<b>3,973</b>	3,941
Current – service cost	<b>1,071</b>	1,115	<b>358</b>	398
Interest cost	<b>1,004</b>	889	<b>203</b>	215
Amendments	<b>18</b>	260	–	–
Actuarial (gain) loss	<b>1,964</b>	(737)	<b>590</b>	(248)
Benefits paid	<b>(342)</b>	(304)	<b>(97)</b>	(333)
<b>Balance at end of year</b>	<b>19,559</b>	15,844	<b>5,027</b>	3,973
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	<b>11,230</b>	8,279	–	–
Actual return on plan assets	<b>672</b>	1,755	–	–
Employer contributions	<b>2,050</b>	1,500	–	–
Benefits paid	<b>(342)</b>	(304)	–	–
<b>Fair value at end of year</b>	<b>13,610</b>	11,230	–	–
<b>Funded status – all plans in (deficit)</b>	<b>(5,949)</b>	(4,614)	<b>(5,027)</b>	(3,973)
<b>Unamortized net actuarial loss</b>	<b>5,777</b>	3,405	<b>1,773</b>	1,212
<b>Unamortized prior service cost</b>	<b>495</b>	532	<b>8</b>	10
<b>Net amount recognized</b>	<b>323</b>	(677)	<b>(3,246)</b>	(2,751)

Amounts recognized in the Consolidated Balance Sheets are as follows:

	Pension		Other benefits	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
<b>Other assets</b>	<b>1,115</b>	540	–	–
<b>Other accrued liabilities</b>	<b>(792)</b>	(1,217)	<b>(3,246)</b>	(2,751)
<b>Net amount recognized</b>	<b>323</b>	(677)	<b>(3,246)</b>	(2,751)

The Company's net defined benefit plan expense is as follows:

	Pension		Other benefits	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
<b>Current service cost</b>	<b>1,071</b>	1,115	<b>358</b>	398
<b>Interest cost</b>	<b>1,004</b>	889	<b>203</b>	215
<b>Expected return on plan assets</b>	<b>(1,157)</b>	(979)	–	–
<b>Amortization of prior service cost</b>	<b>55</b>	38	<b>2</b>	53
<b>Amortization of net actuarial loss</b>	<b>77</b>	112	<b>29</b>	–
<b>Net defined benefit plan expense</b>	<b>1,050</b>	1,175	<b>592</b>	666

The significant actuarial assumptions used are as follows:

	Pension		Other benefits	
	2005	2004	2005	2004
<b>Accrued benefit obligations as of June 30:</b>				
Discount rate	<b>5.75%</b>	6.50%	<b>5.75%</b>	6.50%
Rate of compensation increase	<b>3.00%</b>	3.00%	–	–
<b>Benefit costs for the years ended June 30:</b>				
Discount rate	<b>6.50%</b>	6.25%	<b>6.50%</b>	6.25%
Expected long-term return on assets	<b>9.00%</b>	9.00%	–	–
Rate of compensation increase	<b>3.00%</b>	3.00%	–	–
<b>Assumed health care cost trend rates at June 30:</b>				
Initial health care cost trend	–	–	<b>10.00%</b>	8.50%
Cost trend declines to	–	–	<b>4.50%</b>	4.50%
Year rate reaches ultimate level	–	–	<b>2016</b>	2012

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effect on cost components and benefit obligations:

	One percentage point (\$000)	
	Increase	Decrease
<b>Medical service cost and interest</b>	135	(103)
<b>Accumulated benefit obligation</b>	1,163	(893)

# Ridley Inc. 2005 Financial Statements

## Defined contribution plans

The Company also provides defined contribution plans for substantially all U.S. and Canadian employees. The Company's contributions amounted to \$1,267,000 in 2005 (2004 – \$1,152,000).

As of June 30, 2005, approximately 51% (2004 – 51%) of all pension plan assets were invested in equity mutual funds and 49% (2004 – 49%) in fixed income mutual funds. The pension plan has no direct investments in Ridley Inc. nor any of its affiliates.

## 13. Share capital

	2005 (\$000)	2004 (\$000)
<b>Authorized</b>		
Unlimited number of common shares, no par value		
<b>Issued and outstanding</b>		
13,772,300 common shares (2004 – 13,727,300)	<b>57,191</b>	56,972

The number of shares issued increased during fiscal 2005 due to the exercise of stock options. As of June 30, 2005, Ridley Corporation Limited held 69.2% (2004 – 69.4%) of Ridley Inc.'s common shares.

The following is a reconciliation of the basic and diluted shares outstanding as of June 30, 2005 and 2004:

	2005	2004
<b>Shares outstanding – basic</b>	<b>13,772,300</b>	13,727,300
<b>Incremental shares related to outstanding stock options</b>	<b>121,641</b>	162,256
<b>Shares outstanding – diluted</b>	<b>13,893,941</b>	13,889,556

## Stock option plan

Under the terms of the Company's stock option plan, approved by shareholders at the Annual and Special Meeting of Shareholders on November 6, 1998, options to purchase common shares of the Company may be granted by the Board of Directors or the Compensation Committee of the Board, to directors, officers, employees and service providers of the Company or its affiliates or subsidiaries. The stock option plan provides that the aggregate number of common shares, which may be reserved for issuance under the stock option plan, cannot exceed 10% of the common shares of the Company then outstanding. Weighted average exercise prices and exercise prices per share are indicated in Canadian dollars.

	2005		2004	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
<b>Stock options outstanding</b>				
– beginning of year	<b>429,100</b>	<b>7.27</b>	500,400	7.24
<b>Changes pursuant to</b>				
Options cancelled	<b>(127,500)</b>	<b>10.65</b>	(4,100)	10.65
Options exercised	<b>(45,000)</b>	<b>6.16</b>	(67,200)	6.79
<b>Stock options outstanding</b>				
– end of year	<b>256,600</b>	<b>5.79</b>	429,100	7.27

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. 1, 1999	\$6.50	Dec. 1, 2001	Nov. 30, 2005	94,100
Nov. 6, 2000	\$5.38	Nov. 6, 2002	Nov. 6, 2006	162,500
				256,600

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

#### 14. Cumulative foreign currency translation adjustment

The cumulative foreign currency translation adjustment account primarily reflects the net changes in the respective carrying values of the Company's investments in self-sustaining U.K. operations due to exchange rate fluctuations since date of acquisition and the translation of entities with Canadian dollar functional currency to the U.S. dollar reporting currency.

	2005 (\$000)	2004 (\$000)
<b>Balance – beginning of year</b>	<b>4,949</b>	5,748
<b>Effect of exchange rate variation from parent company functional currency to reporting currency</b>	<b>2,195</b>	(791)
<b>Effect of exchange rate variation on translation of net assets of self-sustaining foreign operations</b>	<b>(16)</b>	(8)
<b>Balance – end of year</b>	<b>7,128</b>	4,949

#### 15. Asset impairment

In fiscal 2005, the Company recorded a \$1,218,000 (\$780,000 after tax) impairment loss related to a feed mill in northern Alberta. Due to the economic condition of the beef industry in western Canada, the Company is taking action to consolidate its production facilities in this geographic area. To that effect, the Company shut down its most remote feed mill and accordingly has reduced the carrying value of the feed mill's property, plant and equipment to fair value.

Fair value was determined based on the net realizable value that could be obtained for assets, less costs of disposal or sale. The assets are reported under the Ridley Feed Operations Segment.

#### 16. Claim settlement

A claim settlement was received in fiscal 2005 from a supplier in the United States for \$2,484,000.

#### 17. Financial instruments

##### Fair value of financial instruments

The carrying value of the Company's recognized financial instruments, which include cash, accounts receivable, accounts payable and accrued liabilities and long-term debt, approximate their fair value. Accounts payable and accrued liabilities include outstanding checks in excess of bank balance of \$6,563,000 (2004 – \$596,000).

The fair value of loans receivable is not determinable as replacement financing is not readily available in the market place.

##### Credit risk

The Company, in the normal course of business, is exposed to credit risk from its customers. The Company's financial assets that are exposed to credit risk consist primarily of accounts receivable and loans receivable.

Accounts receivable are primarily short-term receivables from customers that arise in the normal course of business. The Company performs regular credit evaluations on all of its customers.

The five largest loan balances net of allowance for doubtful loans, comprise 35% (2004 – 37%) of the total loan portfolio.

##### Interest rate risk

The Company enters into derivative financial instruments in order to hedge its risk against interest rate fluctuations. The Company has fixed its variable rate long-term borrowing obligations with the following outstanding interest rate swap agreements:

Notional amount	Interest rate	Term of agreement	Repricing period
U.S.\$10,000,000	2.600%	December 24, 2004 – December 24, 2005	3 months
U.S.\$10,000,000	2.835%	January 18, 2005 – January 18, 2006	3 months
C\$10,000,000	4.050%	January 18, 2006 – January 18, 2007	3 months
C\$10,000,000	4.060%	January 18, 2005 – January 18, 2008	3 months
C\$10,000,000	5.560%	January 4, 2005 – January 4, 2006	3 months

The unrealized loss on these instruments is \$472,000 as of June 30, 2005.

# Ridley Inc. 2005 Financial Statements

## Foreign exchange risk

The Company at times enters into forward foreign exchange contracts to hedge future sales denominated in foreign currencies and to hedge intercompany loans denominated in foreign currencies. The terms of the foreign exchange contracts are typically less than one year. The Company has no foreign exchange forward contracts outstanding as of June 30, 2005.

## 18. Commitments and contingencies

### Legal actions

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.

### Other legal matters

The Company 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 these financial statements.

### Lease commitments

The Company has entered into various leases expiring on different dates until September 30, 2024, which call for lease payments of \$5,806,000 for the rental of buildings and other operating leases. The minimum lease payments for the coming years are as follows:

	<b>Operating leases</b> (\$000)
<b>June 30, 2006</b>	1,788
<b>2007</b>	1,264
<b>2008</b>	752
<b>2009</b>	638
<b>2010</b>	307
<b>Thereafter</b>	1,057
<b>Total</b>	<b>5,806</b>

The Company leases vehicles, buildings, and office equipment. The total rent expense for fiscal 2005 was \$1,999,000 (2004 – \$2,501,000).

### Guarantees

The Company has undertaken to guarantee the debts and obligations of a select group of customers or producers with their respective lending institutions (bank). The guarantees typically decline in amount according to the customer's repayment schedule. Failure on the part of the customer to make payment on a specified loan obligates the Company to make restitution to the bank for the amount guaranteed. Generally, the Company obtains a security interest on the customer's farm assets. This security is subordinated to the position held by the customer's bank. The following summarizes the Company's outstanding guarantees:

A series of unsecured guarantees of one major U.S. swine producer, totalling \$1,700,000, with varying expiration dates up to July 2010. The customer is required to purchase animal feed for the livestock maintained in the facilities associated with the guarantees.

Guarantees of six U.S. customers in aggregate of \$196,000 secured by an equal amount of collateral, with varying expiration dates up to November 2006. As part of the agreements, the customers must purchase their animal feed requirements from the Company.

## 19. Income taxes

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following reasons:

	<b>2005</b> (\$000)	<b>2004</b> (\$000)
<b>Earnings before income taxes</b>	<b>16,719</b>	14,722
<b>Combined statutory tax rate</b>	<b>36.0%</b>	37.4%
<b>Tax payable based on statutory tax rate</b>	<b>6,019</b>	5,506
<b>Non-allowable expenses</b>	<b>558</b>	462
<b>Effect of income tax rate differences</b>	<b>(641)</b>	260
<b>Effect of foreign deductions</b>	<b>(503)</b>	(883)
<b>Provision for income taxes</b>	<b>5,433</b>	5,345
<b>Current</b>	<b>3,718</b>	5,019
<b>Future</b>	<b>1,715</b>	326
	<b>5,433</b>	5,345

Future income tax assets and liabilities consist of temporary differences between the accounting and tax basis of assets and liabilities as follows:

	<b>2005</b> (\$000)	<b>2004</b> (\$000)
<b>Future income tax assets</b>		
Accounts and loans receivable	<b>948</b>	3,312
Other assets	<b>422</b>	161
Liabilities	<b>1,512</b>	1,571
Non-capital losses carried forward	<b>3,964</b>	2,897
	<b>6,846</b>	7,941
<b>Future income tax liabilities</b>		
Property, plant and equipment	<b>(17,704)</b>	(17,506)
Goodwill and intangibles	<b>(9,777)</b>	(7,966)
Partnership income deferral	<b>(976)</b>	(2,730)
Deferred currency translation on debt	<b>-</b>	(642)
	<b>(28,457)</b>	(28,844)
<b>Net future income tax liability</b>	<b>(21,611)</b>	(20,903)
<b>Comprised of:</b>		
Current portion – tax benefit	<b>2,013</b>	4,615
Future portion – tax liability	<b>(23,624)</b>	(25,518)
	<b>(21,611)</b>	(20,903)

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There are approximately \$13,380,000 (2004 – \$11,462,000) of tax loss carry-forwards arising from the discontinued North American swine genetics business. A valuation reserve has been established for potential expiration of a portion of these tax benefits. The following reflects the amounts and related expiration period:

Year of Expiry	Tax loss (\$000)	Tax benefit (\$000)
<b>2006</b>	<b>304</b>	<b>109</b>
<b>2007</b>	<b>361</b>	<b>130</b>
<b>2008</b>	<b>727</b>	<b>262</b>
<b>2009</b>	<b>2,335</b>	<b>841</b>
<b>2010</b>	<b>3,926</b>	<b>1,413</b>
<b>2011</b>	<b>4,954</b>	<b>1,783</b>
<b>2015</b>	<b>773</b>	<b>278</b>
<b>Gross</b>	<b>13,380</b>	<b>4,816</b>
<b>Valuation reserve</b>		<b>(852)</b>
<b>Net tax benefit</b>		<b>3,964</b>

### 20. Statement of cash flow disclosures

The following amounts were paid on account of interest and taxes:

	2005 (\$000)	2004 (\$000)
<b>Interest</b>	<b>3,058</b>	3,820
<b>Income taxes, net of refund</b>	<b>6,815</b>	515

### 21. Segment information

The Company's operations are conducted in two business segments as: Ridley Feed Operations and Ridley Nutrition Solutions.

Ridley Feed Operations, which consists of both the U.S. and Canadian dry feed operations, manufactures and distributes livestock feed to customers primarily in the prairie region of Canada and the U.S. midwest. The products include a full range of complete feeds and supplements and are marketed through a dealership network as well as directly to agricultural producers.

Ridley Nutrition Solutions, which consists of the low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition business, McCauley Bros., Inc., manufactures and distributes low moisture blocks, specialty products, feed supplements and premium quality equine feeds.

The Company evaluates performance based on operating income. Operating income is defined as earnings before interest expense, other income, and income taxes.

An analysis of segment information is as follows:

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

Revenues, property, plant and equipment, and goodwill by geographic area are as follows:

	Revenue		Property, plant and equipment		Goodwill & other intangibles	
	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)	2005 (\$000)	2004 (\$000)
<b>United States</b>	<b>359,419</b>	341,212	<b>68,687</b>	59,903	<b>40,956</b>	33,461
<b>Canada</b>	<b>119,115</b>	133,431	<b>27,160</b>	26,554	<b>10,481</b>	9,530
<b>Total</b>	<b>478,534</b>	474,643	<b>95,847</b>	86,457	<b>51,437</b>	42,991

## 22. Comparative amounts

Prior period amounts have been reclassified to conform to current year presentation.

# Ridley Inc. Corporate Directory



## Corporate Office

J.S. Keniry,  
Chairman

S.J. VanRoekel,  
President & C.E.O.

M.S. Mitchell,  
Chief Financial Officer

J.D. Richardson,  
Corporate Secretary

424 North Riverfront Drive  
PO Box 8500  
Mankato, Minnesota, U.S.A.  
56002-8500  
Telephone: (507) 388 9400  
Facsimile: (507) 388 9415

## Auditors:

PricewaterhouseCoopers LLP      Winnipeg, Canada

## Bankers:

JPMorgan Chase Bank, N.A.      Chicago, U.S.A.  
Toronto, Canada

## Legal Counsel:

Borden Ladner Gervais LLP      Toronto, Canada  
Dorsey & Whitney LLP      Minneapolis, U.S.A.  
Pitblado LLP      Winnipeg, Canada

## Transfer Agent:

Computershare Trust Company of Canada      Toronto, Canada  
For inquiries:  
Telephone: (800) 564 6253  
Facsimile: (866) 249 7775

## Ridley Feed Operations

Calvin Martin  
Executive V.P., Ridley Inc.  
Ridley Feed Operations

George "Eddie" Wells  
Executive V.P., Ridley Inc.  
Ridley Feed Operations

Gary Turner  
General Manager,  
Eastern Business Unit

Mark Nelson  
General Manager,  
East Central  
Business Unit

Ken Petersen  
General Manager,  
North Central  
Business Unit

Bob Revell  
General Manager,  
West Central  
Business Unit

Kevin Levi  
General Manager,  
Western Business Unit

Denis Daudet  
General Manager,  
Alberta Business Unit

Al McKim  
General Manager,  
Saskatchewan  
Business Unit

Jim Linaker  
General Manager,  
Manitoba/Daco  
Business Unit

## Ridley Nutrition Solutions

Bob Frost  
Executive V.P., Ridley Inc.  
President,  
Ridley Nutrition Solutions

## Ridley Feed Ingredients

Mike Hudspeth  
V.P., Ridley Inc. and  
Chief Operating Officer,  
Ridley Feed Ingredients

## Company Information

For investment analyst inquiries, please contact our Chief Financial Officer at (507) 388 9410. For copies of annual and quarterly reports, annual information forms and other disclosure documents, please contact our Corporate Secretary at (204) 956 1717.

## Financial Calendar 2005 – 2006\*

Following are the anticipated dates on which the Company will announce its results of operations:

First quarter report to September 30	November 8, 2005
Second quarter report to December 31	February 13, 2006
Third quarter report to March 31	May 9, 2006
Year-end results to June 30	August 21, 2006

\* Subject to change

Trading Symbol: RCL on The Toronto Stock Exchange

The following trade names are owned or licensed by Ridley Inc. and its subsidiaries: Ridley, Feed-Rite, Hubbard Feeds, Wayne Feeds, Ridley Feed Ingredients, Ridley Specialty Products, Ridley Block Operations, Daco Western Canada, Farmix, CRYSTALYX®, McCauley's®, Post Time®, Sweetlix®.