



Interim Report to Shareholders  
For the three months ended September 30, 2005

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis as of November 8, 2005 is based on the accompanying financial statements prepared using Canadian Generally Accepted Accounting Principles ("GAAP"). All amounts are in U.S. dollars unless otherwise stated.

The following summary data is presented to assist in understanding the fiscal 2006 first quarter results:

<b>(Millions of U.S. dollars except for EPS)</b>	<b>Three Months Ended 30 September 2005</b>	<b>Three Months Ended 30 September 2004</b>
Revenues	\$120.5	\$117.8
Net earnings (loss) from continuing operations	2.5	(1.1)
Loss from discontinued operations	-	(0.2)
Net earnings (loss)	2.5	(1.3)
Diluted EPS	0.18	(0.10)
EBITDA*	6.5	2.3

\*EBITDA – Operating Income before amortization and asset impairment loss. EBITDA does not have a standardized meaning prescribed by Canadian GAAP and therefore is not readily comparable to similar measures presented by other companies. However, management believes that this measure provides investors with useful supplemental information.

**Consolidated Financial Results**

Revenues increased to \$120.5 million compared with \$117.8 million in the same period last year, as overall sales volumes increased by 3.1%. Generally, a comparison of revenues on a dollar basis is not necessarily indicative of the strength of Ridley's business because revenues can be influenced by fluctuating commodity prices. Ridley's

first quarter sales and operating results are traditionally not as strong as the colder second and third fiscal quarters from October through March, when cattle have higher energy requirements and snow cover reduces their ability to graze. Fiscal 2006 reported revenues include the revenues generated by the Company's Sweetlix feed supplement business for the full quarter. In the fiscal 2005 comparative period, Sweetlix revenues were included only from the date of acquisition on July 30, 2004. Excluding the increase attributable to Sweetlix, Ridley's sales volumes in 2006 are up by 1.6% over the previous year.

Gross profit in the first quarter of fiscal 2006 was \$20.8 million compared with \$17.6 million in the fiscal 2005 first quarter. The improvement in gross profit reflects higher sales volumes as well as better product mix and improved margins. Fiscal 2005 gross profit is net of approximately \$1.2 million in losses on inventory and existing purchasing positions when feed ingredient markets were experiencing unusual volatility in market prices.

Overall operating expenses in the first quarter decreased by \$2.3 million from the previous year, to \$16.4 million. Despite continuing higher costs for energy, legal costs related to the Canadian lawsuits and health care in the U.S., operating expenses in 2006 were reduced by \$1.0 million. Operating expenses in the 2005 first quarter included a \$1.3 million asset impairment loss related to closing Ridley's feed mill in St. Paul, Alberta.

Operating income before interest and taxes is \$4.4 million in the quarter, compared with an operating loss before interest and taxes of \$1.0 million in the same period of fiscal 2005. Lower average debt levels resulted in a \$0.3 million reduction in interest expense. Net earnings from continuing operations are \$2.5 million in the fiscal 2006 first quarter, compared with a loss from continuing operations of \$1.1 million last year.

Net earnings for the first quarter are \$2.5 million (diluted earnings per share of \$0.18) compared with a loss of \$1.3 million in the fiscal 2005 first quarter (diluted loss per share of \$0.10). EBITDA (operating income before amortization and the asset impairment loss in 2005) were \$6.5 million in the fiscal 2006 first quarter, compared with \$2.3 million for the previous year.

## **Segment Results**

Ridley Feed Operations increased sales volumes by 1.2% in the first quarter of fiscal 2006. A stable feed ingredient market, better product mix and improved margins in the fiscal 2006 first quarter helped to return gross margins to more normal levels.

As noted above, fiscal 2005 first quarter results were impacted by the asset impairment charge of \$1.3 million for the St. Paul closing, and by volatile markets for feed ingredients, causing \$1.2 million in losses on inventory and some purchasing positions. For the quarter, Ridley Feed Operations reported operating income of \$4.0 million, compared with a loss of \$1.4 million in the fiscal 2005 first quarter.

Ridley Nutrition Solutions (RNS), which includes the low moisture block operations, Sweetlix feed supplements, specialty products and the equine nutrition business, McCauley Bros., Inc., recorded higher sales volumes than last year.

Sales volumes for the Sweetlix feed supplement product line are up by nearly 50%, as a full three months of operations are included in 2006 results, compared with only two months of operations in fiscal 2005. Sweetlix was acquired at the end of July 2004. Sweetlix sales and operations were adversely impacted in both periods by the effects of hurricanes and disruptions to transportation for inbound shipments of ingredients and outbound feed shipments. The Company was fortunate to have experienced no major physical damage to its plant. The low moisture block and equine operations both reported healthy sales volume increases, contributing to a 22.4% year-over-year increase in RNS sales volumes.

Despite significantly higher sales volumes, RNS has been adversely impacted by weather conditions, with the block operations facing shortages of molasses, and consequently higher costs, partly due to hurricanes damaging the sugar cane crop in the south-eastern U.S., and partly due to excess rainfall affecting the sugar beet crop in the Red River Valley. RNS has had to move production volumes about from plant to plant, depending on molasses supply, and has incurred higher transportation costs for raw materials being shipped into the plants, and finished product being shipped to customers. This situation is expected to continue until early in the second quarter when molasses supplies should return to normal. In addition, earnings in the equine business were down year over year due in part to startup costs associated with the new Chambersburg equine facility.

For the first quarter of fiscal 2006, Ridley Nutrition Solutions reported operating income of \$1.3 million compared with \$1.2 million in the same period of fiscal 2005.

### **Liquidity/Capital Resources/Cash Flow**

The Company's debt to equity position is summarized below:

Balances in \$000's as of:			
	30-Sep-05	30-Jun-05	30-Sep-04
Debt*	41,835	40,395	60,369
Equity	122,680	118,722	105,986
Debt to equity	34%	34%	57%

\*Debt is defined as bank obligations and capital leases

The increase in debt from June 30, 2005 to September 30, 2005 is due primarily to an acquisition and to normal working capital requirements as a result of higher levels of activity as we enter the busy season. Conversion of the Canadian dollar-denominated bank debt to U.S. dollar equivalent using a stronger Canadian dollar exchange rate also contributed to a higher debt balance in September. Debt as at September 30, 2004 includes the cost of financing the Sweetlix acquisition.

Cash flow from earnings was \$3.8 million in the 2006 first quarter, offset by \$1.6 million used to finance working capital needs, resulting in \$2.2 million in cash generated from operating activities. In the 2005 first quarter, cash flow from earnings was \$2.2 million, and working capital needs increased by \$3.4 million, attributable to higher levels of activity, resulting in \$1.2 million in cash being utilized for operating activities.

## **Capital Expenditures**

Expenditures on capital assets of \$1.0 million in the first quarter compare with \$1.9 million in capital expenditures a year ago.

## **Business Acquisitions**

On August 12, 2005, Ridley purchased the remaining 49% share in McCauley Bros., Inc. (MBI) for an aggregate consideration of \$1.6 million. Consideration includes an initial cash payment of \$1.1 million and deferred payments totalling \$0.5 million, payable in equal annual instalments over a three-year period with accrued interest at 3.7% on the balance outstanding. MBI is located in Versailles, Kentucky, and manufactures premium quality feeds and nutritional supplements for the equine market.

On July 30, 2004, Ridley 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.

## **Litigation/Contingency**

Ridley Inc. disclosed in April 2005 that it was named as a co-defendant in proposed class action lawsuits filed in four provinces of Canada. The Government of Canada and Ridley Inc.'s majority shareholder, Ridley Corporation Limited of Sydney, Australia, are also named as co-defendants in the lawsuits. Ridley Inc. is providing regular updates on the status of these lawsuits.

The lawsuits seek recovery of damages, including punitive damages, for losses allegedly incurred by Canadian cattle farmers as a result of the international bans on the importation of Canadian beef and cattle following the announcement on May 20, 2003 of the diagnosis of bovine spongiform encephalopathy (BSE) in a cow in Alberta.

There are substantial preliminary legal arguments raised by the defendants that must be resolved prior to any hearing to certify the lawsuits as class actions. Ridley Inc. and Ridley Corporation Limited have filed notices of motion to strike the statement of claim and dismiss the Ontario action. These motions are scheduled to be argued at a hearing in Toronto in November. Ridley Inc. believes that there are reasonable prospects that the actions against it will be struck out but, at this preliminary stage, is unable to provide any further comment as to the likely outcome of any aspect of the lawsuits.

Only after these preliminary legal arguments have been resolved, and only if the lawsuits are certified as class actions, will the courts, to the extent it remains necessary, proceed to address the merits of any factual allegations raised by the plaintiffs. The proceeding in Quebec has been stayed pending a decision in the Ontario hearing to dismiss the claims against Ridley Inc. and the other defendants. The proceedings in Alberta and Saskatchewan are also currently in abeyance.

Ridley Inc. has been examining its insurance position in respect of these lawsuits. As previously reported, all relevant insurers were notified of the plaintiffs' claims and have been kept informed of relevant developments. A number of those insurers have reserved their position, while others have adopted the position that their policies do not respond to the claims, including the legal costs currently being incurred. Based on its analysis and investigations, Ridley Inc. believes there is little prospect of any of the insurers responding favourably under these policies. Ridley Inc. will continue to fund the cost of its defence of the lawsuits from operating cash flow and may take action against the relevant insurers in the event of further developments in respect of these insurance policies and if the prospects of success appear reasonable.

## **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 of the MD&A included in the Company's Annual Report. 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.

## **Outlook**

We remain optimistic that the combination of a generally favourable economic environment for livestock production in North America, considerable forward momentum in sales activities, and a continuing focus on cost containment will yield further improvements and ensure our competitiveness in a changing marketplace. 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.

**Ridley Inc.****Consolidated Balance Sheet (Unaudited)**  
(U.S.\$ in thousands)

	September 30, 2005	June 30, 2005	September 30, 2004
<b>Assets</b>			
<b>Current assets</b>			
Cash and short-term deposits .....	1,764	1,280	1,910
Accounts receivable .....	30,408	26,392	29,904
Inventories .....	39,132	37,286	35,939
Prepays and other current assets .....	2,720	1,143	3,019
Current portion of loans receivable .....	2,420	2,421	3,717
Current assets of discontinued operations .....	-	-	1,404
Future income tax benefit .....	2,630	2,013	4,375
Total current assets .....	79,074	70,535	80,268
Loans receivable, less current portion .....	3,277	3,269	4,018
Property, plant and equipment .....	96,487	95,847	95,614
Other assets .....	3,290	2,287	1,443
Other intangibles .....	4,004	4,026	53
Goodwill .....	49,124	47,411	49,657
Non-current assets of discontinued operations .....	-	796	1,197
Total non-current assets .....	156,182	153,636	151,982
Total assets .....	235,256	224,171	232,250
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities .....	40,544	36,555	35,407
Income taxes payable .....	1,222	81	563
Short-term debt .....	4,129	2,298	2,406
Current portion of long-term debt .....	3,299	6,073	12,129
Current liabilities of discontinued operations .....	-	289	418
Total current liabilities .....	49,194	45,296	50,923
Long-term debt, less current portion .....	34,407	32,024	45,834
Future income tax liability .....	24,800	23,624	25,591
Other accrued liabilities .....	4,175	4,038	3,571
Minority interest .....	-	467	345
Total long-term liabilities .....	63,382	60,153	75,341
<b>Shareholders' Equity</b>			
Share capital .....	57,191	57,191	57,087
Cumulative foreign currency translation adjustment .....	8,628	7,128	6,578
Retained earnings .....	56,861	54,403	42,321
Total shareholders' equity .....	122,680	118,722	105,986
Total liabilities and shareholders' equity .....	235,256	224,171	232,250



**Ridley Inc.****Consolidated Statement of Cash Flows** (Unaudited)  
(U.S.\$ in thousands)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004
<b>Operating activities</b>		
Net earnings (loss) for the period .....	2,458	(1,334)
Add (deduct) items not affecting cash:		
Amortization of property, plant and equipment .....	1,997	1,892
Future income taxes .....	(814)	80
Loss (gain) on sale of property, plant and equipment .....	60	(21)
Asset impairment loss .....	-	1,305
Loss on discontinued assets .....	-	154
Amortization .....	105	96
Other items not affecting cash .....	4	48
Cash flow from earnings .....	3,810	2,220
Net change in non-cash working capital balances related to operations:		
Accounts receivable .....	(3,423)	(1,573)
Inventories .....	(1,359)	1,587
Prepaid expenses .....	(1,555)	(1,369)
Accounts payable, accruals and other liabilities .....	2,560	(1,379)
Income taxes payable (recoverable) .....	2,195	(726)
Net cash from (utilized for) operating activities .....	2,228	(1,240)
<b>Investing activities</b>		
Proceeds on disposal of property, plant and equipment .....	29	25
Purchase of property, plant and equipment .....	(1,014)	(1,874)
Decrease (increase) in loans receivable .....	(43)	460
Business acquisitions .....	(1,132)	(16,876)
Other investing activities .....	(276)	-
Net cash utilized for investing activities .....	(2,436)	(18,265)
<b>Financing activities</b>		
Repayment of short- and long-term debt .....	(7,326)	(6,309)
Proceeds from short- and long-term debt .....	7,979	23,869
Issuance of share capital .....	-	116
Net cash from financing activities .....	653	17,676
Effect of exchange rate changes on cash .....	39	9
Increase (decrease) in cash and short-term deposits .....	484	(1,820)
Net cash and short-term deposits – beginning .....	1,280	3,801
Net cash and short-term deposits – ending .....	1,764	1,981
Cash of discontinued operations .....	-	(71)
Net cash and short-term deposits .....	1,764	1,910

### 1. Significant accounting policies and basis of presentation

These interim unaudited consolidated financial statements are based on accounting principles and practices consistent with those used in preparation of the annual audited financial statements. These interim consolidated financial statements do not include all the disclosures normally included in the Company's annual consolidated financial statements. They should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2005, as set out in the 2005 Annual Report. All amounts are in U.S. dollars unless otherwise stated.

### 2. Seasonality and commodity variability

The Company experiences seasonal variations in revenue, with revenue historically being strongest in the second and third quarters when the usually cold October through March weather creates increased demand for beef feed, low-moisture supplement blocks and, to a lesser degree, dairy feed. Other product lines are only marginally affected by seasonal conditions.

Commodity-based agricultural raw materials constitute a significant component of the Company's complete feed production. Fluctuating commodity prices can influence revenues as selling prices move in relation to changes in commodity prices.

### 3. Business acquisitions

On August 12, 2005, the Company purchased the remaining 49% share in McCauley Bros., Inc. for an aggregate consideration of \$1.6 million. Consideration includes an initial cash payment of \$1,132,000 and deferred payments totalling \$487,000 payable in annual instalments equally over a three-year period with accrued interest at 3.7% on the balance outstanding. McCauley Bros., Inc., located in Versailles, Kentucky, manufactures premium quality feeds and nutritional supplements for the equine market. The Company previously owned 51% of McCauley Bros., Inc.

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.

Details of the net assets acquired on the basis of fair value, and the consideration given, were as follows:

	<b>McCauley Bros., Inc.</b> (\$000)	<b>Sweetlix</b> (\$000)
<b>Assets</b>		
Accounts receivable	-	1,918
Inventory	-	2,216
Prepaid expenses	-	55
Property, plant & equipment	-	7,388
Other intangibles	-	4,050
Goodwill	1,123	3,386
Minority interest	496	-
	1,619	19,013
<b>Liabilities</b>	-	1,426
<b>Acquisition value</b>	1,619	17,587
<b>Cash paid</b>	1,132	
<b>Deferred payment</b>	487	

The above acquisitions were accounted for using the purchase method of accounting, and the results of operations of these businesses are included in the consolidated financial statements from the date of acquisition within the Ridley Nutrition Solutions business segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

The goodwill associated with the Sweetlix acquisition is fully deductible for income tax purposes. Goodwill acquired in the purchase of McCauley Bros., Inc. is not deductible for income tax purposes.

**4. Statement of cash flow disclosures**

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

	Three Months Ended Sept-30-05 (\$000)	Three Months Ended Sept-30-04 (\$000)
Interest	630	799
Income taxes, net of refund	123	149

**5. Other accrued liabilities**

The Company has recorded estimated costs related to its non-contributory pension plans, post-retirement medical plan, and defined contribution plans, for the period ending September 30, 2005 and 2004, are as follows:

	Three Months Ended Sept-30-05 (\$000)	Three Months Ended Sept-30-04 (\$000)
Non-contributory pension plan	333	303
Post-retirement medical costs	194	181
Defined contribution plan	341	299

**6. Segment information**

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

Ridley Feed Operations consists of U.S. and Canadian dry feed operations. It 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 consists of low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition operations. It manufactures and distributes low moisture blocks, specialty products, feed supplements and premium quality equine feeds primarily in the U.S. and Canada.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

**Ridley Inc.**

Segment Information (Unaudited) (U.S.\$ in thousands)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004
<b>Revenue</b>		
Ridley Feed Operations .....	101,011	102,870
Ridley Nutrition Solutions.....	19,459	14,971
Total revenue .....	120,470	117,841
<b>Cost of sales</b>		
Ridley Feed Operations .....	84,730	89,319
Ridley Nutrition Solutions.....	14,985	10,902
Total cost of sales.....	99,715	100,221
<b>Gross profit</b> .....	20,755	17,620
<b>Operating expenses</b>		
Ridley Feed Operations .....	12,309	14,982
Ridley Nutrition Solutions.....	3,139	2,883
Unallocated .....	933	787
Total operating expenses.....	16,381	18,652
<b>Operating income</b>		
Ridley Feed Operations .....	3,972	(1,431)
Ridley Nutrition Solutions.....	1,335	1,186
Unallocated .....	(933)	(787)
Total operating income .....	4,374	(1,032)
Revenue and operating income by country:		
<b>Revenue</b>		
U.S. ....	90,468	87,521
Canada.....	30,002	30,320
Total revenue .....	120,470	117,841
<b>Operating Income</b>		
U.S. ....	3,752	1,346
Canada.....	1,555	(1,577)
Unallocated .....	(933)	(801)
Total operating income .....	4,374	(1,032)

**7. 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 proposed class actions may have on future earnings and no accruals have been made in respect of these allegations.

### **8. Stock option amendment**

The board of directors of Ridley Inc. approved an amendment to Ridley Inc.'s stock option plan to provide option holders with a cash settlement alternative when exercising stock options. Under the amendment to the stock option plan, employees exercising options before the close of business on November 30, 2005 can elect to receive cash from the Company rather than acquiring shares and selling them into the open market. When and as this option is available to employees, the Company expects to record a compensation expense based on the total number of in-the-money-options and the prevailing stock price on options in which the option holder elects the cash alternative settlement. The company introduced a long-term incentive plan in July 2003 with the intent that it would replace the stock option plan. As such, further grants of stock options have not and will not be made.

### **9. Comparative amounts**

Comparative amounts have been reclassified to conform to current year presentation. The reclassifications had no impact on net earnings or shareholders' equity as previously reported.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)



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