



Interim Report to Shareholders  
For the three months ended March 31, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis as of May 9, 2006 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.

**Consolidated Third Quarter Results**

The following summary data is presented to assist in understanding the fiscal 2005 third quarter results:

(Millions of U.S. dollars except for EPS)	3 Months Ended Mar-31-06	3 Months Ended Mar-31-05	9 Months Ended Mar-31-06	9 Months Ended Mar-31-05
Revenue	\$131.1	\$121.7	\$389.9	\$369.4
Net earnings from continuing operations	3.9	5.7	11.1	9.9
Discontinued operations	-	-	-	(0.2)
Net earnings	3.9	5.7	11.1	9.7
Diluted EPS	0.29	0.41	0.81	0.70
EBITDA*	7.0	12.1	23.8	24.6

\*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.

Revenue increased by 7.7% to \$131.1 million compared with \$121.7 million in the third quarter of 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. The higher revenue in fiscal 2006 consists of both a slight increase in overall feed sales volumes and higher selling prices per ton, reflecting higher input costs.

Gross profit was \$23.0 million compared with \$24.8 million in the third quarter of fiscal 2005. Percentage margins are smaller compared with the fiscal 2005 results as a result of higher input costs, particularly the cost of raw materials and of transporting raw materials to the production facilities, and higher manufacturing costs due to higher energy prices. The Ridley Nutrition Solutions (RNS) operations in particular have experienced a sharp increase in the cost of feed ingredients, especially for molasses, and ongoing higher transportation costs and logistical disruptions resulting from the hurricanes in the south-eastern U.S.

Overall operating expenses in the 2006 third quarter were \$18.1 million. Excluding a claim settlement of \$2.5 million received from a supplier that reduced total operating expenses in the fiscal 2005 third quarter, the 2006 operating expenses are up by about \$1.0 million over the previous year, primarily due to higher professional fees and legal fees.

Operating income for the quarter was \$4.9 million compared with \$10.2 million in the third quarter of fiscal 2005. Total bank indebtedness at the end of the quarter is \$20.1 million lower than a year ago, reducing overall debt service costs in the fiscal 2006 third quarter by \$0.2 million, from \$0.6 million to \$0.4 million.

Income tax provisions in the third quarter of fiscal 2006 include favorable adjustments of \$0.4 million to the prior year's estimates and \$0.5 million in the release of valuation reserves. Net operating loss carryforwards were generated from the discontinued North American swine genetics business. Due to uncertainty as to their utilization, a valuation reserve was established. The income tax provision includes a charge of \$0.5 million related to Canadian taxable foreign exchange gains on U.S. denominated debt. These adjustments to the income tax provision are not considered to be material.

Net earnings for the fiscal 2006 third quarter were \$3.9 million (diluted earnings per share of \$0.29) compared with \$5.7 million (diluted earnings per share of \$0.41) in 2005. Net earnings in 2005 include a claim settlement from a supplier of approximately \$1.5 million on an after-tax basis. EBITDA were \$7.0 million in the third quarter of fiscal 2006, compared with \$12.1 million for the same period in 2005.

## **Nine Months Results**

Revenue for the year to date increased by 5.5% to \$389.9 million, compared with \$369.4 million in fiscal 2005. The increase is attributable to an increase in feed sales volumes of 2.2% and the impact of higher input costs. As noted earlier, revenue can be influenced by fluctuating commodities prices. All of Ridley's businesses reported increased sales volumes, although the Sweetlix feed supplement business includes nine months of results in fiscal 2006 and only eight months results in fiscal 2005, from the date of its acquisition on July 30, 2004.

Year to date gross profit in fiscal 2006 was \$69.5 million, compared with \$68.6 million in the year-earlier period. Percentage margins for the year to date are down slightly, having been impacted by higher commodity costs and energy prices, with Ridley Nutrition Solutions being particularly affected.

Overall operating expenses in fiscal 2006 were \$52.0 million, compared with \$51.3 million in the previous year. Operating expenses were reduced in 2006 by a \$0.7 million claim settlement received from a supplier, and in 2005 by a \$2.5 million claim settlement. The 2005 operating expenses included a \$1.3 million asset impairment loss related to the closing of a feed mill in St. Paul, Alberta. Exclusive of these items, operating expenses were \$52.7 million in fiscal 2006, an increase of \$0.3 million over the previous year. The Company's cost reduction program, instituted in the second quarter of fiscal 2005, continues to yield results, but the savings have been offset by higher professional and legal fees.

As noted above, bank indebtedness has been reduced by \$20.1 million from a year ago, reducing overall debt service costs for the fiscal 2006 year to date by \$0.9 million, from \$2.5 million in 2005 to \$1.6 million this year.

As discussed in the third quarter analysis, income tax provisions for the fiscal 2006 year to date include favorable adjustments of \$0.4 million to the prior year's estimates and \$0.5 million in the release of valuation reserves. The income tax provision also includes a charge of \$0.5 million related to Canadian taxable foreign exchange gains on U.S. denominated debt. Income tax provisions for the fiscal 2005 nine-month period include a favorable adjustment to prior year's estimates of \$0.5 million.

Net earnings for the year to date are \$11.1 million (diluted earnings per share of \$0.81) compared with \$9.7 million (diluted earnings per share of \$0.70) in fiscal 2005. Year to date EBITDA were \$23.8 million in fiscal 2006 compared with \$24.6 million in fiscal 2005.

## **Segment Results**

Ridley Feed Operations (RFO) continued to generate solid sales results in the fiscal 2006 third quarter, especially in the Canadian operations. Although winter weather conditions throughout Ridley's trading area were not conducive for feed sales, overall sales volumes were up slightly in the third quarter of fiscal 2006, and by 1.4% year to date.

However, the impact of higher commodity costs, as well as energy and transportation issues, resulted in 2006 gross profit dropping by \$1.2 million. Operating expenses in the 2006 third quarter are \$2.8 million higher than in the comparable 2005 period, primarily because the 2005 total included the \$2.5 million claim settlement described earlier in this report. As a result, RFO reported operating income of \$3.8 million for the third quarter, compared with \$7.8 million in the same period of fiscal 2005.

Ridley Nutrition Solutions (RNS) includes the low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition business, McCauley Bros., Inc. RNS recorded third quarter sales volumes that were 1.0% higher than last year, and 6.8% higher than 2005 on a year to date basis. The low moisture block and equine nutrition operations performed well in the third quarter, with volume increases in the high single digits, but Sweetlix continues to be hampered by the after-effects of the hurricanes last autumn in the U.S. south-east.

The block operations and Sweetlix continue to deal with the global shortage of molasses supply, and consequently higher costs. The molasses shortage was exacerbated by hurricanes damaging the sugar cane crop in the south-eastern U.S., and by excess rainfall affecting the sugar beet crop in the Red River Valley. In order to assure continued supply for its customers, RNS has shifted some production volume among its plants, incurring higher transportation costs for raw materials being shipped into the plants, and finished product being shipped to customers. In addition, extremely dry conditions in the southern U.S. have reduced wheat pasture for cattle, negatively impacting sales of feed supplements for the Sweetlix operations. With the additional cost of raw materials, transportation and energy, as well as some loss of margin opportunities, Ridley Nutrition Solutions reported operating income of \$2.7 million for the 2006 third quarter, compared with \$3.6 million in the same period of fiscal 2005.

### Liquidity/Capital Resources/Cash Flow

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

Balances as of:	Mar-31-06 (\$000)	Jun-30-05 (\$000)	Mar-31-05 (\$000)
Debt*	25,080	40,395	45,193
Equity	132,477	118,722	117,953
Debt to equity	19%	34%	38%

\*Debt is defined as bank obligations and capital leases

Ridley continues to generate strong cash flow from earnings, allowing the Company to reduce bank debt by \$20.1 million from a year ago, and by \$15.3 million for the fiscal year to date. In the third quarter, cash on hand and cash flow from operations reduced trade payables, and was used to finance higher raw material costs in inventory and to purchase plant equipment, resulting in bank debt increasing slightly by \$2.9 million.

Cash flow from earnings was \$6.4 million in the 2006 third quarter, offset by \$15.9 million used to finance working capital needs, resulting in \$9.5 million in net cash used for operating activities. In the 2005 third quarter, cash flow from earnings was \$8.4 million, and \$9.4 million in net cash was used to finance working capital needs, resulting in \$1.0 million in net cash used for operating activities. For the 2006 fiscal year to date, cash generated from operating activities is \$19.3 million compared with \$18.5 million in 2005.

### Capital Expenditures

Year-to-date expenditures on capital assets are \$3.4 million compared with \$6.6 million a year ago. The expenditures are being made on a number of small projects, with the objective of improving production efficiency and flexibility at several plants.

## **Business Acquisitions**

On August 12, 2005, Ridley purchased the remaining 49% share in McCauley Bros., Inc. (MBI) for an aggregate consideration of \$1.5 million. Consideration includes an initial cash payment of \$1.1 million and deferred payments totalling \$0.4 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 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.

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

## **Litigation/Contingency**

Lawsuits filed in April 2005 in Alberta, Saskatchewan, Quebec and Ontario against the Canadian Federal Government also named Ridley Inc. and its majority shareholder, Ridley Corporation Limited of Sydney, Australia as co-defendants.

The proposed representative plaintiffs seek 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 Bovine Spongiform Encephalopathy (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, special, 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.

On January 5, 2006, the Superior Court of Ontario entirely struck out the claims that had also been made against Ridley Corporation. Ridley Corporation has since agreed with the plaintiff class representatives to discontinue the actions brought against it in Alberta Saskatchewan and Quebec.

Ridley Inc. and the Government of Canada remain as defendants in the actions. Ridley Inc. has been granted leave to appeal from the Ontario Superior Court of Justice's January 5th decision denying Ridley Inc.'s motion to strike out the actions against it in Ontario. The appeal is expected to be heard in the latter part of calendar 2006. Ridley Inc. also filed a notice of motion with the Superior Court of Quebec for a stay of the action in Quebec, which is scheduled for early May.

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.

Ridley Inc. believes that there is little prospect of any of its insurers responding favorably, and it will continue to fund the cost of the lawsuits from operating cash flow.

In fiscal 2002, Ridley Inc. sold its European swine breeding business. Subsequent to the sale, the purchaser notified Ridley Inc. of potential warranty and indemnification claims. During the third quarter of fiscal 2006, the purchaser initiated legal proceedings. The specifics of their claims have not yet been determined. Any ultimate settlement of these claims is not expected to have a material impact on financial results.

## **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 2005 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**

Ridley’s net earnings for the year to date are up 14% over last year, the result of strong efforts on several fronts by the entire Ridley team. Strong cash flow this year and for the past several years has allowed the Company to reduce bank debt to historically low levels. Ridley’s strong balance sheet position provides the Company with flexibility to pursue additional investment opportunities in the future.

On balance, the economic environment for meat, milk, and egg production in North America has deteriorated somewhat but Ridley looks to the fourth quarter of its fiscal year with reasonable optimism for earnings stability entering its seasonally slower period. The Safety First program introduced last year has enhanced workplace safety, raised safety awareness for all employees and produced improved safety metrics in fiscal 2006. For the balance of the year, Ridley will continue to strengthen its financial position through effective management of its funds employed and by investments in capital projects that increase plant efficiency and provide a safe work environment.

**Ridley Inc.****Consolidated Balance Sheet**

(Unaudited)

(U.S.\$ in thousands)

	March 31, 2006	June 30, 2005	March 31, 2005
<b>Assets</b>			
<b>Current assets</b>			
Cash and short-term deposits .....	1,099	1,280	1,879
Accounts receivable .....	30,231	26,392	29,820
Inventories .....	41,651	37,286	39,212
Income taxes recoverable .....	-	-	587
Prepays and other current assets .....	1,641	1,143	1,606
Current portion of loans receivable .....	2,387	2,421	2,770
Current assets of discontinued operations .....	-	-	1,046
Future income tax benefit .....	2,290	2,013	1,834
Total current assets .....	79,299	70,535	78,754
Loans receivable, less current portion .....	2,248	3,269	3,392
Property, plant and equipment .....	94,062	95,847	96,065
Other assets .....	3,489	3,083	1,683
Other intangibles .....	3,962	4,026	4,047
Goodwill .....	48,990	47,411	47,417
Total non-current assets .....	152,751	153,636	152,604
Total assets .....	232,050	224,171	231,358
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Short-term debt .....	2,898	2,298	4,905
Accounts payable and accrued liabilities .....	44,762	36,844	37,780
Current portion of long-term debt .....	190	6,073	8,979
Income taxes payable .....	412	81	1,027
Total current liabilities .....	48,262	45,296	52,691
Long-term debt .....	21,992	32,024	31,309
Future income tax liability .....	25,253	23,624	25,754
Other liabilities .....	4,066	4,038	3,227
Non-controlling interest .....	-	467	424
Total long-term liabilities .....	51,311	60,153	60,714
<b>Shareholders' Equity</b>			
Share capital .....	57,397	57,191	57,191
Cumulative foreign currency translation adjustment .....	9,547	7,128	7,390
Retained earnings .....	65,533	54,403	53,372
Total shareholders' equity .....	132,477	118,722	117,953
Total liabilities and shareholders' equity .....	232,050	224,171	231,358

**Ridley Inc.**

<b>Consolidated Statement of Earnings and Retained Earnings</b> (Unaudited) (U.S. \$ in thousands)	Three Months Ended March-31-06	Three Months Ended March-31-05	Nine Months Ended March-31-06	Nine Months Ended March-31-05
Revenue .....	131,094	121,671	389,878	369,427
Cost of sales .....	108,091	96,883	320,353	300,828
Gross profit .....	23,003	24,788	69,525	68,599
Operating expenses				
Selling, general and administrative .....	15,532	14,834	45,572	45,348
Amortization of property, plant and equipment .....	2,020	1,837	5,949	5,660
Research and development .....	442	339	878	1,092
Other amortization .....	106	107	317	331
Claim settlement (Note 5) .....	-	(2,484)	(748)	(2,484)
Asset impairment loss .....	-	-	-	1,305
Total operating expenses .....	18,100	14,633	51,968	51,252
Operating income .....	4,903	10,155	17,557	17,347
Interest expense .....	396	643	1,588	2,512
Other income, net .....	(241)	(130)	(625)	(624)
Earnings before income taxes .....	4,748	9,642	16,594	15,459
Provision for income taxes (Note 6) .....	861	3,898	5,464	5,436
Non-controlling share of net income .....	-	63	-	101
Net earnings from continuing operations .....	3,887	5,681	11,130	9,922
Net earnings (loss) from discontinued operations .....	-	22	-	(205)
Net earnings .....	3,887	5,703	11,130	9,717
Retained earnings, beginning of period .....	61,646	47,669	54,403	43,655
Current period earnings .....	3,887	5,703	11,130	9,717
Retained earnings, end of period .....	65,533	53,372	65,533	53,372
Earnings per share from continuing operations				
- basic .....	0.29	0.41	0.81	0.72
- diluted .....	0.29	0.41	0.81	0.72
Net earnings per share - basic .....	0.29	0.41	0.81	0.70
- diluted .....	0.29	0.41	0.81	0.70

**Ridley Inc.**

<b>Consolidated Statement of Cash Flows</b> (Unaudited) (U.S. \$ in thousands)	Three Months Ended March-31-06	Three Months Ended March-31-05	Nine Months Ended March-31-06	Nine Months Ended March-31-05
<b>Operating activities</b>				
Net earnings for the period.....	3,887	5,703	11,130	9,717
Add items not affecting cash:				
Amortization of property, plant and equipment.....	2,020	1,837	5,949	5,660
Future income taxes .....	271	660	1,070	2,325
Loss on sale of property, plant and equipment.....	73	41	414	9
Asset impairment loss.....	-	-	-	1,305
Loss on discontinued assets.....	-	-	-	251
Other amortization .....	106	107	317	331
Loan impairments .....	-	-	527	674
Other items not affecting cash .....	18	89	98	102
	<b>6,375</b>	<b>8,437</b>	<b>19,505</b>	<b>20,374</b>
Net change in non-cash working capital balances related to operations:				
Accounts receivable.....	2,647	(174)	(2,564)	(103)
Inventories.....	(2,714)	(1,390)	(3,930)	(748)
Prepaid expenses .....	508	805	(476)	67
Accounts payable, accruals and other liabilities .....	(14,394)	(8,086)	5,413	(234)
Income taxes payable (recoverable) .....	(1,959)	(597)	1,395	(892)
Net cash from (utilized for) operating activities.....	<b>(9,537)</b>	<b>(1,005)</b>	<b>19,343</b>	<b>18,464</b>
<b>Investing activities</b>				
Proceeds on disposal of property, plant and equipment .....	45	1,194	306	1,618
Purchase of property, plant and equipment.....	(1,217)	(1,854)	(3,350)	(6,592)
Decrease in loans receivable.....	453	721	543	1,353
Business acquisitions (Note 4).....	-	-	(1,132)	(18,191)
Other investing activities.....	-	429	-	-
Net cash from (utilized for) investing activities.....	<b>(719)</b>	<b>490</b>	<b>(3,633)</b>	<b>(21,812)</b>
<b>Financing activities</b>				
Repayment of short- and long-term debt.....	(42)	(7,507)	(28,104)	(32,929)
Proceeds from short- and long-term debt.....	2,916	7,167	11,917	34,121
Issuance of share capital .....	206	22	206	219
Net cash from (utilized for) financing activities .....	<b>3,080</b>	<b>(318)</b>	<b>(15,981)</b>	<b>1,411</b>
Effect of exchange rate changes on cash .....	55	(37)	90	15
<b>Decrease in cash and short-term deposits</b>	<b>(7,121)</b>	<b>(870)</b>	<b>(181)</b>	<b>(1,922)</b>
<b>Net cash and short-term deposits – beginning</b>	<b>8,220</b>	<b>2,749</b>	<b>1,280</b>	<b>3,801</b>
<b>Net cash and short-term deposits – ending</b>	<b>1,099</b>	<b>1,879</b>	<b>1,099</b>	<b>1,879</b>

### **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. Derivative instruments**

The Company manages its exposure to changes in interest rates, ingredient prices and foreign exchange rates through the use of derivative instruments. Its policy is not to utilize derivative instruments for trading or speculative purposes, although hedge accounting is not applied. Accordingly, all derivative financial instruments are recorded at fair value in the consolidated balance sheet with changes in fair value recorded in income.

### **4. Business acquisitions**

On August 12, 2005, the Company purchased the remaining 49% share in McCauley Bros., Inc. (MBI) for an aggregate consideration of \$1.5 million. Consideration includes an initial cash payment of \$1.1 million and deferred payments totaling \$0.4 million payable in annual installments equally 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 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Details of the net assets acquired on the basis of fair value, and the consideration given, were as follows:

	<u>2006</u> <u>MBI</u> (\$000)	<u>2005</u> <u>Sweetlix</u> (\$000)	<u>2005</u> <u>Farmway</u> (\$000)
<b>Assets</b>			
Accounts receivable	-	1,918	283
Inventory	-	2,216	540
Prepaid expenses	-	55	12
Property, plant & equipment	-	7,388	129
Other intangibles	-	4,050	42
Goodwill	1,049	3,386	-
	<u>1,049</u>	<u>19,013</u>	<u>1,006</u>
<b>Liabilities</b>			
Non-controlling interest	-	1,426	-
Acquisition value	(496)	-	-
	<u>1,545</u>	<u>17,587</u>	<u>1,006</u>
<b>Cash paid</b>	1,132	17,587	1,006
<b>Deferred payment</b>	413		

The above acquisitions were accounted for by 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. MBI and Sweetlix are reported within the Ridley Nutrition Solutions business segment and Farmway is included in the Ridley Feed Operations business segment.

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

#### 5. Claim settlement

Claim settlement income includes recoveries received from U.S. suppliers of \$0.7 million in the second quarter of fiscal 2006 and \$2.5 million in the third quarter of fiscal 2005.

#### 6. Tax Provisions

Income tax provisions in the third quarter and nine months ending March 31, 2006 include the release of \$0.5 million in valuation reserves. The valuation reserves are associated with net operating loss carryforwards generated from the discontinued North American Swine genetics business. Due to uncertainty as to their utilization, a valuation reserve was established.

The income tax provision includes a charge of \$0.5 million related to Canadian taxable foreign exchange gains on U.S. denominated debt and a reduction of \$0.4 million to the prior year's tax calculation. These adjustments to the income tax provision are not considered material.

Income tax provisions in the nine month period ending March 31, 2005 include a favorable adjustment to prior year's estimates of \$0.5 million.

#### 7. Statement of cash flow disclosures

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

	Three Months Ended March-31-06 (\$000)	Three Months Ended March-31-05 (\$000)	Nine Months Ended March-31-06 (\$000)	Nine Months Ended March-31-05 (\$000)
Interest	416	727	1,687	2,464
Income taxes, net of refund	3,162	3,874	3,583	4,259

## 8. Post retirement and pension expense

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 March 31, 2006 and 2005, as follows:

	Three Months Ended March-31-06 (\$000)	Three Months Ended March-31-05 (\$000)	Nine Months Ended March-31-06 (\$000)	Nine Months Ended March-31-05 (\$000)
Non-contributory pension plan	333	211	999	727
Post-retirement medical costs	138	142	413	427
Defined contribution plan	323	333	969	956

## 9. Litigation/Contingency

Lawsuits filed in April 2005 in Alberta, Saskatchewan, Quebec and Ontario against the Canadian Federal Government also named Ridley Inc. and its majority shareholder, Ridley Corporation Limited of Sydney, Australia as co-defendants.

The proposed representative plaintiffs seek 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 Bovine Spongiform Encephalopathy (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, special, 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.

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(unaudited)

**10. Segment information**

The Company's operations are conducted in two business segments: 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.

***Ridley Inc.***

Segment Information (Unaudited) (U.S.\$ in thousands)	Three Months Ended March-31-06	Three Months Ended March-31-05	Nine Months Ended March-31-06	Nine Months Ended March-31-05
<b>Revenue</b>				
Ridley Feed Operations .....	105,160	97,993	317,436	306,492
Ridley Nutrition Solutions .....	25,934	23,678	72,442	62,935
Total revenue .....	131,094	121,671	389,878	369,427
<b>Cost of sales</b>				
Ridley Feed Operations .....	88,329	79,986	264,809	255,621
Ridley Nutrition Solutions .....	19,762	16,897	55,544	45,207
Total cost of sales .....	108,091	96,883	320,353	300,828
<b>Gross profit</b> .....	23,003	24,788	69,525	68,599
<b>Operating expenses</b>				
Ridley Feed Operations .....	12,993	10,203	37,427	38,985
Ridley Nutrition Solutions .....	3,452	3,180	9,847	9,254
Unallocated .....	1,655	1,250	4,694	3,013
Total operating expenses .....	18,100	14,633	51,968	51,252
<b>Operating income</b>				
Ridley Feed Operations .....	3,838	7,804	15,200	11,886
Ridley Nutrition Solutions .....	2,720	3,601	7,051	8,474
Unallocated .....	(1,655)	(1,250)	(4,694)	(3,013)
Total operating income .....	4,903	10,155	17,557	17,347

Revenue and operating income by country:

<b>Revenue</b>				
U.S. ....	96,914	92,622	291,665	278,911
Canada .....	34,180	29,049	98,213	90,516
Total revenue .....	131,094	121,671	389,878	369,427
<b>Operating Income</b>				
U.S. ....	4,650	9,437	16,305	18,745
Canada .....	1,908	1,968	5,946	1,615
Unallocated .....	(1,655)	(1,250)	(4,694)	(3,013)
Total operating income .....	4,903	10,155	17,557	17,347

**11. 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.