

President & Chief Executive Officer's Report

The untrained eye could look at the overall performance for Ridley Inc. in fiscal 2005, see another significant improvement in our debt to equity position, an acquisition in Sweetlix performing at expectations, a reduction in customer bad debt, and the third consecutive year of net earnings growth and assume this was a good year. While each of those facts is true, with Cotswold losses and the levels of bad debt that plagued our results in recent years clearly behind us going into the year, we had higher expectations for our results.

Fiscal 2005 got off to a rough start when an unprecedented drop in protein prices, very light sales volumes, and rising health care and energy costs conspired to give us the first quarterly earnings loss in some years. Much of the year-over-year volume decline was a product of the completion of the Cotswold exit, our strategic decision to discontinue customer financing, the

after-effects of very difficult production economics in 2002 and 2003, a strategic shift away from high volume but low-margin compound feeds, and of course the stresses imposed on our Canadian beef cattle volumes resulting from the U.S. border closure.

Our management team responded quickly to these challenges and by the end of the calendar year had reduced operating expenses by an annualized \$8.2 million, impacting results by \$5.9 million in fiscal 2005. More importantly, we were able to make those reductions in areas that did not detract from the positive momentum we've created towards the achievement of our sales, operating, or risk management goals. We also took the decision to close the St. Paul, Alberta plant, where livestock numbers have declined significantly in recent years, and to sell several retail stores in Canada, a non-core business for us.

With the notable exception of the Canadian beef industry, production economics were generally favorable this past year. Calendar 2004 and 2005 have been outstanding years for production agriculture, and that translated to reduced customer attrition rates, lower bad debts, and a growing sense of market stability.

The weather in 2005 however, was not favorable to sales. Winter conditions in the western U.S., where the majority of our seasonal beef feed and low moisture block volumes are sold, were quite mild, resulting in reduced sales. Conversely, wet conditions hampered Sweetlix sales in the southeastern U.S. We did receive an additional vitamin price-fixing settlement check in the amount of \$2.5 million late in the year, offsetting much of the earnings reductions due to weather.





The expense reduction initiative, coupled with improved economic stability in our customer base and continued good sales momentum, resulted in a welcome level of stability and a growing comfort about the results over the last half of the year. Absent the significant and unexpected legal fees associated with the BSE lawsuits, earnings finished the year at the low end of our earlier market guidance.

While each of our operating divisions, Ridley Nutrition Solutions (RNS) and Ridley Feed Operations (RFO) recorded EBIT (earnings before interest and taxes) growth over fiscal 2004, each also fell short of expectations for some or a combination of the reasons above. The exception was our Ridley Feed Ingredients business (RFI), an operating unit within RFO that markets vitamin premixes, feed additives, and ingredients throughout North America. RFI finished the year with another record EBIT performance.

We completed the acquisition of Sweetlix LLC early in the year. So far the integration of its three facilities into the block, equine, and specialty businesses of RNS has gone very well. Elsewhere in RNS, we completed a second McCauley Bros. dedicated equine manufacturing plant in Chambersburg, Pennsylvania. These additions are expected to provide solid long-term growth in important strategic segments for Ridley Inc.

In fiscal 2005 we engaged DuPont Safety Resources to conduct a thorough analysis of our facilities and of our safety policies and procedures. We are now midway through a 24-month engagement to help us implement a comprehensive new safety system throughout our company. Called Safety First, this initiative has already proven to be an energizing and positive experience for the organization.

As mentioned in the Chairman's report, lawsuits in Canada seek to certify class actions by Canadian cattle farmers who allegedly suffered damage as a result of international bans on the import of Canadian beef and cattle, introduced when a BSE infected cow was diagnosed in Alberta in May 2003. The claims are novel, and seek to extend Canadian law into untested areas.

The lawsuits are factually and legally complex. The allegations include that Ridley Inc. supplied contaminated feed to the infected cow. At all times, Ridley Inc. complied with relevant regulations in Canada, and it is not alleged otherwise.

The Government of Canada and both Ridley Inc. and Ridley Corporation Limited have sought to have the Ontario action (which is the focus of attention at this time) struck out before trial. These applications are expected to be heard in mid-November 2005.

Discussions with insurers are continuing. The legal costs are in our budgets, and are being carefully managed.

At the time of this writing, the U.S. has reopened the border to both meat and live cattle less than 30 months of age intended for slaughter. This is not only good for our customers, but reaffirmation of the quality and safety of both the U.S. and Canadian food systems. We are supportive of the Canadian and U.S. governments continuing to work together to ensure that our food system in North America remains the safest in the world. While there is disagreement in some groups as to whether or not the border should remain open, everyone involved in the beef industry can agree on this latter point.



The year ahead looks very positive in many respects, challenging in others.

We are expecting another good economic year overall for production agriculture. Both the number of segments enjoying good returns in Canada and the U.S. and the duration of those returns should provide a very positive backdrop for selling results and receivables.

We enter the year with an even stronger balance sheet and having reduced our customer loan portfolio further. We are looking forward to the first full fiscal year of operating results from Sweetlix and Chambersburg, and to seeing tangible results from our Safety First initiative.

We have a stronger and more sustainable product mix comprised of mostly premixes, supplements, and specialty products. We're more diverse in terms of the segments we serve than ever before, with no single segment comprising more than 30% of our volume. While we're providing products and services to some of the largest accounts in North America, no single customer constitutes more than two percent of our margins.

While we are optimistic about our company and our industry, we are at the same time cautious and realistic.

We'll enter the year with record energy and U.S. health care costs, significant challenges to many North American industries. The cost of regulatory compliance continues to increase in nearly every area of our business. A continuing trend towards lower inclusion products has exacerbated perhaps the industry's and our most significant economic constraint, low capacity utilization in our traditional (RFO) businesses.

Nonetheless, the formula for success this year looks to be as straightforward as it has been in some time.

First, we need to continue to look for ways to drive costs out of our business. Second, we need to capitalize on a positive production environment and generate sales growth. And third, while we don't expect too many surprises this coming year, we are confident that when this ever-changing environment throws us one, we have the risk management tools and experience to respond.

In closing, I would like to thank the stakeholders of Ridley Inc., including our shareholders, employees, and our customers for their continued confidence in, and support of this organization. We'll continue to work very hard to ensure that it is well placed.

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

