

# NEWS RELEASE

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**FOR IMMEDIATE RELEASE**

## **RIDLEY REPORTS RESULTS FOR FISCAL 2007 SECOND QUARTER**

**Mankato, Minnesota / Winnipeg, Manitoba, February 12, 2007** — Ridley Inc., ([www.ridleyinc.com](http://www.ridleyinc.com)) one of the leading animal nutrition companies in North America, today reported results for its fiscal 2007 second quarter ended December 31, 2006.

### **Second Quarter Results**

“Ridley Inc. is reporting net earnings of US\$2.8 million for our second quarter of fiscal 2007, compared to \$4.8 million during the same period last year,” said Steve VanRoekel, Ridley Inc. President and Chief Executive Officer. “EBITDA (which Ridley defines as operating income before amortization and asset impairment loss) for the period was \$10.1 million compared to \$10.3 million last year.”

“While our operating performance was similar to last year, the year-over-year reduction in earnings was primarily due to the closure of our Lacombe, Alberta plant; which resulted in a one-time \$3.1 million impairment charge during this quarter,” said VanRoekel. “The condition of the Lacombe facility no longer met our standards, and was becoming too expensive to maintain and operate. Rather than undergo extensive renovations, we chose to expand production capacity at our Linden, Alberta facility and relocate some volume there. We expect to see a modest improvement in ongoing earnings once the transition to Linden is complete.”

“The second quarter operating performance was negatively influenced by extraordinarily warm weather throughout most of North America in December and by reduced sales volumes in Canada.

“A combination of tight control of operating expenses, improved margins per ton, and good volumes in October and November, especially in our block and U.S. feed operations, were sufficient to push EBITDA close to last year despite these challenges.”

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following Management Discussion and Analysis as of February 12, 2007 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.

### **Second Quarter Results**

The following summary data is presented to assist in understanding the fiscal 2007 second quarter results:

<b>(Millions of U.S. dollars except for EPS)</b>	<b>3 Months Ended Dec-31-06</b>	<b>3 Months Ended Dec-31-05</b>	<b>6 Months Ended Dec-31-06</b>	<b>6 Months Ended Dec-31-05</b>
Revenue	\$144.0	\$138.3	\$268.4	\$258.8
Net earnings from continuing operations (before asset impairment charge)	4.3	4.8	6.1	7.2
Asset impairment charge	(2.0)	-	(2.0)	-
Net earnings from continuing operations	2.3	4.8	4.1	7.2
Discontinued operations	0.5	-	0.5	-
Net earnings	2.8	4.8	4.6	7.2
Diluted EPS	0.20	0.34	0.33	0.52
EBITDA*	10.1	10.3	15.8	16.8

\*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 Second Quarter Results**

Revenue increased by 4.1% to \$144.0 million compared with \$138.3 million in the second quarter of 2006. 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 commodity prices. In the fiscal 2007 second quarter, feed sales volumes declined by 3.4% as record high temperatures across Ridley's trade area reduced feed intake. The lower volumes were offset by higher selling prices per ton, reflecting higher input costs, as corn prices in particular were significantly impacted by increasing demand from the rapidly growing ethanol industry.

Gross profit was \$25.6 million compared with \$25.8 million in the second quarter of fiscal 2006. Margins per ton have been maintained at normal levels as the increasing costs of feed ingredients have been incorporated into selling prices.

Overall operating expenses in the second quarter were \$20.9 million, an increase of \$3.4 million from the previous year. However, the 2007 operating expenses include a \$3.1 million asset impairment loss on the decommissioning of the production facility in Lacombe, Alberta and operating expenses for the comparative period in fiscal 2006 include claim settlement income of \$0.7 million received from a supplier. Excluding these two unusual items, operating expenses in 2007 would be \$17.7 million in the fiscal 2007 second quarter compared with \$18.2 million in fiscal 2006, reflecting tight control of operating expense.

The stock option amendment announced in August 2006, that provided option holders with a cash settlement alternative when exercising options, expired in November and all stock options have been exercised, leaving no options outstanding. The cost of the cash settlement alternative was \$0.2 million in fiscal 2007, compared with the \$0.1 million cost of an identical amendment that had been in place in fiscal 2006, and both figures are included in operating expenses for the respective second quarter reporting periods.

Operating income before interest and taxes is \$4.8 million in the quarter, down from \$8.3 million in the second quarter of fiscal 2006, with the closing of the Lacombe facility in fiscal 2007 and the claim settlement income recognized in fiscal 2006 being the main reasons for the change. Excluding these two transactions, operating income would have been \$0.4 million higher in fiscal 2007. Interest expense net of interest income was \$0.4 million in both years, and the provision for income taxes was \$2.1 million in the fiscal 2007 second quarter, compared with \$3.1 million in the previous year.

The 2007 tax rate is a combination of the tax rates applied to the results of operations reported by the U.S. and Canadian entities. Income generated by the U.S. entities is taxed at a higher rate than in Canada, where the Canadian entities reported pre-tax losses, allowing for recognition of a tax benefit, but at a lower effective tax rate. The result is an average tax rate of 48% for the 2007 second quarter compared with 39% in 2006.

In fiscal 2002, Ridley Inc. sold its swine genetics business based in the United Kingdom. Subsequent to the sale, the purchaser commenced legal action in respect of certain warranty and indemnification claims. In December 2006, Ridley resolved all outstanding issues with the purchaser and reported \$0.6 million in costs related to settlement expenses, legal and accounting fees. The resolution of this issue facilitated the liquidation of the corporate entity in the U.K., which will result in realizing \$31.0 million in capital losses for tax purposes, which can be utilized to offset capital gains recognized in Canada. In the fiscal 2007 second quarter, the Company recognized a portion of the capital losses to offset previous capital gains and report a tax benefit of \$1.1 million. Consequently, Ridley is reporting net earnings from discontinued operations of \$0.5 million for the fiscal 2007 second quarter.

Net earnings for the fiscal 2007 second quarter were \$2.8 million (diluted earnings per share of \$0.20) compared with \$4.8 million (diluted earnings per share of \$0.34) in 2006. EBITDA was \$10.1 million in the second quarter of fiscal 2007 and \$10.3 million for the same period in 2006.

## **Six Months Results**

Revenue for the year to date increased by 3.7% to \$268.4 million, compared with \$258.8 million in fiscal 2006. The increase is attributable to higher selling prices per ton, reflecting the higher input costs that were referred to earlier. For the year to date, feed sales volumes have declined by 1.6%, primarily due to record warm temperatures and a lack of snow cover across Ridley's trading area, and abundant rainfall in the U.S. south-east. Excellent pasture conditions have reduced the need for commercial feed and feed supplements.

Gross profit for the first half of fiscal 2007 was \$46.7 million, compared with \$46.5 million in the year-earlier period. The volatility in market prices for feed ingredients has been closely monitored by Ridley and selling prices per ton have been adjusted accordingly in order to maintain margins.

Overall operating expenses in the fiscal 2007 first half were \$38.6 million, an increase of \$4.7 million from the previous year. As noted above, 2007 operating expenses include a \$3.1 million asset impairment charge on the closing of the Lacombe production facility, and operating expenses for the comparative period in fiscal 2006 include claim settlement income of \$0.7 million received from a supplier. Excluding these two unusual items, operating expenses in 2007 would be \$35.4 million, an increase of \$0.8 million compared with the \$34.6 million in operating expenses in fiscal 2006. The main areas where operating expenses have increased include \$0.2 million in additional legal costs related to the Canadian lawsuits.

Interest expense net of interest income was \$0.8 million in both years, reflecting a year-over-year reduction of \$6.6 million in debt levels, offset by slightly higher interest rates.

The provision for income taxes in the first six months of fiscal 2007 was \$3.3 million, compared with \$4.6 million recorded in the same period of fiscal 2006. The smaller provision in 2007 was due primarily to lower pre-tax earnings, although the 2007 earnings are being taxed at a higher effective average rate, as explained earlier in the discussion of second quarter results.

A gain of \$0.5 million was recognized in the 2007 second quarter on the liquidation of the U.K. operations, resulting in net earnings of \$4.6 million (diluted earnings per share of \$0.33) compared with \$7.2 million (diluted earnings per share of \$0.52) in the first half of fiscal 2006. Year to date EBITDA was \$15.8 million in fiscal 2007 compared with \$16.8 million in fiscal 2006.

## **Segment Results**

The Ridley Feed Operations (RFO) segment consists of full-line production facilities operating in the United States and Canada, producing and marketing products for the core animal nutrition market, and a plant in Mendota, Illinois, that operates as Ridley Feed Ingredients (RFI) and produces micro feed ingredients, vitamin and trace mineral premixes and feed additives.

Overall sales volumes for RFO decreased by 2.0% in the second quarter of fiscal 2007. The U.S. plants had been producing volumes and margins higher than the previous year until December, when the very mild weather had a significant impact on feed consumption. For the quarter and year to date, the U.S. operations are about level with fiscal 2006 in terms of volumes and margins, and ahead of 2006 in operating income. Sales volume in the RFI business was up slightly again in the second quarter, but RFI's product mix was less favourable and continuing pricing pressure for some micro ingredient commodities reduced overall margins.

The Canadian operations have been unable to match the strong performance of 2006, and continue to report lower sales volumes and tighter margins in fiscal 2007. The strengthening of the Canadian dollar until late in the quarter has made it difficult for the Canadian plants to ship feed into the United States. Domestic feed volumes have been impacted by an increasing number of Canadian swine producers moving their livestock to the U.S. for finishing, further eroding sales potential. In addition, average margins for the Canadian plants are lower in fiscal 2007 because the product mix includes a lower proportion of premix products, which generally offer higher margin potential.

For the quarter, RFO reported operating income of \$3.0 million, compared with \$7.2 million in the fiscal 2006 second quarter. The closing of the Lacombe production facility in fiscal 2007 and the claim settlement income reported in fiscal 2006 account for \$3.9 million of the decline, and lower results for the Canadian operations and RFI make up the balance.

Ridley Nutrition Solutions (RNS), which includes the low moisture block operations, specialty products, Sweetlix feed supplements and the equine nutrition business, McCauley Bros., Inc., recorded sales volumes that were 10.7% lower than last year for the second quarter, and year to date sales volumes are now 1.5 % lower than last year.

After a solid start in the 2007 first quarter, product sales for all of the RNS businesses have been hampered in the second quarter by warm weather and good moisture conditions that produced excellent forage for cattle and horses in the U.S. south-east, and by unseasonably warm weather and a lack of winter snow cover in the west. The low moisture block and Sweetlix feed supplement businesses reported a decline in sales volumes in the second quarter, partially offset by the equine nutrition business, which was up by nearly 10%.

Good product mix and margin management resulted in Ridley Nutrition Solutions reporting operating income of \$3.2 million for the second quarter of fiscal 2007, compared with \$3.0 million in the same period of fiscal 2006.

Unallocated operating expenses are \$1.4 million in the 2007 second quarter compared with \$1.9 million in the 2006 period when professional fees were higher.

### Liquidity/Capital Resources/Cash Flow

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

Balances as of:	Dec-31-06 (\$000)	Jun-30-06 (\$000)	Dec-31-05 (\$000)
Debt*	15,605	23,272	22,238
Equity	139,269	136,027	127,862
Debt to equity	11%	17%	17%

\*Debt is defined as bank obligations and capital leases

Strong cash flow from earnings and careful management of working capital balances, coupled with pre-payments received from customers at the calendar year-end, have allowed Ridley to reduce debt by \$7.7 million from June 30, 2006 levels to \$15.6 million by December 31, 2006.

In the 2007 second quarter, cash flow from earnings and non-cash items was \$5.9 million, and working capital needs decreased by \$14.7 million, attributable primarily to higher accounts payable and advances from customers, offset by higher accounts receivable, resulting in \$20.6 million in cash being generated from operating activities. The increase in commodity prices over the past six months is reflected in working capital, including accounts receivable, inventory and trade payables.

Cash flow from earnings and non-cash items was \$9.3 million in the 2006 second quarter, and working capital needs decreased by \$24.1 million, also attributable to higher accounts payable

and advances from customers, resulting in \$33.4 million in cash being generated from operating activities.

### **Capital Expenditures**

Year-to-date expenditures on capital assets are \$4.0 million compared with \$2.1 million a year ago. Fiscal 2007 expenditures include \$0.5 million incurred by the block operations for equipment to produce a new biodegradable container for low moisture blocks, and the balance of expenditures was made on a number of small projects, with the objective of improving production efficiency and flexibility at several plants.

### **Business Acquisitions**

There have been no acquisitions for the year to date in fiscal 2007.

In the first quarter of fiscal 2006, the Company purchased the remaining 49% share in McCauley Bros., Inc. (MBI) for an aggregate consideration of \$1.5 million. Consideration included 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 3.66% on the balance outstanding. MBI is located in Versailles, Kentucky and manufactures premium quality feeds and nutritional supplements for the equine market. This operation forms part of the Ridley Nutrition Solutions segment.

### **Internal Control Over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer have signed form *52-109F2 – Certification of Interim Filings* and filed it with the appropriate securities regulators in Canada in compliance with Multilateral Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings issued by the Canadian Securities Administrators. There has been no change in Ridley's internal controls over financial reporting or disclosure controls and procedures that occurred during the most recent interim period that has materially affected, or is reasonably likely to materially affect, Ridley's internal control over financial reporting.

### **Litigation/Contingency**

The actions by proposed representative plaintiffs continue against the Government of Canada and Ridley Inc. They seek to certify class actions in Alberta, Saskatchewan, Ontario and Quebec 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.

The actions in Ontario and Quebec are still at an early stage, and the actions in Saskatchewan and Alberta are in abeyance. There has been no decision made on the merits of the actions in any province, and the actions have not yet been certified or authorized to proceed to trial in any province.

The lawsuits have been struck out or discontinued against Ridley Inc.'s majority shareholder, Ridley Corporation Limited, in all provinces.

In Ontario, appeals against the decision refusing to strike the claims against Ridley Inc. and its co-defendant, the Government of Canada, are scheduled to be heard by the Court of Appeal for Ontario in February 2007. In Quebec, the authorization hearing to determine if the action should go to a merits trial as a class action was heard in October 2006, but no decision has been issued.

At this time, the Company cannot determine what impact, if any, these lawsuits may have on it, or its future earnings, and no accruals have been made in respect of the actions. The Company believes that there is little prospect of any of its insurers responding favourably, and it will continue to fund the cost of the lawsuits from operating cash flow.

## **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 2006 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**

Looking forward to the second half, the production and operating economic environment has weakened due to the continuing volatility in the grain markets, and especially the increased demand for corn and soybeans. This has lowered margins for livestock producers as feed prices have risen. With more normal winter weather arriving in January, we expect to see a recovery in demand for beef feed and feed supplements and relative stability in most of our businesses for the balance of fiscal 2007.

Ridley Inc., headquartered in Mankato, Minnesota and Winnipeg, Manitoba, is one of North America’s leading commercial animal nutrition companies. Ridley manufactures and/or distributes a full range of animal nutrition products under a number of highly regarded trade names.

Ridley’s common shares are listed on The Toronto Stock Exchange (Trading symbol: RCL).

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For more information:

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

(Unaudited)

(U.S.\$ in thousands)

	December 31, 2006	June 30, 2006	December 31, 2005
<b>Assets</b>			
<b>Current assets</b>			
Cash and short-term deposits .....	3,812	2,676	8,220
Accounts receivable.....	37,759	28,237	32,860
Inventories.....	44,502	40,728	38,951
Income taxes recoverable.....	-	1,176	-
Prepays and other current assets .....	2,674	1,118	2,147
Current portion of loans receivable .....	2,797	2,051	2,567
Future income tax benefit .....	2,240	2,341	2,338
Total current assets .....	<u>93,784</u>	<u>78,327</u>	<u>87,083</u>
Loans receivable, less current portion.....	1,377	1,866	2,521
Property, plant and equipment.....	91,140	96,149	95,017
Other assets .....	3,212	3,471	2,003
Other intangibles .....	3,899	3,941	3,983
Goodwill .....	49,007	49,503	49,003
Total non-current assets .....	<u>148,635</u>	<u>154,930</u>	<u>152,527</u>
Total assets .....	<u>242,419</u>	<u>233,257</u>	<u>239,610</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Outstanding cheques in excess of bank balance .....	627	-	-
Short-term debt.....	4,170	3,242	-
Accounts payable and accrued liabilities.....	45,888	35,898	43,294
Advances from customers .....	10,833	6,645	14,069
Income taxes payable.....	2,750	940	3,686
Current portion of long-term debt.....	73	174	191
Total current liabilities .....	<u>64,341</u>	<u>46,899</u>	<u>61,240</u>
Long-term debt, less current portion .....	11,362	19,856	22,047
Future income tax liability .....	23,468	26,329	24,302
Other accrued liabilities .....	3,979	4,146	4,159
Total long-term liabilities .....	<u>38,809</u>	<u>50,331</u>	<u>50,508</u>
<b>Shareholders' Equity</b>			
Share capital .....	57,604	57,435	57,191
Cumulative foreign currency translation adjustment.....	9,424	10,975	9,025
Retained earnings .....	72,241	67,617	61,646
Total shareholders' equity.....	<u>139,269</u>	<u>136,027</u>	<u>127,862</u>
Total liabilities and shareholders' equity.....	<u>242,419</u>	<u>233,257</u>	<u>239,610</u>

**Ridley Inc.**

<b>Consolidated Statement of Earnings and Retained Earnings</b> (Unaudited) (U.S. \$ in thousands)	Three Months Ended Dec-31-06	Three Months Ended Dec-31-05	Six Months Ended Dec-31-06	Six Months Ended Dec-31-05
Revenue .....	143,961	138,314	268,397	258,784
Cost of sales .....	118,324	112,547	221,677	212,262
Gross profit .....	25,637	25,767	46,720	46,522
Operating expenses:				
Selling, general and administrative .....	15,315	15,945	30,585	30,040
Amortization of property, plant and equipment .....	2,135	1,932	4,276	3,929
Research and development .....	196	252	376	436
Other amortization .....	95	106	184	211
Claim settlement (Note 3) .....	-	(748)	-	(748)
Asset impairment loss (Note 4) .....	3,130	-	3,130	-
Total operating expenses .....	20,871	17,487	38,551	33,868
Operating income .....	4,766	8,280	8,169	12,654
Interest expense .....	608	596	1,171	1,192
Interest income .....	(249)	(202)	(399)	(384)
Earnings before income taxes .....	4,407	7,886	7,397	11,846
Provision for income taxes .....	2,123	3,101	3,312	4,603
Net earnings from continuing operations .....	2,284	4,785	4,085	7,243
Net earnings from discontinued operations (Note 5) .....	539	-	539	-
Net earnings for the period .....	2,823	4,785	4,624	7,243
Retained earnings, beginning of period .....	69,418	56,861	67,617	54,403
Net earnings for the period .....	2,823	4,785	4,624	7,243
Retained earnings, end of period .....	72,241	61,646	72,241	61,646
Net earnings per share from continuing operations				
- basic .....	0.17	0.34	0.30	0.52
- diluted .....	0.17	0.34	0.30	0.52
Net earnings per share				
- basic .....	0.20	0.34	0.33	0.52
- diluted .....	0.20	0.34	0.33	0.52

**Ridley Inc.**

<b>Consolidated Statement of Cash Flows</b> (Unaudited) (U.S. \$ in thousands)	Three Months Ended Dec-31-06	Three Months Ended Dec-31-05	Six Months Ended Dec-31-06	Six Months Ended Dec-31-05
<b>Operating activities</b>				
Net earnings for the period.....	2,823	4,785	4,624	7,243
Add (deduct) items not affecting cash:				
Amortization of property, plant and equipment.....	2,135	1,932	4,276	3,929
Future income taxes.....	(2,441)	1,613	(2,620)	799
Asset impairment loss (Note 4).....	3,130	-	3,130	-
Loss on sale of property, plant and equipment.....	107	281	167	341
Other amortization.....	95	106	184	211
Loan impairments.....	-	527	-	527
Other items not affecting cash.....	62	76	179	80
	<u>5,911</u>	<u>9,320</u>	<u>9,940</u>	<u>13,130</u>
Net change in non-cash working capital balances related to operations:				
Accounts receivable.....	(6,172)	(1,788)	(10,009)	(5,211)
Inventories.....	(2,984)	143	(4,215)	(1,216)
Prepays and other current assets.....	207	571	(1,472)	(984)
Accounts payable and accrued liabilities.....	15,827	12,373	10,180	13,658
Advances from customers.....	6,042	11,604	4,188	11,672
Income taxes payable.....	1,774	1,159	3,050	3,354
Net cash from operating activities.....	<u>20,605</u>	<u>33,382</u>	<u>11,662</u>	<u>34,403</u>
<b>Investing activities</b>				
Proceeds on disposal of property, plant and equipment.....	163	232	202	261
Purchase of property, plant and equipment.....	(1,835)	(1,119)	(4,011)	(2,133)
Decrease in loans receivable.....	441	133	(295)	90
Business acquisitions (Note 6).....	-	-	-	(1,132)
Other investing activities.....	-	276	-	-
Net cash utilized for investing activities.....	<u>(1,231)</u>	<u>(478)</u>	<u>(4,104)</u>	<u>(2,914)</u>
<b>Financing activities</b>				
Repayment of short- and long-term debt.....	(17,237)	(20,736)	(21,091)	(28,062)
Proceeds from short- and long-term debt.....	6,500	1,022	14,029	9,001
Payment of finance costs.....	-	-	(181)	-
Issuance of share capital.....	-	-	169	-
Net cash utilized for financing activities.....	<u>(10,737)</u>	<u>(19,714)</u>	<u>(7,074)</u>	<u>(19,061)</u>
Effect of exchange rate changes on cash.....	42	(4)	25	35
Decrease in cash and cash equivalents.....	8,679	13,186	509	12,463
Cash and cash equivalents – beginning of period.....	(5,494)	(4,966)	2,676	(4,243)
Cash and cash equivalents – end of period.....	<u>3,185</u>	<u>8,220</u>	<u>3,185</u>	<u>8,220</u>
Cash and cash equivalents				
Cash and short-term deposits.....	3,812	8,220	3,812	8,220
Outstanding cheques in excess of bank balance.....	(627)	-	(627)	-
	<u>3,185</u>	<u>8,220</u>	<u>3,185</u>	<u>8,220</u>

### **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, 2006, as set out in the 2006 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. Claim settlement**

A claim settlement was received in the second quarter of fiscal 2006 from a supplier in the United States for \$748,000.

### **4. Asset impairment**

In the second quarter of fiscal 2007 the Company recorded a \$3,130,000 (\$2,050,000 after tax) impairment loss related to the closure of a feed plant in western Canada.

The plant closure is due to economic conditions, along with an over capacity of feed manufacturing in the province. To that effect, the Company is closing its least efficient feed plant and reduced the carrying value of the feed plant's property, plant and equipment to fair value. Production and customer service will be consolidated with other facilities in the general area.

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.

### **5. Discontinued operations**

In fiscal 2002, the Company sold its European swine breeding business. Subsequent to the sale, the purchaser initiated legal proceedings regarding warranty and indemnification claims. In the second quarter of fiscal 2007, the Company settled these legal claims and recorded a \$528,000 charge.

The Company initiated activity to formally liquidate its remaining U.K. structure and has recognized future tax benefits of \$1,138,000. The aforementioned transactions and associated professional fees reflect net income from discontinued operations of \$539,000.

### **6. Business acquisitions**

There have been no acquisitions for the year to date in fiscal 2007.

In the first quarter of fiscal 2006, the Company purchased the remaining 49% share in McCauley Bros., Inc. (MBI) for an aggregate consideration of \$1,545,000. Consideration included an initial cash payment of \$1,132,000 and deferred payments totaling \$413,000 payable in annual installments equally over a three-year period with accrued interest at 3.66% on the balance outstanding. MBI is located in Versailles,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Kentucky and manufactures premium quality feeds and nutritional supplements for the equine market. This operation forms part of the Ridley Nutrition Solutions segment.

**7. Statement of cash flow disclosures**

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

	Three Months Ended Dec-31-06 (\$000)	Three Months Ended Dec-31-05 (\$000)	Six Months Ended Dec-31-06 (\$000)	Six Months Ended Dec-31-05 (\$000)
Interest	736	641	1,384	1,271
Income taxes, net of refund	1,659	298	1,729	421

**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 December 31, 2006 and 2005, as follows:

	Three Months Ended Dec-31-06 (\$000)	Three Months Ended Dec-31-05 (\$000)	Six Months Ended Dec-31-06 (\$000)	Six Months Ended Dec-31-05 (\$000)
Non-contributory pension plan	319	333	638	666
Post-retirement medical costs	-	81	-	275
Defined contribution plan	320	305	653	646

**9. Litigation/Contingency**

The actions by proposed representative plaintiffs continue against the Government of Canada and Ridley Inc. They seek to certify class actions in Alberta, Saskatchewan, Ontario and Quebec 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.

The actions in Ontario and Quebec are still at an early stage, and the actions in Saskatchewan and Alberta are in abeyance. There has been no decision made on the merits of the actions in any province, and the actions have not yet been certified or authorized to proceed to trial in any province.

The lawsuits have been struck out or discontinued against Ridley Inc.'s majority shareholder, Ridley Corporation Limited, in all provinces.

In Ontario, appeals against the decision refusing to strike the claims against Ridley Inc. and its co-defendant, the Government of Canada, are scheduled to be heard by the Court of Appeal for Ontario in February 2007. In Quebec, the authorization hearing to determine if the action should go to a merits trial as a class action was heard in October 2006, but no decision has been issued.

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

## 10. Segment information

The Company's operations are conducted in three reportable segments as: Ridley Feed Operations, Ridley Nutrition Solutions, and Corporate. The Company reports information about its operating segments based on the way management organizes and reports the segments within the organization for making operating decisions and evaluating performance.

Ridley Feed Operations consists of full-line production facilities in the U.S. and Canada, producing and distributing products for the core animal nutrition market and Ridley Feed Ingredients, a micro feed additive and pre-mix facility. This segment derives most of its business by manufacturing and marketing a broad range of complete feeds, supplements, and premixes to customers primarily in the upper midwestern U.S. and the prairie region of Canada.

Ridley Nutrition Solutions consists of the low moisture block operations, Sweetlix feed supplements and the equine nutrition business. This segment manufactures and distributes low moisture blocks and feed supplements primarily for the beef and dairy markets, and premium equality equine feeds.

Corporate contains no substantial revenue and is comprised of corporate costs and other activities not specific to reportable segments and is shown separately.

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

An analysis of segment information is as follows:

### ***Ridley Inc.***

Segment Information (Unaudited) (U.S.\$ in thousands)	Three Months Ended Dec-31-06	Three Months Ended Dec-31-05	Six Months Ended Dec-31-06	Six Months Ended Dec-31-05
<b>Revenue</b>				
Ridley Feed Operations .....	117,944	111,265	219,685	212,276
Ridley Nutrition Solutions.....	26,017	27,049	48,712	46,508
Total revenue .....	143,961	138,314	268,397	258,784
<b>Cost of sales</b>				
Ridley Feed Operations .....	98,919	91,750	184,987	176,480
Ridley Nutrition Solutions.....	19,405	20,797	36,690	35,782
Total cost of sales.....	118,324	112,547	221,677	212,262
<b>Gross profit</b> .....	25,637	25,767	46,720	46,522
<b>Operating expenses</b>				
Ridley Feed Operations .....	16,066	12,332	29,009	24,434
Ridley Nutrition Solutions.....	3,427	3,256	6,604	6,395
Corporate .....	1,378	1,899	2,938	3,039
Total operating expenses.....	20,871	17,487	38,551	33,868
<b>Operating income</b>				
Ridley Feed Operations .....	2,959	7,183	5,689	11,362
Ridley Nutrition Solutions.....	3,185	2,996	5,418	4,331
Corporate .....	(1,378)	(1,899)	(2,938)	(3,039)
Total operating income .....	4,766	8,280	8,169	12,654

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

Revenue and operating income by country:

**Revenue**

U.S. ....	109,309	104,283	203,175	194,751
Canada.....	34,652	34,031	65,222	64,033
Total revenue .....	<u>143,961</u>	<u>138,314</u>	<u>268,397</u>	<u>258,784</u>

**Operating Income**

U.S. ....	8,285	7,903	12,410	11,655
Canada.....	(2,141)	2,276	(1,303)	4,038
Corporate .....	(1,378)	(1,899)	(2,938)	(3,039)
Total operating income .....	<u>4,766</u>	<u>8,280</u>	<u>8,169</u>	<u>12,654</u>