

# NEWS RELEASE

RIDLEY Inc.

Trading symbol: RCL on The Toronto Stock Exchange

**FOR IMMEDIATE RELEASE**

## **Ridley Inc. Reports Financial Results for Fiscal 2009 Second Quarter**

**MANKATO, MINNESOTA and WINNIPEG, MANITOBA – (February 6, 2008)** — Ridley Inc. (TSX: RCL) today reported its financial results for its second quarter ended December 31, 2008. All currency amounts are stated in U.S. dollars unless otherwise noted.

For the three months ended December 31, 2008, Ridley's earnings before interest, taxes and amortization (EBITA (i)) were \$7.3 million compared to \$10.0 million last year. Net income after taxes for the second quarter of fiscal 2009 was \$0.7 million or 5 cents per share compared to a loss of \$2.8 million in the same period last year.

Net income for the second quarter of 2009 included \$2.1 million of restructuring charges related to the reduction of operating expenses and a \$1.4 million asset impairment loss from the closure of a non-strategic manufacturing facility. Earnings last year included a charge of \$6.0 million related to the settlement with plaintiffs in the BSE class action lawsuits.

"The combination of sharply lower raw material prices and a generally deteriorating meat, milk, and egg production economy had a negative impact on both margins and demand in the second quarter," said Steve VanRoekel, President and CEO of Ridley Inc. "While we expect this uncertain environment to stabilize and improve over the long-term, and were satisfied with operating results under the circumstances, we decided to focus during the quarter on making adjustments to our expense structure which will positively impact earnings going forward."

Sales volumes of Ridley Feed Operations (RFO) declined by 14.3% in the second quarter of fiscal 2009. The RFO segment also incurred restructuring charges of \$2.1 million in the period and, as a result, reported an operating loss of \$1.7 million compared to a profit of \$2.4 million in the previous year. Operating income generated by Ridley Feed Ingredients (RFI) was \$2.0 million (2008 – \$1.8 million) while Ridley Nutrition Solutions (RNS) contributed \$2.8 million (2008 - \$2.8 million).

"While it had a negative impact on our results for the quarter, the sharp reductions in commodity prices are welcome news to our customers, and enabled us to further reduce our own debt-to-equity levels to just 16% at the end of the quarter," added VanRoekel. "In addition to focusing on the needs of our customers as always, our operating priorities going forward are to closely manage expenses, maximize cash flow, and further deleverage. We want to be in the best position possible to take advantage of the opportunities that are certain to emerge in time".

"It's also important to note that following the completion of the opt-out period, our settlement with the plaintiffs in the BSE lawsuits against us was finalized in late January. While we continue to believe the claims are without merit, we are nonetheless relieved to have this nearly four year old matter now firmly behind us," added VanRoekel.

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

The following Management Discussion and Analysis as of February 6, 2009 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 2009 second quarter results:

(US\$ million except for EPS)	3 Months Ended Dec. 31 2008	3 Months Ended Dec. 31 2007	6 Months Ended Dec. 31 2008	6 Months Ended Dec. 31 2007
Revenue	163.6	167.0	332.9	306.8
Net earnings before exceptions	3.0	4.5	5.7	6.5
Exceptions, net of income taxes (noted below (ii))	(2.3)	(7.3)	(2.1)	(6.8)
Net earnings (loss)	0.7	(2.8)	3.6	(0.2)
Diluted earnings (loss) per share (EPS)	\$0.05	\$(0.21)	\$0.26	\$(0.02)
EBITA (i)	7.3	10.0	14.4	16.0

(i) EBITA – Operating income before amortization and exceptions. EBITA 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.

(ii) Exceptions – In the preceding summary data, net earnings from continuing operations were reported before exceptions. Those exceptions, which are mainly unusual or non-recurring items, are summarized below, net of income taxes:

Exceptions (net of income taxes) (US\$ million)	3 Months Ended Dec. 31 2008	3 Months Ended Dec. 31 2007	6 Months Ended Dec. 31 2008	6 Months Ended Dec. 31 2007
Gain on sale of facilities	-	-	0.2	0.6
Asset impairment loss	(0.9)	(0.5)	(0.9)	(0.5)
Claim settlement	-	(4.4)	-	(4.4)
Valuation reserve on tax loss carryforwards		(1.4)		(1.4)
Restructuring charges	(1.5)	(1.0)	(1.5)	(1.0)
Total exceptions	(2.3)	(7.3)	(2.1)	(6.8)

### **Consolidated Financial Results**

Revenue in the second quarter of fiscal 2009 declined by 2.0% to \$163.6 million compared to \$167.0 million in the second quarter of 2008. 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. The revenue decline in the second quarter of 2009 is, for the most part, due to lower volumes as measured in tons of feed products sold.

In the second quarter of fiscal 2009, total sales volumes were 13.5% lower than the prior year period. All divisions of the Company saw volume declines in the second quarter. Softer demand

for livestock feed, supplements and ingredients resulted from market uncertainty, lower farm gate prices to livestock producers, exceptionally high feed ingredient prices in 2008 and reduced cattle and swine herds.

Gross profit in the second quarter of fiscal 2009 was \$22.1 million compared to \$25.3 million in the same period of fiscal 2008. The decline in gross profits in the quarter was concentrated in the RFO division and is reflective of the decline in sales volumes and lower unit margins. The RFI and RNS divisions each recorded essentially the same gross profits as in the prior year quarter, aided by improved unit margins which offset lower volumes. The acquisition of 4 Seasons Marketing in March 2008 also contributed to RNS gross profits in fiscal 2009. The RFI Division continues to benefit from favourable inventory positions in key feed commodities that have remained high in price relative to last year. Production costs were relatively flat across all divisions.

Operating expenses, which include selling, general and administrative expenses, as well as amortization of property, plant and equipment were \$20.4 million in the second quarter of fiscal 2009 (2008 - \$25.5 million). The Company undertook to reduce its labour and overhead costs in Canada and the U.S. in the second quarter of fiscal 2009 and recorded \$2.1 million in restructuring expenses before income taxes, of which \$1.8 million was for severance costs recorded in operating expenses. Additionally, operating expenses in fiscal 2009 included an asset impairment loss of \$1.4 million before income taxes for the closure of a non-strategic feed manufacturing facility in Selma, North Carolina. Operating expenses in the second quarter of the prior year included \$0.7 million for restructuring Canadian operations. A charge of \$0.7 million was also recorded last year for the closure of a facility in Lethbridge, Alberta. Operating expenses in the previous year also included a charge of \$6.0 million for settlement of the BSE class action lawsuits. Excluding the restructuring costs, asset impairment losses and the claim settlement expense, operating expenses in the second quarter this year would have been \$17.2 million compared to \$18.1 million last year.

Operating income before interest and taxes in the second quarter of fiscal 2009 was \$1.8 million compared to a loss of \$0.2 million last year. Excluding the restructuring costs, asset impairment losses and the claim settlement expense, operating income in the second quarter this year would have been \$5.3 million compared to \$7.2 million last year.

Second quarter income tax expense of \$0.4 million in fiscal 2009 reflects an effective income tax rate of 36.5%. In the prior year, a valuation allowance was established on tax loss carry-forwards, which increased income tax expense in the second quarter last year by \$1.4 million. Ridley's effective income tax rate is impacted by the geographic distribution of income and losses between Canada and the United States. Ridley's U.S. entities generated taxable income which is taxed at a higher rate than income tax benefits recorded on Canadian entities pre-tax losses.

Net earnings for the second quarter of fiscal 2009 were \$0.7 million (diluted earnings per share of \$0.05) compared with a loss of \$2.8 million (diluted loss per share of \$0.21) in the second quarter of fiscal 2008.

EBITA (comprised of operating income before amortization, gain on sale of properties, asset impairment loss and claim settlement expense) decreased to \$5.3 million in the second quarter of fiscal 2009 from \$8.5 million in the prior year.

Comprehensive income (or loss) is the change in Ridley's net assets that result from transactions, events and circumstances from sources other than investments by and/or distributions to Ridley's shareholders. Ridley's comprehensive income in the second quarter of fiscal 2009 was a loss of \$2.6 million comprised of net earnings of \$0.7 million as reported above, less \$3.3 million of unrealized losses on translation to U.S. currency of financial statements of related entities with foreign functional currency. In the second quarter of the prior year Ridley recorded a gain of \$0.3 million on the translation to U.S. currency. Other comprehensive income (OCI) is comprised entirely of unrealized gains and losses on translation of financial statements of related entities with

foreign functional currency to U.S. dollar reporting currency. In the first six months of fiscal 2009, the Canadian dollar weakened significantly in relation to the U.S. dollar, thus significant unrealized translation losses are reflected in OCI. During the same period of fiscal 2008, unrealized translation gains were reflected in OCI as the Canadian dollar strengthened in relation to the U.S. dollar. Other changes in accounting policies noted in Ridley's interim financial statements had no material effect on its financial condition.

## **Six Months Results**

Although revenues declined in the second quarter, the Company recorded an overall increase for the first half of fiscal 2009 of 8.5% to \$332.9 million (2008 - \$306.8 million). Revenues were negatively impacted by the 11.5% decline in sales volumes as measured in tons of feed products sold in the first six months of fiscal 2009 relative to the prior year.

Gross profit for the first half of fiscal 2009 was \$45.2 million (2008 - \$46.3 million) or 2.3% lower than in the same period last year. The reduction in gross profit was due to lower overall tonnage volumes that were partly offset by reduced manufacturing costs and improved unit margins in the RNS and RFI divisions, each of which benefited from good inventory positions and a favourable product mix. The acquisition of the 4 Seasons Marketing feed supplement block manufacturing business acquired in 2008 also contributed to RNS income in the period.

Net operating expenses in the first half of fiscal 2009 were \$38.3 million, compared to \$41.7 million in the previous year. As noted above, operating expenses in fiscal 2009 included restructuring costs of \$2.1 million, an asset impairment loss of \$1.4 million, and a gain of \$0.3 million recorded on the sale of property at the closed Lacombe, Alberta feed manufacturing facility. Operating expenses in fiscal 2009 also included \$0.8 million related to legal and financial advisory services incurred in the strategic review process that the Company initiated in May 2008 and completed in the first quarter of fiscal 2009. In the prior year, operating expenses included restructuring charges of \$0.7 million, an asset impairment loss of \$0.7 million for closed facilities and a claim settlement expense of \$6.0 million for the BSE lawsuits. Excluding these unusual items, operating expenses in the first half of fiscal 2009 would have been \$34.3 million compared to \$35.1 million in the previous year.

Operating income before interest and taxes in the first half of fiscal 2009 was \$7.0 million compared to \$4.6 million last year. Excluding the restructuring costs, asset impairment losses, the claim settlement expense and the expense of the strategic review process, operating income in the first six months of this year would have been \$11.0 million compared to \$11.2 million last year.

The provision for income taxes in the first six months of fiscal 2009 was \$2.2 million, compared with \$3.8 million recorded in the same period of fiscal 2008. The Company's effective income tax rate is a combination of tax rates applied to the results of operation 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. In the normal course of business, the Company may take positions on its tax returns that taxing authorities could possibly challenge. Although the Company believes it has support for positions taken on its tax returns, the Company has recorded a liability of its best estimate of probable loss on certain transactions. During the first quarter of fiscal 2009, the Company recorded a net recovery of \$0.2 million associated with uncertain tax positions. In the second quarter of fiscal 2008, the Company established a valuation allowance on tax loss carry-forwards which are set to expire by 2010. This increased income tax expense by \$1.6 million. Key factors in establishing this allowance are material losses in the Canadian tax entity due to the claim settlement and restructuring costs as well as uncertainty surrounding the short-term outlook for Canadian operations.

Net earnings for the six months of fiscal 2009 were \$3.6 million (diluted earnings per share of \$0.26) compared with a loss of \$0.2 million (diluted loss per share of \$0.02) in fiscal 2008. Year to date EBITA was \$12.3 million in fiscal 2009 compared with \$14.5 million in fiscal 2008.

The Company's comprehensive income in the first half of fiscal 2009 was a loss of \$0.7 million comprised of a net earnings of \$3.6 million as reported above, and \$4.3 million of unrealized losses on translation to U.S. currency of financial statements of related entities with foreign functional currency. Comprehensive income in the first half of the prior year was \$2.3 million comprised of a loss of \$0.2 million in net earnings as reported above and \$2.5 million of unrealized gains on translation to U.S. currency of financial statements of related entities with foreign functional currency.

### Reconciliation of Non-GAAP Financial Measures

The Company reports its financial results according to Canadian GAAP. However, included in this management discussion and analysis are certain non-GAAP financial measures and ratios which the Company's management believes provide useful information in measuring the financial performance and financial condition of the Company. These measures and ratios do not have a standardized meaning prescribed by Canadian GAAP and, therefore, may not be comparable to similar measures presented by other public companies, nor should they be construed as an alternative to other financial measures described by Canadian GAAP. Operating income is defined as net earnings before finance costs, interest income and provision for income taxes. Earnings before interest, taxes and amortization (EBITA) is defined as operating income before gain on sale of facilities, asset impairment loss and claim settlement expense plus amortization.

The following is a reconciliation of earnings before interest, taxes and amortization, a non-GAAP measure, to net earnings, its most closely comparable GAAP measure:

Earnings before interest, taxes and amortization (EBITA) (US\$ million)	3 Months Ended Dec. 31, 2008	3 Months Ended Dec. 31, 2007	6 Months Ended Dec. 31, 2008	6 Months Ended Dec. 31, 2007
Net earnings	0.7	(2.8)	3.6	(0.2)
Provision for income taxes	0.4	2.2	2.2	3.8
Interest income	(0.1)	(0.2)	(0.3)	(0.4)
Finance costs	0.8	0.7	1.5	1.4
Operating income	1.8	(0.2)	7.0	4.6
Amortization of property, plant and equipment	2.0	2.0	4.1	4.0
Other amortization	-	-	0.1	-
Gain on sale of facilities	-	-	(0.3)	(0.8)
Asset impairment loss	1.4	0.7	1.4	0.7
Claim settlement	-	6.0	-	6.0
Restructuring charges	2.1	1.4	2.1	1.4
Earnings before interest, taxes and amortization (EBITA)	7.3	10.0	14.4	16.0

## SEGMENT RESULTS

The following is a summary of operating income (loss) of the Company's divisions.

Operating Income (Loss) (US\$ million)	3 Months Ended Dec. 31, 2008	3 Months Ended Dec. 31, 2007	6 Months Ended Dec. 31, 2008	6 Months Ended Dec. 31, 2007
Ridley Feed Operations (RFO)	(1.7)	2.4	(0.8)	6.0
Ridley Feed Ingredients (RFI)	2.0	1.8	4.9	3.1
Ridley Nutrition Solutions (RNS)	2.8	2.8	6.1	4.1
Corporate	(1.3)	(7.3)	(3.2)	(8.5)
Consolidated Operating Income/(Loss)	1.8	(0.2)	7.0	4.6

### Ridley Feed Operations (RFO)

The Ridley Feed Operations (RFO) segment consists of full-line feed production facilities operating in the United States and Canada, producing and marketing products for the core animal nutrition market. Overall sales volumes for RFO were lower by 14.3% in the second quarter of fiscal 2009 compared to last year. For the six months year to date, RFO volumes were lower by 11.8% compared to last year which is largely attributable to difficult economic conditions for livestock and poultry producers. Overall sales volumes amongst the U.S. operations of RFO were lower in the second quarter of 2009 by 14.8%, while Canadian sales volumes were lower by 13.4% compared to last year. For the six months of fiscal 2009, RFO volumes overall were 11.8% below the same period last year.

As a result of lower sales volumes, RFO's sales revenues decreased by 7.8% in the second quarter. Overall selling prices on a per ton basis increased by 7.6% as a result of significantly higher raw material costs compared to last year. Almost all of the commodities that are utilized in the production of livestock and poultry feed were higher in cost over last year.

RFO gross profit of \$12.7 million in the second quarter was 20.7% lower than the same period last year (2008 – \$16.0 million). Reduced gross profit was the result of lower volumes as noted above and a reduction in unit margins of 11.5% despite increased average selling prices in U.S. feed operations. For the six months year to date, RFO gross profits of \$25.1 million (2008 - \$30.2 million) were lower than the prior year by 17.0%.

RFO reported operating expenses of \$14.4 million in the second quarter of fiscal 2009 (2008 - \$13.6 million). The increase of \$0.8 million over the prior year included a \$1.4 million asset impairment loss recorded for the closure of the Selma, North Carolina feed manufacturing facility. In the same quarter last year, operating expenses included a \$0.7 million asset impairment loss for the closure of a redundant premix facility in Lethbridge, Alberta. Operating expenses in the second quarter of fiscal 2009 also included \$2.1 million for restructuring charges in Canadian and U.S. feed operations, primarily severance charges, to reduce operating costs. Operating expenses in Canadian feed operations in the second quarter of the prior year included \$0.7 million in similar restructuring charges.

As a result of lower gross profits and additional restructuring costs, RFO reported an operating loss of \$1.7 million in the first quarter of fiscal 2009, compared with an operating profit of \$2.4 million in the same period of fiscal 2008. For the six months year to date, RFO reported an operating loss of \$0.8 million compared to an operating profit of \$6.0 million last year.

### Ridley Feed Ingredients (RFI)

The Ridley Feed Ingredients (RFI) segment consists of vitamin and trace mineral premixes, small

packaged specialty products, medicated and non-medicated feed additives and micro feed ingredients produced and distributed through a specialized facility in Illinois. RFI's revenues in the second quarter of fiscal 2009, including intersegment sales, increased by 18.3% to \$33.2 million (2008 - \$28.1 million) mainly due to higher unit selling prices driven by higher ingredient costs. Higher average unit margins resulting from favourable inventory positions and good product mix offset lower volumes enabling RFI to report a gross profit increase of 3.8% in the second quarter. Slightly lower operating expenses in the quarter resulted in operating income of \$2.0 million compared to \$1.8 million in the prior year.

For the first six months of fiscal 2009, RFI recorded revenues of \$67.6 million that were 29.7% ahead of last year (2008 - \$52.1 million). As volume for the first half was lower by 2.7%, the increase in revenue is reflective of higher commodity prices over the last several months. Higher unit margins resulting from favourable inventory positions contributed to a 36.7% improvement in gross profits. Operating expenses in the first half of fiscal 2009 remained flat from last year allowing RFI to report operating income of \$4.9 million compared to \$3.1 million last year.

### **Ridley Nutrition Solutions (RNS)**

Ridley Nutrition Solutions (RNS) includes the feed supplement block operations and equine nutrition business. Sales volumes in the second quarter of fiscal 2009 were lower by 8.1% from a year ago. Demand was soft for feed supplement blocks as a result of difficult economic conditions for cattle producers. Sales volumes of specialty equine feeds grew by 15.7% in the first half of fiscal 2009. For the year to date, RNS volumes were 5.2% lower than the previous year.

Despite lower volumes, RNS sales revenues in the second quarter of fiscal 2009 increased 16.3% over last year to \$32.9 million (2008 - \$28.3 million) as a result of higher selling prices reflecting improved product mix and higher raw material costs. RNS gross profits in the second quarter of \$6.8 million increased slightly over last year (2008 - \$6.7 million) as a result of improved unit margins offsetting lower volume. For the first half of fiscal 2009, gross profits of \$13.8 million were higher by 20.4% over last year (2008 - \$11.5 million); the result of a stronger performance in the first quarter of the current year when RNS benefited from good ingredient positions and a more favourable product mix than the prior year. Operating expenses were flat in the second quarter of fiscal 2009 enabling RNS to report operating income of \$2.8 million, equivalent to last year (2008 - \$2.8 million). For the six months of fiscal 2009, RNS reported operating income of \$6.1 million (2008 - \$4.1 million).

### **Corporate**

Corporate expenses, which include certain corporate management, board of directors' and other public company expenses, as well as legal expenses related to the BSE class action lawsuits, in the second quarter of fiscal 2009 were \$1.3 million (2008 - \$7.3 million). Corporate expenses last year included an accrual of \$6.0 million for settlement of the BSE class action lawsuits. In the first six months of fiscal 2009, corporate expenses were \$3.2 million (2008 - \$8.5 million). Corporate expenses in the first quarter of 2009 also included financial and legal advisory costs associated with the Company's strategic review process which was concluded on the announcement of the sale of the controlling shareholder's interest in the Company.

## Liquidity/Capital Resources/Cash Flow

Ridley's working capital and debt to equity positions are summarized below:

	December 31 2008	September 30 2008	June 30 2008	March 31 2008	December 31 2007
Balances (\$000) as of:					
Working capital (ii)	55,043	59,501	48,143	48,012	36,465
Debt (iii)	24,107	36,216	19,455	24,908	20,345
Equity	152,775	155,418	153,503	152,078	148,134
Debt to equity ratio	15.8%	23.3%	12.7%	16.4%	13.7%

(ii) Working capital is defined as current assets less current liabilities, including claim settlement provisions.

(iii) Debt is defined as bank obligations and capital leases.

In the six months between June 30, 2008 and December 31, 2008, total debt increased by \$4.7 million to \$24.1 million. The increase in debt was reflective of the \$6.9 million increase in working capital balances in the same period. Although inventories of raw ingredients and finished product decreased in the six month period by \$11.4 million, this benefit was more than offset by a decrease in accounts payable and accrued liabilities of \$14.7 million and an increase in accounts receivable of \$3.5 million. The decrease in inventories was the result of an improvement in inventory utilization. In the same six month period, accounts receivable increased by \$3.5 million.

In the twelve months since December 31, 2007, working capital increased by \$19.0 million. Although this period coincides with a significant rise in commodity prices, the increase in working capital was attributable to reduced advances from customers of \$4.3 million, reduced accounts payable and accrued liabilities of \$3.9 million, reduced short term debt of \$3.3 million, and reduced other current liabilities of \$3.6 million. In addition, increased inventories of \$3.6 million over the twelve month period increased working capital, although this increase was the result of slower inventory utilization relative to the prior year.

The following is a summary of the increase or decrease in cash available for investing purposes or required from financing sources as generated or utilized by operations.

	3 Months Ended Dec. 31, 2008	3 Months Ended Dec. 31, 2007	6 Months Ended Dec. 31, 2008	6 Months Ended Dec. 31, 2007
Summary of Change in Cash Available (US\$ million)				
Cash flow from operating activities	3.3	5.1	7.6	9.0
Net decrease/(increase) in working capital balances	6.0	17.8	(9.4)	3.6
Proceeds on disposal of property, plant and equipment	0.1	0.1	0.5	2.8
Cash flow utilized in capital investments	(2.1)	(2.8)	(4.8)	(5.5)
Increase/(decrease) in cash available	7.2	20.3	(6.1)	9.9

For the three months of the second quarter of fiscal 2009, the Company's operations generated \$7.2 million in cash flows net of capital investments compared to \$20.3 million generated in the same three month period last year. The decrease in working capital balances by the end of the second quarter generated \$6.0 million in cash flows. In the prior year an increase in accounts payable at the end of the second quarter accounted for the additional cash flow generated from the reduction in working capital balances. For the six months of fiscal 2009, the Company's operations generated negative cash flows of \$6.1 million net of capital investments compared to \$9.9 million positive cash flows in the same period last year. The increase of \$9.4 million in working capital

balances over the preceding six month period, mainly the result of substantially reduced accounts payable balances, accounted for the reversal in cash flows from the same period last year.

### **Financing Activities**

On November 20, 2008, Ridley Inc. and its subsidiaries entered into a credit facilities agreement with the Bank of Nova Scotia that has a term expiring on October 31, 2011. The agreement provides a revolving term facility of up to C\$30,000,000 available in Bankers Acceptances based advances or U.S. dollar equivalent as London Inter-Bank Offer Rate (LIBOR) based advances and a revolving term facility of up to US\$20,000,000 available in LIBOR based advances. All facilities are secured by a first-ranking general security agreement covering all of the Company's property. The agreement includes covenants specifying maximum funded debt, minimum interest coverage and minimum tangible net worth. Interest rates are based on Bankers Acceptances rates plus a margin or LIBOR rates plus a margin. The Company also pays a standby fee. Margins and fees are based on the funded debt ratio. The credit agreement retains the existing C\$5,000,000 secured overdraft line of credit, payable on demand.

The Company's unsecured open lines of credit and other loans are unaffected by the new credit agreement.

### **Capital Expenditures**

Expenditures on plant and equipment in the second quarter of fiscal 2009 were \$2.1 million compared to \$3.0 million in the same period a year ago. Capital expenditures in the second quarter last year included \$0.7 million for implementation of new management information systems. The balance of capital expenditures was made on a variety of smaller projects for the maintenance or replacement of production, packaging and storage equipment at various facilities.

### **Business Acquisitions**

There were no business acquisitions during the first six months of fiscal 2009 or fiscal 2008. The first quarters of fiscal 2009 and 2008 include instalment payments related to a fiscal 2006 acquisition.

### **Seasonality and Commodity Variability**

The Company experiences seasonal variations in revenue. Historically, revenue is strongest in the second and third fiscal quarters when the usually cold October through March weather creates increased demand for beef feed, 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 and associated cost of sales as selling prices and product costs move in relation to changes in commodity prices.

## Selected Quarterly Financial Information

The following is a summary of unaudited quarterly financial information (in millions of U.S. dollars except per share information):

	Fiscal Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	2009	169.3	163.6	-	-
	2008	139.8	167.0	167.3	159.4
	2007	124.4	144.0	136.9	126.3
Net earnings (before claim settlement, asset impairment loss, and gain on sale of facilities, net of income taxes).	2009	2.7	1.5	-	-
	2008	2.0	3.7	5.2	0.9
	2007	1.8	4.3	3.0	1.2
Net earnings (loss)	2009	2.9	0.7	-	-
	2008	2.6	(2.8)	5.0	1.2
	2007	1.8	2.8	3.1	1.3
Net earnings (loss) per share (EPS)	2009	0.21	0.05	-	-
	2008	0.19	(0.21)	0.37	0.08
	2007	0.13	0.20	0.22	0.10

## Outstanding Share Data

Ridley's share capital consists of an unlimited number of common shares, with no par value. On December 11, 2008 the Company received approval from the Toronto Stock Exchange (the "TSX") to initiate a normal course issuer bid for the Company's shares through the facilities of the TSX. The share repurchase program will permit the Company to purchase for cancellation up to 692,965 common shares of the Company over the following twelve month period which commenced December 15, 2008. As at December 31, 2008, the Company had repurchased for cancellation 3,900 shares under the normal course issuer bid at an average purchase cost excluding commissions of C\$6.83 per share. The number of shares outstanding as at December 31, 2008 and as at February 6, 2009 was 13,855,400.

## Change in Controlling Shareholder

On November 4, 2008, Ridley Corporation Limited of Sydney, Australia ("Ridley Australia") completed the sale of its controlling block of 9,533,430 shares of Ridley Inc. to Fairfax Financial Holdings Limited of Toronto, Ontario ("Fairfax") at a price of C\$8.50 per share. The transaction between Ridley Australia and Fairfax was a private sale agreement to which the Company was not a party. On November 17, 2008, Fairfax announced that it had acquired, through its subsidiaries, an additional 466,900 common shares of Ridley Inc., bringing its total holdings in the Company to 10,000,330 shares or approximately 72.18% of the total common shares outstanding as at December 31, 2008.

## 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.

### **Forward-Looking Information**

This report contains "forward-looking" information. The forward-looking information includes statements concerning Ridley'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 Ridley's business, adverse results from ongoing litigation, actions of domestic and foreign governments, and the outcome of the Company's strategic review process. Other risks are outlined in the Risk Management section of the MD&A included in Ridley's Annual Report. Unless otherwise required by applicable securities law, Ridley disclaims any intention or obligation to publicly update or revise this information, whether as a result of new information, future events or otherwise. Ridley cautions readers not to place undue reliance upon forward-looking statements.

### **OUTLOOK**

Ridley's income in fiscal 2008 benefited from good positions held in inventories of certain high value feed ingredients during a period of rising commodity prices. Prices for those ingredients now appear to be stabilizing and, as a result, profit margins will not benefit from such gains in the remainder of fiscal 2009. Livestock producers' profitability is likely to remain at difficult levels for the remainder of 2009 so a continuation is expected of the softer feed volumes experienced so far this year.

Working capital efficiencies improved in the second quarter and those efficiencies are expected to be held through the remainder of the year allowing working capital balances to stabilize. Cash flows will be negatively impacted in the third quarter as a result of the settlement payment in January 2008 related to the class action lawsuits. Ridley will also continue its program to repurchase its shares through the TSX under the normal course issuer bid. The Company's available credit facilities are sufficient to meet these cash obligations.

### **Litigation/Contingency**

In claims filed in April 2005, plaintiffs initiated class action proceedings against Ridley and the Government of Canada in Alberta, Saskatchewan, Ontario and Quebec to include all Canadian cattle farmers who allegedly suffered damage as a result of international bans on trade in Canadian beef and cattle following the May 2003 diagnosis of Bovine Spongiform Encephalopathy (BSE) in a cow in Alberta.

A settlement agreement between Ridley and the representative plaintiffs was finalized on January 30, 2009, subsequent to the current reporting period, when Ridley made payment of C\$6.0 million into a trust fund for the benefit of the plaintiffs in continuation of their case. Although Ridley will remain a participant in the ongoing litigation against the Government of Canada, the settlement payment effectively caps Ridley's exposure to the claims made by the plaintiffs. In agreeing to the settlement, Ridley made no admission of liability or wrongdoing in the matter, and will continue to contest any allegation it was responsible for the plaintiffs' damages.

Ridley recorded a reserve for the C\$6 million settlement expense last year in its financial statements for the three months ended December 31, 2007. Ridley will continue to incur legal

expenses as a result of its continuing involvement in the actions. No accruals have been made in respect of ongoing legal expenses related to the actions.

The lawsuit in Quebec was authorized as a class action and the settlement agreement between Ridley and the plaintiffs was approved by the Superior Court of Quebec. The Ontario Superior Court approved the settlement agreement and certified the Ontario lawsuit as a class action for purposes of the settlement. Notice of the court approval and settlement and the right to opt out of the settlement were issued to the settlement class of cattle farmers in all provinces of Canada in accordance with the notice plan approved by the Ontario and Quebec courts. At the conclusion of the opt-out period, the independent administrator of the opt out process reported that the number of opt-out notices accepted from the settlement class of Canadian cattle farmers was below the threshold set as a condition of the settlement agreement.

Ridley Inc. ([www.ridleyinc.com](http://www.ridleyinc.com)), headquartered in Mankato, Minnesota and Winnipeg, Manitoba, is one of North America's leading commercial animal nutrition companies. Ridley employs more than 1,000 people in the United States and Canada in the manufacture and distribution of a full range of animal nutrition products under highly regarded trade names.

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

Additional information, including Ridley's Annual Information Form (AIF), is available at [www.sedar.com](http://www.sedar.com). Visit our website at: [www.ridleyinc.com](http://www.ridleyinc.com).

###

**For more information, please contact:**

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**CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited, expressed in U.S. dollars)

**RIDLEY Inc.**

Three and six months ended December 31, 2008 and 2007

**RIDLEY Inc.****Consolidated Balance Sheets***(Unaudited, expressed in thousands of U.S. dollars)*

	December 31 2008	June 30 2008	December 31 2007
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and short-term deposits	6,087	3,510	5,989
Accounts receivable	39,295	35,793	39,250
Inventories	58,475	69,901	54,909
Income taxes recoverable	1,516	468	-
Prepays and other current assets	2,206	1,453	2,632
Current portion of loans receivable	1,168	1,543	2,474
Future income tax benefit	1,439	2,934	1,058
<b>Total current assets</b>	<b>110,186</b>	<b>115,602</b>	<b>106,312</b>
<b>Non-current assets</b>			
Loans receivable, less current portion	952	677	962
Assets held-for-sale <i>(Note 5)</i>	867	730	-
Property, plant and equipment	88,812	94,100	93,896
Other assets	2,604	2,410	3,038
Other intangibles	4,466	4,553	3,814
Goodwill	48,477	50,595	50,983
<b>Total non-current assets</b>	<b>146,178</b>	<b>153,065</b>	<b>152,693</b>
<b>TOTAL ASSETS</b>	<b>256,364</b>	<b>268,667</b>	<b>259,005</b>
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Outstanding cheques in excess of bank balance	408	-	-
Short-term debt <i>(Note 12)</i>	1,767	900	5,106
Accounts payable and accrued liabilities	43,588	58,308	47,510
Advances from customers	4,397	2,271	8,649
Claim settlement provision <i>(Note 14)</i>	4,902	5,891	6,000
Income taxes payable	-	-	2,532
Current portion of long-term debt <i>(Note 12)</i>	68	89	50
<b>Total current liabilities</b>	<b>55,130</b>	<b>67,459</b>	<b>69,847</b>
<b>Long-term liabilities</b>			
Long-term debt, less current portion	22,272	18,466	15,189
Future income tax liability	21,836	24,715	21,620
Other accrued liabilities	4,338	4,524	4,215
<b>Total long-term liabilities</b>	<b>48,446</b>	<b>47,705</b>	<b>41,024</b>
<b>Total liabilities</b>	<b>103,576</b>	<b>115,164</b>	<b>110,871</b>
<b>Shareholders' equity</b>			
Share capital <i>(Note 13)</i>	57,601	57,604	57,604
Retained earnings	86,199	82,594	76,358
Accumulated other comprehensive income <i>(Note 4)</i>	8,988	13,305	14,172
<b>Total shareholders' equity</b>	<b>152,788</b>	<b>153,503</b>	<b>148,134</b>
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>256,364</b>	<b>268,667</b>	<b>259,005</b>

**RIDLEY Inc.****Consolidated Statements of Earnings and Retained Earnings***(Unaudited, expressed in thousands of U.S. dollars)*

	Three Months Ended December 31		Six Months Ended December 31	
	2008	2007	2008	2007
<b>Revenue</b>	<b>163,562</b>	166,970	<b>332,866</b>	306,780
<b>Cost of sales</b>	<b>141,413</b>	141,642	<b>287,628</b>	260,466
<b>Gross profit</b>	<b>22,149</b>	25,328	<b>45,238</b>	46,314
<b>Operating (income) expenses</b>				
Selling, general and administrative	16,755	16,589	32,481	31,345
Amortization of property, plant and equipment	2,047	1,999	4,116	3,990
Gain on sale of facilities <i>(Note 10)</i>	-	(22)	(316)	(829)
Research and development	140	235	486	425
Other amortization	44	21	87	42
Asset impairment loss <i>(Note 7)</i>	1,407	712	1,407	712
Claim settlement <i>(Note 14)</i>	-	6,000	-	6,000
<b>Net operating expenses</b>	<b>20,393</b>	25,534	<b>38,261</b>	41,685
<b>Operating income</b>	<b>1,756</b>	(206)	<b>6,977</b>	4,629
Finance costs	(845)	(706)	(1,450)	(1,414)
Interest income	145	235	262	375
<b>Earnings before income taxes</b>	<b>1,056</b>	(677)	<b>5,789</b>	3,590
Provision for income taxes <i>(Note 15)</i>	385	2,161	2,184	3,834
<b>Net earnings</b>	<b>671</b>	(2,838)	<b>3,605</b>	(244)
<b>Retained earnings, beginning of period</b>	<b>85,528</b>	79,196	<b>82,594</b>	76,602
Current year earnings	671	(2,838)	3,605	(244)
<b>Retained earnings, end of period</b>	<b>86,199</b>	76,358	<b>86,199</b>	76,358
<b>Net earnings per share, basic and diluted</b>	<b>0.05</b>	(0.21)	<b>0.26</b>	(0.02)

**Consolidated Statements of Comprehensive Income***(Unaudited, expressed in thousands of U.S. dollars)*

	Three Months Ended December 31		Six Months Ended December 31	
	2008	2007	2008	2007
<b>Net earnings</b>	<b>671</b>	(2,838)	<b>3,605</b>	(244)
Unrealized gains on translation of financial statements of related entities with foreign functional currency to U.S. dollar reporting currency	(3,298)	299	(4,317)	2,515
<b>Other comprehensive income</b>	<b>(3,298)</b>	299	<b>(4,317)</b>	2,515
<b>Comprehensive income</b>	<b>(2,627)</b>	(2,539)	<b>(712)</b>	2,271

# RIDLEY Inc.

## Consolidated Statements of Cash Flows

(Unaudited, expressed in thousands of U.S. dollars)

	Three Months Ended December 31		Six Months Ended December 31	
	2008	2007	2008	2007
<b>Cash flow from operating activities</b>				
Net earnings for the period	671	(2,838)	3,605	(244)
Add (deduct) items not affecting cash:				
Amortization of property, plant and equipment	2,047	1,999	4,116	3,990
Future income taxes	(1,037)	(745)	(1,468)	(776)
Asset impairment loss (Note 7)	1,407	712	1,407	712
Claim settlement (Note 14)	-	6,000	-	6,000
(Gain) loss on sale of property, plant and equipment	47	(16)	49	(25)
Gain on sale of facilities (Note 10)	-	(22)	(316)	(829)
Other amortization	44	21	87	42
Other items not affecting cash	121	16	148	107
	<b>3,300</b>	<b>5,127</b>	<b>7,628</b>	<b>8,977</b>
Net change in non-cash working capital balances related to operations:				
Accounts receivable	1,987	(919)	(6,538)	(7,561)
Inventories	14,520	(1,943)	8,920	(3,220)
Prepays and other current assets	343	266	(361)	(1,104)
Accounts payable and accrued liabilities	(11,219)	13,275	(12,541)	8,428
Advances from customers	3,331	7,256	2,125	5,533
Income taxes payable and recoverable	(3,005)	(89)	(1,048)	1,505
<b>Net cash from operating activities</b>	<b>9,257</b>	<b>22,973</b>	<b>(1,815)</b>	<b>12,558</b>
<b>Cash flow from investing activities</b>				
Proceeds on disposal of facilities, property, plant and equipment	57	141	526	2,827
Purchase of property, plant and equipment and investments	(2,095)	(2,968)	(4,632)	(5,558)
(Increase) decrease in loans receivable, net	15	167	-	240
Business acquisitions (Note 6)	-	-	(137)	(138)
<b>Net cash utilized for investing activities</b>	<b>(2,023)</b>	<b>(2,660)</b>	<b>(4,243)</b>	<b>(2,629)</b>
<b>Cash flow from financing activities</b>				
Repayment of short- and long-term debt	(18,699)	(15,801)	(26,275)	(22,960)
Proceeds from short- and long-term debt	9,476	7,389	34,484	16,995
Purchases for cancellation (Note 13)	(3)	-	(3)	-
<b>Net cash from (utilized for) financing activities</b>	<b>(9,226)</b>	<b>(8,412)</b>	<b>8,206</b>	<b>(5,965)</b>
<b>Effect of exchange rate changes on cash</b>	<b>28</b>	<b>102</b>	<b>21</b>	<b>(18)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,964)</b>	<b>12,003</b>	<b>2,169</b>	<b>3,946</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>7,643</b>	<b>(6,014)</b>	<b>3,510</b>	<b>2,043</b>
<b>Cash and cash equivalents - end of period</b>	<b>5,679</b>	<b>5,989</b>	<b>5,679</b>	<b>5,989</b>
<b>Cash and cash equivalents</b>				
Cash and short-term deposits	6,087	5,989	6,087	5,989
Outstanding cheques in excess of bank balance	(408)	-	(408)	-
	<b>5,679</b>	<b>5,989</b>	<b>5,679</b>	<b>5,989</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, with the exception of the changes in accounting policies as outlined in Note 2. 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, 2008, as set out in the 2008 Annual Report. All amounts are in U.S. dollars unless otherwise stated.

**2. Changes in accounting policies****Inventories**

Effective July 1, 2008 the Company adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (CICA), Section 3031 Inventories. This standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. The new standard also requires additional disclosures regarding the accounting policies used in measuring the inventories, the carrying value of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of write-downs recognized in the period.

The Company values inventories at the lower of cost or net realizable value on a first-in, first-out (FIFO) basis. Costs include the purchase costs net of supplier allowances, transportation expenses incurred to bring inventories to their present location and an allocation of production costs incurred in converting raw materials into finished goods. Storage costs, out bound delivery expense, administrative overheads and selling expenses related to inventories are expensed in the period the costs are incurred. The amount of inventories recognized as an expense within cost of goods sold is \$277,763,000 and \$250,295,000 in the first six months of fiscal 2009 and fiscal 2008, respectively; and \$136,661,000 and \$135,966,000 in the second quarters of fiscal 2009 and fiscal 2008, respectively. Inventories are written down to net realizable value when the cost of inventories is estimated to be greater than the anticipated selling price. Materials held for further use in the production of finished inventory are written down to the extent the material cost and estimated cost to complete exceeds net realizable value. When circumstances that previously required inventories to be written down below cost no longer exist, the amount of the write-down is reversed. The adoption of this standard resulted in an immaterial increase in the opening inventory balance. As a result, the Company has recorded the entire adjustment in the current period earnings.

**Assessing Going Concerns**

The Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events and conditions that may cast significant doubt on the Company's ability to continue as a going concern. The Company adopted the new standard effective July 1, 2008. The adoption of this section did not impact the interim unaudited consolidated financial statements for the three month and six months ended December 31, 2008.

**3. Seasonality and commodity variability**

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

**RIDLEY Inc.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(unaudited)

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

**4. Accumulated other comprehensive income**

	Three Months Ended December 31		Six Months Ended December 31	
	2008 (\$000)	2007 (\$000)	2008 (\$000)	2007 (\$000)
Balance, beginning of period	12,286	13,873	13,305	11,657
Other comprehensive income (loss)	(3,298)	299	(4,317)	2,515
Balance, end of period	8,988	14,172	8,988	14,172

The accumulated balances of other comprehensive income are comprised entirely of the unrealized gain on translation of financial statements of related entities with foreign functional currency to U.S. dollar reporting currency.

**5. Assets held-for-sale**

Assets held-for-sale consist of land, buildings and equipment of closed production facilities in Syracuse, Indiana and Selma, North Carolina. The estimated fair value of these assets approximates their carrying value of \$867,000.

**6. Business acquisitions**

There were no business acquisitions for the year to date in fiscal 2009 or 2008, however, installments related to a fiscal 2006 acquisition have been paid in the first quarters of fiscal 2009 and 2008.

**7. Asset impairment loss and restructuring costs**

In the second quarter of fiscal 2009 the Company recorded a \$1,407,000 impairment charge from the closure of a plant in Selma, North Carolina, and in the second quarter of fiscal 2008 recorded a \$712,000 impairment charge from the closure of a plant in Lethbridge, Alberta.

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.

Restructuring costs of \$2,090,000 were recorded in the second quarter of fiscal 2009 as part of a cost reduction plan. These costs include \$1,752,000 of severance costs recorded in selling, general and administrative expense and included in cost of sales is \$231,000 of inventory obsolescence related to retail store inventory and \$107,000 of expenses related to the Selma plant closure.

Restructuring costs of \$1,449,000 were incurred and paid in the fiscal second quarter of 2008 related to a reduction in Canadian work force and the plant closure in Lethbridge, Alberta in response to lower sales volumes due to difficult market conditions and increased costs in Canada. These costs consist of: inventory obsolescence of \$532,000 and severance of \$200,000 recorded in cost of sales, and severance of \$600,000 and other expenses of \$117,000 recorded in selling, general and administrative expense.

**RIDLEY Inc.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(unaudited)

**8. Statement of cash flow disclosures**

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

	Three Months Ended December 31		Six Months Ended December 31	
	2008 (\$000)	2007 (\$000)	2008 (\$000)	2007 (\$000)
Interest	721	796	1,261	1,234
Income taxes, net of refund	4,418	2,987	4,644	3,058

**9. Post retirement and pension expense**

The Company's recorded estimated costs related to its non-contributory pension plans and defined contribution plans are as follows:

	Three Months Ended December 31		Six Months Ended December 31	
	2008 (\$000)	2007 (\$000)	2008 (\$000)	2007 (\$000)
Non-contributory pension plan	183	344	447	689
Defined contribution plan	302	334	684	699

**10. Gain on sale of facilities**

Operating results of the Ridley Feed Operations segment in the first six months of fiscal 2009 include pre-tax gains of \$316,000 related to the sale of land in Lacombe, Alberta. Net proceeds on this sale were \$377,000.

Operating results of the Ridley Feed Operations segment in the first six months of fiscal 2008 include pre-tax gains of \$829,000 related to the sale of a premix facility and a fabrication shop, both of which are located in Winnipeg, Manitoba. Net proceeds on these sales were \$2,441,000.

**11. Financial instruments**

The following table presents the carrying amount and the fair value of the Company's financial instruments. Amortized cost is calculated using the effective interest rate method. Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is determined using management's estimates and is calculated using market factors for instruments with similar characteristics and risk profiles. These amounts represent point-in-time estimates and may not reflect fair value in the future. These calculations are subjective in nature, involve uncertainties and are a matter of significant judgment.

**RIDLEY Inc.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(unaudited)

	Assets (Liabilities)		Assets (Liabilities)
	Carried at Cost/Amortized Cost		Carried at Fair Value
	Carrying Value	Fair Value	Carrying value
<b>As of December 31, 2008</b>	(\$000)	(\$000)	(\$000)
Cash and short-term deposits	6,087	6,087	-
Accounts receivable	39,295	39,295	-
Loans receivable	2,120	2,120	-
Financial derivative instruments	-	-	293
Outstanding cheques in excess of bank balance	(408)	(408)	-
Accounts payable and accrued liabilities	(43,588)	(43,588)	-
Advances from customers	(4,397)	(4,397)	-
Claim settlement provision	(4,902)	(4,902)	-
Short-term and Long-term debt	(24,107)	(24,107)	-
Other accrued liabilities	(569)	(569)	-

In the three and six months ended December 31, 2008, the Company recorded a charge of \$275,000 and \$655,000 to cost of goods sold associated with market valuations of derivatives, respectively. In the three and six months ended December 31, 2008, the Company recorded a charge of \$69,000 and \$63,000, to finance costs associated with market valuations of derivatives, respectively.

**12. Debt facilities**

As a result of the change in the Company's majority shareholder, the Company terminated its North American loan facility which was subordinated and bound to the general loan facility held by its former parent. It was replaced by a new credit facility agreement on November 20, 2008 with The Bank of Nova Scotia that has a term expiring on October 31, 2011. The new credit facility agreement provides a revolving term facility up to C\$30,000,000 available in Bankers Acceptances based advances or U.S. dollar equivalent as London Inter-Bank Offer Rate (LIBOR) based advances and a revolving term facility of US\$20,000,000 available in LIBOR based advances. All facilities are collaterally secured by a first-ranking general security agreement covering all of the Company's property. The credit agreement includes covenants specifying maximum funded debt, minimum interest coverage and minimum tangible net worth. Interest rates are based on Bankers Acceptances rates plus a margin or LIBOR rates plus a margin. The Company also pays a standby fee. Margins and fees are based on the funded debt ratio. Interest rates including margin on borrowing from the new facility ranged from 2.5% to 3.5% from November 20, 2008 through December 31, 2008. The credit agreement retains the existing C\$5,000,000 secured overdraft line of credit, payable on demand. The Company's unsecured open lines of credit and economic development loan are unaffected by the new credit agreement.

**13. Normal course issuer bid**

On December 11, 2008 the Company received approval from the Toronto Stock Exchange to initiate a normal course issuer bid (bid). The bid permits the Company to purchase for cancellation up to 692,965 common shares of the Company. This represents 5% of the Company's issued and outstanding shares as at November 28, 2008. Daily purchases will be limited to 3,645 common shares until March 31, 2009 and thereafter 1,822 common shares, other than block purchases. The bid terminates on December 14, 2009 or earlier date as the Company may complete its purchases or otherwise terminate the bid. The Company will pay market price at the time any shares are acquired under the bid. In December 2008, 600 shares were purchased for cancellation for \$3,000.

**RIDLEY Inc.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(unaudited)

**14. Litigation**

In claims filed in April 2005, plaintiffs initiated class action proceedings against Ridley and the Government of Canada in Alberta, Saskatchewan, Ontario and Quebec to include all Canadian cattle farmers who allegedly suffered damage as a result of international bans on trade in Canadian beef and cattle following the May 2003 diagnosis of Bovine Spongiform Encephalopathy (BSE) in a cow in Alberta.

A settlement agreement between Ridley and the representative plaintiffs was finalized on January 30, 2009, subsequent to the current reporting period, when Ridley made payment of C\$6.0 million into a trust fund for the benefit of the plaintiffs in continuation of their case. Although Ridley will remain a participant in the ongoing litigation against the Government of Canada, the settlement payment effectively caps Ridley's exposure to the claims made by the plaintiffs. In agreeing to the settlement, Ridley made no admission of liability or wrongdoing in the matter, and will continue to contest any allegation it was responsible for the plaintiffs' damages.

Ridley recorded a reserve for the C\$6 million settlement expense last year in its financial statements for the three months ended December 31, 2007. Ridley will continue to incur legal expenses as a result of its continuing involvement in the actions. No accruals have been made in respect of ongoing legal expenses related to the actions.

The lawsuit in Quebec was authorized as a class action and the settlement agreement between Ridley and the plaintiffs was approved by the Superior Court of Quebec. The Ontario Superior Court approved the settlement agreement and certified the Ontario lawsuit as a class action for purposes of the settlement. Notice of the court approval and settlement and the right to opt out of the settlement were issued to the settlement class of cattle farmers in all provinces of Canada in accordance with the notice plan approved by the Ontario and Quebec courts. At the conclusion of the opt-out period, the independent administrator of the opt out process reported that the number of opt-out notices accepted from the settlement class of Canadian cattle farmers was below the threshold set as a condition of the settlement agreement.

**15. Income taxes**

The Company's effective income tax rate is a combination of tax rates applied to the results of operation 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.

In the normal course of business, the Company may take positions on its tax returns that taxing authorities could possibly challenge. Although the Company believes it has support for positions taken on its tax returns, the Company has recorded a liability of its best estimate of probable loss on certain transactions. During the first quarter of fiscal 2009, the Company recorded a net recovery of \$235,000 associated with uncertain tax positions.

In the second quarter of fiscal 2008, the Company established a valuation allowance on tax loss carry-forwards which are set to expire by 2010. This increased income tax expense by \$1,600,000. Key factors in establishing this allowance are material losses in the Canadian tax entity due to the claim settlement and restructuring costs as well as uncertainty surrounding the short-term outlook for Canadian operations.

**16. Segment information**

The Company's operations are conducted in four reportable segments as: Ridley Feed Operations, Ridley Feed Ingredients, 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 (RFO), which consists of both the U.S. and Canadian feed operations, manufactures and distributes livestock feed products to customers primarily in the prairie region of

**RIDLEY Inc.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(unaudited)

Canada and the U.S. Midwest. RFO products include a full range of complete feeds and supplements that are marketed through a dealership network as well as directly to livestock producers.

Ridley Feed Ingredients (RFI) manufactures and distributes vitamin and trace mineral premixes, small packaged specialty products, medicated and non-medicated feed additives and micro feed ingredients.

Ridley Nutrition Solutions (RNS) includes the feed supplement block operations and equine nutrition business. RNS produces a range of block supplements including low moisture, pressed, compressed, composite and poured blocks. The RNS equine nutrition business operates dedicated equine feed production facilities.

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 finance costs, interest income, and income taxes.

An analysis of segment information is as follows:

<b>Three months ended</b>	<b>RFO</b>	<b>RFI</b>	<b>RNS</b>	<b>Corporate &amp; Eliminations</b>	<b>Consolidated</b>
<b>December 31, 2008</b>	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>	<b>(\$000)</b>
<b>Revenue</b>					
Revenue from					
unaffiliated customers	120,805	18,318	24,439	-	163,562
Intersegment revenues	1,523	14,858	8,507	(24,888)	-
<b>Revenue</b>	<b>122,328</b>	<b>33,176</b>	<b>32,946</b>	<b>(24,888)</b>	<b>163,562</b>
Cost of sales	109,627	30,519	26,155	(24,888)	141,413
<b>Gross profit</b>	<b>12,701</b>	<b>2,657</b>	<b>6,791</b>	<b>-</b>	<b>22,149</b>
Net operating expenses	14,425	692	3,964	1,312	20,393
<b>Operating income (loss)</b>	<b>(1,724)</b>	<b>1,965</b>	<b>2,827</b>	<b>(1,312)</b>	<b>1,756</b>
<b>December 31, 2007</b>					
<b>Revenue</b>					
Revenue from					
unaffiliated customers	132,659	15,471	18,840	-	166,970
Intersegment revenues	1,318	12,584	9,480	(23,382)	-
<b>Revenue</b>	<b>133,977</b>	<b>28,055</b>	<b>28,320</b>	<b>(23,382)</b>	<b>166,970</b>
Cost of sales	117,957	25,460	21,607	(23,382)	141,642
<b>Gross profit</b>	<b>16,020</b>	<b>2,595</b>	<b>6,713</b>	<b>-</b>	<b>25,328</b>
Net operating expenses	13,582	763	3,883	7,306	25,534
<b>Operating income (loss)</b>	<b>2,438</b>	<b>1,832</b>	<b>2,830</b>	<b>(7,306)</b>	<b>(206)</b>

**RIDLEY Inc.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(unaudited)

<b>Six months ended December 31, 2008</b>	<b>RFO (\$000)</b>	<b>RFI (\$000)</b>	<b>RNS (\$000)</b>	<b>Corporate &amp; Eliminations (\$000)</b>	<b>Consolidated (\$000)</b>
<b>Revenue</b>					
Revenue from					
unaffiliated customers	249,380	38,552	44,934	-	332,866
Intersegment revenues	3,299	29,026	16,769	(49,094)	-
<b>Revenue</b>	<b>252,679</b>	<b>67,578</b>	<b>61,703</b>	<b>(49,094)</b>	<b>332,866</b>
Cost of sales	227,618	61,240	47,864	(49,094)	287,628
<b>Gross profit</b>	<b>25,061</b>	<b>6,338</b>	<b>13,839</b>	<b>-</b>	<b>45,238</b>
Net operating expenses	25,856	1,455	7,780	3,170	38,261
<b>Operating income (loss)</b>	<b>(795)</b>	<b>4,883</b>	<b>6,059</b>	<b>(3,170)</b>	<b>6,977</b>

  

<b>Six months ended December 31, 2007</b>	<b>RFO (\$000)</b>	<b>RFI (\$000)</b>	<b>RNS (\$000)</b>	<b>Corporate &amp; Eliminations (\$000)</b>	<b>Consolidated (\$000)</b>
<b>Revenue</b>					
Revenue from					
unaffiliated customers	243,899	28,230	34,651	-	306,780
Intersegment revenues	2,128	23,865	16,000	(41,993)	-
<b>Revenue</b>	<b>246,027</b>	<b>52,095</b>	<b>50,651</b>	<b>(41,993)</b>	<b>306,780</b>
Cost of sales	215,845	47,460	39,154	(41,993)	260,466
<b>Gross profit</b>	<b>30,182</b>	<b>4,635</b>	<b>11,497</b>	<b>-</b>	<b>46,314</b>
Net operating expenses	24,230	1,502	7,433	8,520	41,685
<b>Operating income (loss)</b>	<b>5,952</b>	<b>3,133</b>	<b>4,064</b>	<b>(8,520)</b>	<b>4,629</b>

**Balances as of:**

<b>December 31, 2008</b>	<b>RFO (\$000)</b>	<b>RFI (\$000)</b>	<b>RNS (\$000)</b>	<b>Corporate (\$000)</b>	<b>Consolidated (\$000)</b>
Total assets	150,265	28,163	68,502	9,434	256,364
Property, plant & equipment	61,652	2,877	24,260	23	88,812
Goodwill	22,788	4,327	21,362	-	48,477

**Balances as of:**

<b>December 31, 2007</b>	<b>RFO (\$000)</b>	<b>RFI (\$000)</b>	<b>RNS (\$000)</b>	<b>Corporate (\$000)</b>	<b>Consolidated (\$000)</b>
Total assets	162,994	26,632	61,987	7,392	259,005
Property, plant & equipment	67,882	2,938	23,073	3	93,896
Goodwill	25,294	4,327	21,362	-	50,983

**RIDLEY Inc.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

(unaudited)

	Three Months Ended December 31		Six Months Ended December 31	
	2008 (\$000)	2007 (\$000)	2008 (\$000)	2007 (\$000)
<b>Revenue from unaffiliated customers</b>				
U.S.	129,644	125,001	260,905	231,096
Canada	33,918	41,969	71,961	75,684
<b>Total</b>	<b>163,562</b>	<b>166,970</b>	<b>332,866</b>	<b>306,780</b>

	December 31 2008 (\$000)	June 30 2008 (\$000)	December 31 2007 (\$000)
<b>Property, plant and equipment</b>			
U.S.	69,153	70,080	68,146
Canada	19,659	24,020	25,750
<b>Total</b>	<b>88,812</b>	<b>94,100</b>	<b>93,896</b>
<b>Goodwill</b>			
U.S.	37,982	37,982	37,982
Canada	10,495	12,613	13,001
<b>Total</b>	<b>48,477</b>	<b>50,595</b>	<b>50,983</b>

**17. Change in majority shareholder**

On November 4, 2008, the Company's 68.8% controlling shareholder, Ridley Corporation Limited ("Ridley Australia"), sold its investment in the Company to Fairfax Financial Holdings ("Fairfax") Limited for a purchase price of C\$8.50 per share. The agreement between Ridley Australia and Fairfax was a private sale agreement to which the Company was not a party.

**18. Comparative amounts**

The comparative amounts have been reclassified to conform to the current period presentation.