

# NEWS RELEASE

RIDLEY Inc.

Trading symbol: RCL on The Toronto Stock Exchange

**FOR IMMEDIATE RELEASE**

## **Ridley Inc. Reports Financial Results for Fiscal 2015 Third Quarter**

**MANKATO, MINNESOTA -- (Marketwired - May 6, 2015) - RIDLEY Inc.** (“Ridley” or the “Company”)(TSX: RCL) today reported its financial results for the three and nine months ended March 31, 2015. All currency amounts are stated in U.S. dollars unless otherwise noted.

For the three months ended March 31, 2015, Ridley’s adjusted earnings before interest and taxes (“adjusted EBIT”) were \$16.7 million compared to \$10.9 million last year, an increase of 52.8% over last year. Adjusted earnings before interest, taxes, depreciation and amortization (“adjusted EBITDA”) were \$18.6 million compared to \$12.8 million last year, an increase of 45.0% over last year. Consolidated net income (after income taxes) for the quarter was \$10.6 million (\$0.83 per share) compared to \$8.0 million (\$0.62 per share) last year, an increase of 33.4% over last year.

Consolidated revenue increased by \$13.4 million (9.1%) to \$161.0 million in the third quarter compared to \$147.6 million last year, mainly the result of an 11.6% increase in sales volume. Gross profit increased by 22.8% to \$28.8 million in the third quarter from \$23.4 million last year reflecting increased sales volume and moderately higher average unit margins resulting from an improved product mix. Operating income increased by \$4.9 million (46.6%) to \$15.5 million in the third quarter of fiscal 2015.

Ridley’s U.S. Feed Operations (USFO) reported a \$1.5 million (39.7%) increase in operating income for the period on sales volume growth in most species segments. Ridley Block Operations (RBO) reported a \$2.8 million (42.6%) increase in operating income over last year, mainly from strong sales growth in the beef cattle sector. Ridley Feed Ingredients (RFI) reported a \$0.4 million (32.3%) increase in operating income over last year on increased average unit margins from an improved product mix. Ridley’s share of net income from its interest in the Canadian operations of Masterfeeds LP in the third quarter increased to \$1.3 million (218.9%) from \$0.4 million last year on strong sales growth and \$0.6 million in gains from insurance proceeds on property claims.

Ridley’s results in the third quarter of fiscal 2015 reflect a favourable economic environment for livestock and poultry producers and solid internal performance.

### ***Acquisition Agreement with Alltech***

On April 23, 2015, the Company announced that it had entered into a definitive agreement with Alltech, Inc. (“Alltech”) that provides for the acquisition of Ridley by Alltech for CAD \$40.75 per share amounting to total consideration payable to the Company’s shareholders of approximately CAD \$521 million. The acquisition will be effected pursuant to a court-approved plan of arrangement under the *Corporations Act* (Manitoba), pursuant to which Alltech will acquire all of the outstanding common shares of Ridley, subject to the terms and conditions of the Arrangement Agreement. Further details of the transaction may be found in the Company’s filings with SEDAR.

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

This Management's Discussion and Analysis dated as at May 6, 2015 and the accompanying interim consolidated financial statements for the three and nine months ended March 31, 2015 have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) which incorporate International Financial Reporting Standards (IFRS).

### **RESULTS OF OPERATIONS**

The following summary is presented to assist in understanding the third quarter and year-to-date results of fiscal 2015.

<b>Summary of Results of Operations</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>March 31</b>		<b>March 31</b>	
<b>(\$000, except per share data)</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenue	<b>160,955</b>	147,581	<b>467,503</b>	434,037
Gross profit	<b>28,797</b>	23,445	<b>76,935</b>	65,085
Operating income	<b>15,464</b>	10,548	<b>36,309</b>	26,961
Net income before exceptions	<b>10,631</b>	7,968	<b>25,760</b>	18,195
Exceptions, net of income taxes <sup>(i)</sup>	—	—	—	131
Net income for the period	<b>10,631</b>	7,968	<b>25,760</b>	18,326
Net income per share, basic and diluted	<b>0.83</b>	0.62	<b>2.01</b>	1.43
Adjusted EBIT <sup>(ii)(iv)</sup>	<b>16,727</b>	10,944	<b>39,566</b>	27,476
Adjusted EBITDA <sup>(iii)(iv)</sup>	<b>18,601</b>	12,832	<b>45,080</b>	32,923

- (i) Exceptions: In the preceding summary data, net income is reported before exceptions. There were no exceptions in the third quarter or year-to-date of fiscal 2015. Exceptions last year were comprised of \$0.3 million, net of income taxes, from the gain on the sale of a previously closed facility in Indiana, and \$0.1 million, net of income taxes, for the asset impairment loss accrued for closure of a facility in Pennsylvania.
- (ii) Adjusted EBIT: Operating income and share of net income of associate before exceptions.
- (iii) Adjusted EBITDA: Operating income and share of net income of associate before depreciation, amortization and exceptions.
- (iv) EBIT and EBITDA do not have a standardized meaning prescribed by GAAP and, therefore, are not readily comparable to similar measures presented by other companies. However, management believes that these measures provide investors with useful supplemental information.

### **Consolidated Third Quarter Results**

For the three months ended March 31, 2015, consolidated revenue was \$161.0 million compared to \$147.6 million in the same period last year. A comparison of revenue is not necessarily indicative of the strength of Ridley's business because revenue is influenced by fluctuating commodity prices. The increase in revenue of \$13.4 million (9.1%) in the third quarter was the result of an 11.6% increase in overall tonnage volumes partly offset by a decrease in average unit prices reflecting generally lower feed ingredient prices from last year.

Consolidated gross profit in the third quarter of fiscal 2015 was \$28.8 million compared to \$23.4 million in the same period last year. Gross profit is a key measure of the performance of Ridley's business and generally reflects the margin of net sales revenue over ingredient cost, less manufacturing expenses. The major driver of the 22.8% increase in gross profit in the third quarter this year was the 11.6% increase in overall tonnage volumes combined with higher unit margins due to a more favourable product mix. For much of last year and continuing in the current year, livestock and poultry producers have benefited from the combination of high prices for their meat, milk and egg products and lower trending costs for corn and other commodities. In this positive economic environment for producers, demand has been sustained for higher value-added animal nutrition products.

Direct production costs and manufacturing overheads, which are included in gross profits, increased by 9.5% in the third quarter over last year, largely in line with increased tonnage volumes as reflected in labor related expenses.

Operating expenses, which include administration, sales and marketing, technical services, and research and development costs, were \$13.3 million in the third quarter compared to \$12.9 million last year. The increase of \$0.4 million (3.4%) in operating expenses this year is primarily related to employee benefits expense and performance-related incentive accruals.

Operating income is defined as net income before share of net income of associate, finance expense, finance income and income tax expense. Operating income increased by \$4.9 million (46.6%) to \$15.5 million in the third quarter of fiscal 2015.

Ridley owns a non-controlling interest in Masterfeeds LP (“Masterfeeds”), an animal nutrition business in Canada formed as a limited partnership with Ag Processing Inc. Ridley’s share of the earnings of Masterfeeds is reported as share of net income of associate, which in the third quarter of fiscal 2015 was \$1.3 million, including a \$0.6 million gain from insurance proceeds related to claims for fire damage at a Masterfeeds facility in Humboldt, Saskatchewan that occurred in 2013.

Adjusted EBIT is comprised of operating income and share of net income of associate before exceptions. For the three months ended March 31, 2015, adjusted EBIT was \$16.7 million compared to \$10.9 million for the same period last year. The increase in adjusted EBIT of \$5.8 million (52.8%) reflects the \$4.9 million increase in operating income and the \$0.9 million increase in share of net income of Masterfeeds. Adjusted EBITDA is comprised of operating income and share of net income of associate before depreciation, amortization and exceptions. For the third quarter of fiscal 2015, adjusted EBITDA was \$18.6 million compared to \$12.8 million for the same period last year, an increase of \$5.8 million (45.0%) over last year.

Net income (net of income tax expense) for the third quarter of fiscal 2015 was \$10.6 million (\$0.83 per share) compared to \$8.0 million (\$0.62 per share) in the same period last year.

### **Consolidated Nine Months Results**

For the nine months ended March 31, 2015, consolidated revenue was \$467.5 million compared to \$434.0 million in the same period last year. The increase in revenue of \$33.5 million (7.7%) was the result of a 9.6% increase in overall tonnage volume partly offset by a decrease in average unit prices reflecting generally lower feed ingredient prices from last year.

Consolidated gross profit for the nine months ended March 31, 2015 was \$76.9 million compared to \$65.1 million last year. The increase in gross profits of \$11.9 million (18.2%) was largely the result of the increase in overall tonnage volume and higher average unit margins due to a more favourable product mix.

Direct production costs and manufacturing overheads, which are included in gross profits, increased by 8.4% in the first nine months of fiscal 2015 in line with the increase in tonnage volume as reflected in labor related expenses and employee incentive accruals.

Operating expenses, which include administration, sales and marketing, technical services, and research and development costs, were \$40.6 million in the nine months ended March 31, 2015, a \$2.5 million (6.6%) increase over last year. The increase in operating expenses was primarily related to increased wage and salary expenses and accruals for performance-related incentives. Earnings exceptions last year, which are also included in operating expenses and were related to the closure and sale of two manufacturing facilities in fiscal 2014, had the effect of reducing operating expenses last year by \$0.2 million.

Operating income increased by \$9.3 million (34.7%) to \$36.3 million in the first nine months of fiscal 2015.

Ridley's share of the net income of its associate, Masterfeeds, for the first nine months of this year was \$3.3 million, of which \$1.1 million was a gain from insurance proceeds related to claims for fire damage at a Masterfeeds facility in Humboldt, Saskatchewan that occurred in 2013.

Adjusted EBIT for the first nine months of fiscal 2015 increased to \$39.6 million from \$27.5 million last year. The increase in EBIT of \$12.1 million (44.0%) was primarily comprised of the \$9.3 million increase in operating income this year, and the \$2.5 million increase in Ridley's share of the net income of Masterfeeds. Adjusted EBITDA was \$45.1 million compared to \$32.9 million for the same period last year, an increase of \$12.2 million (36.9%).

Net income for the nine months ended March 31, 2015 was \$25.8 million (earnings per share of \$2.01) compared to \$18.3 million (earnings per share of \$1.43) in the same period last year.

### **Comprehensive Income**

Comprehensive income is the change in net assets that results from transactions, events and circumstances from sources other than investments by and/or distributions to shareholders. Accumulated other comprehensive income (loss) is comprised entirely of unrealized gains and losses on the translation of the financial statements of related entities with foreign functional currency to U.S. dollar reporting currency.

Comprehensive income for the third quarter of fiscal 2015 was \$8.4 million which was comprised of net income of \$10.6 million, as reported above, less unrealized losses of \$2.2 million on the translation of the financial statements of related entities with foreign functional currency to U.S. dollar reporting currency. Comprehensive income for the nine months ended March 31, 2015 was \$21.5 million, which was comprised of net income of \$25.8 million, as reported above, less unrealized losses of \$4.3 million on the translation of the financial statements of related entities with foreign functional currency to U.S. dollar reporting currency.

### **Reconciliation of Non-GAAP Financial Measures**

Ridley reports its financial results according to IFRS that have been incorporated into the CPA Canada Handbook. However, Ridley has included in this management discussion and analysis certain non-IFRS financial measures and ratios that it believes provide useful information in measuring the financial performance and financial condition of Ridley. These measures and ratios do not have a standardized meaning prescribed by IFRS 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 IFRS.

Starting in the second quarter of fiscal 2015, Ridley includes the share of net income or loss of associate in its presentation of adjusted EBITDA, a non-IFRS measure, to reflect the material and continuing contribution of Masterfeeds to Ridley's performance.

The following table presents a reconciliation of adjusted EBIT and adjusted EBITDA to net income, the most closely comparable GAAP measure to adjusted EBIT and adjusted EBITDA:

Reconciliation of Adjusted EBIT and Adjusted EBITDA to Net Income (\$000)	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
<b>Net income for the period</b>	<b>10,631</b>	7,968	<b>25,760</b>	18,326
Income tax expense	<b>5,827</b>	2,767	<b>13,009</b>	8,686
Share of net income of associate	<b>(1,263)</b>	(396)	<b>(3,257)</b>	(732)
Finance expense	<b>280</b>	234	<b>861</b>	766
Finance income	<b>(11)</b>	(25)	<b>(64)</b>	(85)
<b>Operating income</b>	<b>15,464</b>	10,548	<b>36,309</b>	26,961
Share of net income of associate	<b>1,263</b>	396	<b>3,257</b>	732
Gain on sale of facilities	—	—	—	(420)
Asset impairment loss	—	—	—	203
<b>Adjusted EBIT</b>	<b>16,727</b>	10,944	<b>39,566</b>	27,476
Depreciation of property, plant and equipment	<b>1,606</b>	1,585	<b>4,723</b>	4,677
Amortization of intangible assets	<b>268</b>	303	<b>791</b>	770
<b>Adjusted EBITDA</b>	<b>18,601</b>	12,832	<b>45,080</b>	32,923

## SEGMENT RESULTS

The following is a summary of consolidated operating income (loss) of the reporting segments of the Company's operations for the third quarter and nine months year-to-date of fiscal 2015 and 2014. "Corporate" in this presentation includes the consolidating elimination of intersegment sales.

Operating Income (Loss) (\$000)	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
U.S. Feed Operations (USFO)	<b>5,220</b>	3,736	<b>13,667</b>	10,108
Ridley Feed Ingredients (RFI)	<b>1,550</b>	1,172	<b>4,867</b>	2,631
Ridley Block Operations (RBO)	<b>9,506</b>	6,668	<b>20,293</b>	16,837
Corporate	<b>(812)</b>	(1,028)	<b>(2,518)</b>	(2,615)
Consolidated operating income	<b>15,464</b>	10,548	<b>36,309</b>	26,961

### U.S. Feed Operations (USFO)

The USFO segment consists of twenty full-line production facilities, operating in the United States as Hubbard Feeds. USFO plants derive most of their business from manufacturing and marketing a broad range of complete feeds, supplements and premixes to meat, milk and egg producers, as well as owners of equine and companion animals, located mostly in the Midwestern United States.

Tonnage volume increased by 10.4% in the third quarter of fiscal 2015 compared to last year and by 8.2% for the nine months year-to-date. Volume this year has benefited significantly from strong producer economics in the beef, dairy and swine sectors and solid sales management performance.

Gross profits in the third quarter this year were \$13.4 million compared to \$11.7 million in the same period last year. The \$1.7 million increase in gross profits reflects increased sales volumes partly offset by lower average unit margins. For the year-to-date, gross profits were higher by \$5.3 million over last year.

Operating expenses increased by \$0.3 million in the third quarter this year, mainly the result of increased wage and salary expenses and performance-related incentive expense. For similar reasons, year-to-date operating expenses increased by \$1.7 million.

Operating income for the third quarter of fiscal 2015 was \$5.2 million, an increase of \$1.5 million over last year. Year-to-date operating income was \$13.7 million compared to \$10.1 million for the same period last year.

### **Ridley Feed Ingredients (RFI)**

The RFI segment manufactures and distributes vitamin and trace mineral premixes, small packaged specialty products, medicated and non-medicated feed additives, and micro feed ingredients to customers throughout North America from its production facility in Mendota, Illinois.

Revenue in the third quarter of fiscal 2015 increased by \$1.7 million or 5.3% over the same period last year as a result of sales growth in value-added manufactured products and toll milled products. Year-to-date revenues increased by 13.5% reflecting strong producer economics in most sectors of livestock and poultry production.

Gross profit increased by \$0.5 million in the third quarter over last year, mainly the result of increased volume and improved product mix. Gross profit of \$8.4 million for the nine months year-to-date increased \$2.5 million from last year.

Operating expenses increased over last year by \$0.1 million in the third quarter and by \$0.2 million for the nine months year-to-date.

Operating income for the third quarter was \$1.6 million, an increase of \$0.4 million over last year reflecting the increase in gross profit for the period. Year-to-date operating income was \$4.9 million compared to \$2.6 million last year.

### **Ridley Block Operations (RBO)**

The RBO segment manufactures and markets a complete range of block supplements, including low moisture, pressed, compressed, composite and poured blocks, as well as minerals and dried molasses, from eight U.S. facilities.

RBO's tonnage volume in the third quarter of fiscal 2015 increased by 18.8% over last year on strong customer demand driven by a favourable economic environment in the beef sector. For similar reasons, year-to-date volume increased by 12.7%.

Gross profits in the third quarter increased by \$3.1 million or 32.9% over last year reflecting increased sales volumes. Direct production costs and manufacturing overheads, which are included in gross profits, increased by 17.7% in the third quarter, generally in line with higher tonnage volumes in the period, as reflected in labor related costs. For the nine months year-to-date, gross profits increased by \$4.1 million (16.1%) over last year.

Operating expenses in the third quarter of fiscal 2015 increased by \$0.3 million (10.1%) from last year, partly the result of increased accruals for performance-related incentives. Operating expenses for the nine months year-to-date increased by \$0.7 million (7.6%), mainly due to increased wage and salary expenses and performance incentives.

Operating income in the third quarter increased by \$2.8 million (42.6%) over last year and by \$3.5 million (20.5%) for the nine months year-to-date.

### **CASH FLOW**

For the third quarter of fiscal 2015, cash generated from operations net of investing activities was \$6.8 million compared to \$9.2 million in the same three-month period last year. Cash flows were lower in the quarter compared to last year by \$2.5 million reflecting a \$1.9 million increase in capital expenditures, primarily related to expansion projects at the Company's Mendota, Illinois and Flemingsburg, Kentucky

facilities, and increased working capital balances, mainly in the timing of supplier payments. For the nine months year-to-date, cash generated from operations net of investing activities increased to \$23.9 million compared to \$20.0 million last year.

The following is a summary of cash generated or utilized by business operations, net of capital expenditures on property, plant and equipment and intangible assets.

Summary of Cash Flows Net of Investing Activities (\$000)	Three Months Ended		Nine Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
Net income	10,631	7,968	25,760	18,326
Depreciation and amortization	1,874	1,888	5,514	5,447
Other items not affecting cash <sup>(i)</sup>	(1,267)	(451)	(3,620)	(1,405)
Net change in non-cash working capital balances <sup>(ii)</sup>	(1,935)	110	5,264	(48)
Net post-employment benefit expense (contributions) <sup>(iii)</sup>	(34)	652	(69)	1,957
Net cash from operating activities	9,269	10,167	32,849	24,277
Capital expenditures, including other intangibles	(3,081)	(1,162)	(10,055)	(4,901)
Net proceeds on property disposals	57	29	80	789
Decrease (increase) in loans receivable, net	514	200	(80)	(134)
Distributions from associate	—	—	1,068	—
<b>Cash flows net of investing activities</b>	<b>6,759</b>	<b>9,234</b>	<b>23,862</b>	<b>20,031</b>

(i) Other items not affecting cash include deferred income taxes, asset impairment losses or reversals, gains or losses on sales of property, plant and equipment and facilities, share of income of associate, and other non-cash expenses.

(ii) Net change in non-cash working capital balances and other balances related to operations.

(iii) Post-employment benefit expense net of employer contributions to post-employment benefit plans.

### Capital Expenditures

Capital expenditures on property, plant and equipment, and intangible assets (software) in the third quarter of fiscal 2015 were \$3.1 million, compared to \$1.2 million in the same period a year ago. Increased capital expenditures this year reflect two facility expansion projects currently in progress. RBO is constructing a new \$8.0 million feed supplement block manufacturing facility adjacent to its existing facility in Flemingsburg. RFI has commenced construction of a \$4.5 million addition to its facility in Mendota. Both projects are expected to be completed in fiscal 2016. Total capital expenditures year-to-date were \$10.1 million compared to \$4.9 million last year.

### LIQUIDITY AND CAPITAL RESOURCES

Ridley's net working capital and debt-to-equity positions are summarized below.

Balances as of: (\$000)	March 31 2015	December 31 2014	September 30 2014	June 30 2014	March 31 2014
Net working capital <sup>(i)</sup>	29,423	27,882	35,256	34,730	36,078
Bank obligations	—	2,432	15,584	18,328	—
Net debt (cash surplus) <sup>(ii)</sup>	(4,793)	1,950	16,311	19,003	(4,051)
Equity	137,891	129,447	119,830	116,387	138,073
Debt to capitalization ratio <sup>(iii)</sup>	—%	1.8%	11.5%	13.6%	—%

(i) Net working capital is defined as current assets (excluding cash) less current liabilities (excluding outstanding cheques in excess of bank balances, short-term debt, and the current portion of long-term debt).

(ii) Net debt (cash surplus) is defined as bank obligations and outstanding cheques in excess of bank balances less cash and short-term deposits.

(iii) Capitalization is defined as bank obligations plus equity.

Net working capital balances increased by \$1.5 million in the three months between December 31, 2014 and March 31, 2015. The increase in working capital was the result of a reduction in accounts payable and accrued liabilities balances by \$5.0 million from the prior period, due to timing of payments to suppliers, and an increase in inventory balances of \$2.6 million, partly offset by a reduction in accounts receivable of \$3.2 million. Compared to the same point in time a year ago, net working capital balances were lower this year by \$6.7 million, mainly the result of increased income taxes payable, and increased accounts payable balances due to timing of payments to suppliers.

Net cash surplus of \$4.8 million as at March 31, 2015 was comprised of \$6.0 million of cash and short-term deposits less \$1.2 million in outstanding cheques. The Company's borrowing limit under its loan agreement with U.S. Bank was unchanged at \$50.0 million as at March 31, 2015.

### **Outstanding Share Data**

The Company's share capital consists of an unlimited number of common shares authorized with no par value. On December 11, 2014, the Company received approval from The Toronto Stock Exchange (the "TSX") to initiate a normal course issuer bid ("NCIB") for the Company's shares through the facilities of the TSX. The shares repurchase program permits the Company to purchase for cancellation up to 639,499 of its common shares over the twelve-month period ending December 15, 2015. As at May 6, 2015, the Company had not repurchased any shares under the current NCIB. The number of shares outstanding as at March 31, 2015 and as at May 6, 2015 was 12,789,978.

### **Investment in Masterfeeds LP**

Masterfeeds is a Canadian-based animal nutrition business formed as a limited partnership by Ridley and Ag Processing Inc. Ridley owns a non-controlling equity interest in Masterfeeds, reported as an investment in associate, which was \$17.6 million as at March 31, 2015. In fiscal 2013 and 2014 Ridley reported the results of its former Canadian operations as net income from discontinued operations.

On December 18, 2013 a fire at the Humboldt, Saskatchewan feed plant owned and operated by Masterfeeds caused significant damage to the building and equipment forcing the facility to close while repairs are made. The cost of repairs is expected to be substantially covered by insurance. The facility operated on a limited basis in the third quarter this year. Repair work on the facility is expected to be completed in the fourth quarter of fiscal 2015.

### **ACQUISITION AGREEMENT WITH ALLTECH**

On April 23, 2015, the Company announced that it had entered into a definitive agreement with Alltech, Inc. ("Alltech") that provides for the acquisition of Ridley by Alltech for CAD \$40.75 per share. The total consideration payable to the Company's shareholders is approximately CAD \$521 million.

The acquisition will be effected pursuant to a court-approved plan of arrangement under the *Corporations Act* (Manitoba), pursuant to which Alltech will acquire all of the outstanding common shares of the Company for CAD \$40.75 in cash per common share, subject to the terms and conditions of the Arrangement Agreement. Fairfax Financial Holdings Limited, which holds approximately 78% of the outstanding common shares of the Company, has entered into an irrevocable voting support agreement and agreed to vote its common shares in favour of the Arrangement. The transaction is expected to close in the fiscal fourth quarter of 2015, subject to certain customary conditions, including court approval and relevant regulatory approvals. The Arrangement will also be subject to the approval of at least 66 2/3% of the votes cast at a special meeting of Ridley shareholders to be called to consider the Arrangement.

The Company's Board of Directors, acting on the recommendation of a Special Committee of the Board of Directors and after receiving legal and financial advice, has determined that the Arrangement is in the best interests of Ridley and resolved to recommend that Ridley's minority shareholders vote in favour of the Arrangement. Blair Franklin Capital Partners Inc. has provided an opinion to the Special Committee of the Board of Directors that the consideration of CAD \$40.75 per share is fair, from a financial point of view, to the shareholders of Ridley (other than Fairfax). Blair Franklin's opinion will be included in the

information circular to be sent to Ridley shareholders in connection with the shareholders meeting to be held to approve the Arrangement.

The Company will likely incur certain one-time fees and expenses for professional and legal services related to this transaction in the fourth quarter of fiscal 2015.

The terms and conditions of the Arrangement will be disclosed in more detail in the Company's information circular, which will be filed and mailed to shareholders in May, 2015. A copy of the Arrangement Agreement and Voting Support Agreement may be obtained from SEDAR ([www.sedar.com](http://www.sedar.com)).

## SELECTED QUARTERLY FINANCIAL INFORMATION

(\$000, except per share data)	Fiscal Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue <sup>(i)</sup>	2015	142,297	164,251	<b>160,955</b>	
	2014	133,921	152,535	<b>147,581</b>	134,654
	2013	143,061	157,065	<b>144,571</b>	130,053
Net income before discontinued operations and exceptions <sup>(ii)</sup> net of income taxes	2015	4,663	10,466	<b>10,631</b>	
	2014	2,853	7,304	<b>7,972</b>	2,252
	2013	5,135	5,689	<b>5,539</b>	1,561
Net income per share before discontinued operations and exceptions <sup>(iii)</sup> net of income taxes	2015	0.36	0.82	<b>0.83</b>	
	2014	0.22	0.57	<b>0.62</b>	0.18
	2013	0.40	0.45	<b>0.43</b>	0.12
Net income <sup>(iii)</sup>	2015	4,663	10,466	<b>10,631</b>	
	2014	3,070	7,288	<b>7,968</b>	2,343
	2013	5,073	6,370	<b>5,413</b>	1,647
Net income per share	2015	0.36	0.82	<b>0.83</b>	
	2014	0.24	0.57	<b>0.62</b>	0.19
	2013	0.40	0.50	<b>0.42</b>	0.12

(i) Revenue in fiscal 2013 and 2014 has been restated to exclude discontinued operations comprised of the Company's Canadian feed operations, which were substantially contributed to Masterfeeds LP in November 2012.

(ii) Exceptions include asset impairment losses and recoveries, gains and losses on the sale of facilities, and other costs.

(iii) Net income in fiscal 2013 and 2014 reflects the Company's adoption of amendments to IAS 19.

## SEASONALITY AND COMMODITY VARIABILITY

The Company experiences seasonal variations in revenue. Historically, revenue is strongest in the second and third fiscal quarters when colder weather from October to March typically increases demand for beef cattle feed. Other product lines are only marginally affected by seasonal conditions. Certain of the raw materials comprising the Company's products incorporate commodity-based products and the by-products of commodity processing. Fluctuating commodity prices may therefore influence revenues and associated cost of sales as the Company's selling prices are adjusted to reflect current raw materials markets.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer have each signed form "52-109F2 - Certification of Interim Filings" and filed it with the appropriate securities regulators in Canada in compliance with *National 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, and actions of domestic and foreign governments. Other risks are outlined in the Risk Management section of Management's Discussion and Analysis 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**

The major external drivers of Ridley's animal nutrition business are the prevailing economic conditions for producers of meat, milk and egg products, as well as market dynamics for feed ingredients purchased by producers or used as raw materials in the production of feed products, and weather related factors that affect the availability and quality of pastures and forages for livestock. The current economic environment has been generally favourable for livestock and poultry producers. Market prices for meat, milk and egg products are currently high by historical standards. Most feed grains and basic ingredient prices are currently lower relative to last year, which is beneficial for producers' cost of production. However, there are considerable challenges in anticipating the future direction of economic conditions for livestock and poultry producers. The potential for volatility in feed ingredient prices will remain an important driver for Ridley's results in 2015. In the face of external uncertainties, Ridley continues to improve its cost competitiveness and customer service through initiatives to improve operating efficiencies, implementation of lean manufacturing techniques and focus on meeting the demand for value-added animal nutrition products.

Ridley Inc., headquartered in Mankato, Minnesota, is one of North America's leading commercial animal nutrition companies. Ridley employs more than 700 people in the manufacture, sales and marketing 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 the notes to the interim financial statements and Ridley's Annual Information Form ("AIF"), are available at [www.sedar.com](http://www.sedar.com). Visit our website at [www.ridleyinc.com](http://www.ridleyinc.com).

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### **For more information, please contact:**

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RIDLEY Inc.  
(507) 388-9400

Tyson D. Twait, Chief Financial Officer  
RIDLEY Inc.  
(507) 388-9400

# RIDLEY Inc.

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## 2015 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in U.S. dollars)

Three and Nine Months Ended March 31, 2015 and 2014

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The Company's independent external auditors, PricewaterhouseCoopers LLP  
have not audited these interim consolidated financial statements.



**CONSOLIDATED BALANCE SHEETS**  
(Expressed in thousands of U.S. dollars) (unaudited)

	Note	March 31 2015	June 30 2014	March 31 2014
<b>ASSETS</b>				
<b>Current assets</b>				
Cash		6,021	1,115	4,059
Accounts receivable		27,167	22,238	26,076
Inventories	7	43,129	43,225	43,493
Income taxes recoverable		108	225	124
Prepaid and other current assets		1,002	1,478	1,345
Current portion of loans receivable		431	296	410
<b>Total current assets</b>		<b>77,858</b>	<b>68,577</b>	<b>75,507</b>
<b>Non-current assets</b>				
Loans receivable		69	124	143
Assets-held-for-sale	9	200	200	200
Property, plant and equipment		69,858	64,902	63,647
Deferred income tax asset		6,167	7,386	7,342
Other assets		—	—	21
Investment in associate	10	17,576	18,401	17,086
Intangible assets		7,563	8,020	8,218
Goodwill		38,928	38,928	38,928
<b>Total non-current assets</b>		<b>140,361</b>	<b>137,961</b>	<b>135,585</b>
<b>TOTAL ASSETS</b>		<b>218,219</b>	<b>206,538</b>	<b>211,092</b>
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Outstanding cheques in excess of bank balances		1,228	1,790	8
Accounts payable and accrued liabilities		34,417	31,745	32,945
Advances from customers		4,321	987	2,227
Income taxes payable		3,676	—	198
Short-term debt		—	18,328	—
<b>Total current liabilities</b>		<b>43,642</b>	<b>52,850</b>	<b>35,378</b>
<b>Non-current liabilities</b>				
Deferred income tax liability		15,697	16,077	16,814
Other accrued liabilities		1,418	1,584	1,760
Post-employment benefit obligations		19,571	19,640	19,067
<b>Total non-current liabilities</b>		<b>36,686</b>	<b>37,301</b>	<b>37,641</b>
<b>Total liabilities</b>		<b>80,328</b>	<b>90,151</b>	<b>73,019</b>
<b>Shareholders' equity</b>				
Share capital	12	53,159	53,159	53,159
Retained earnings		89,189	63,429	85,223
Accumulated other comprehensive loss		(4,457)	(201)	(309)
<b>Total shareholders' equity</b>		<b>137,891</b>	<b>116,387</b>	<b>138,073</b>
<b>TOTAL LIABILITIES and SHAREHOLDERS' EQUITY</b>		<b>218,219</b>	<b>206,538</b>	<b>211,092</b>

Refer to accompanying notes to the interim consolidated financial statements. Certain prior period figures have been reclassified to conform to presentation in the current period – See Note 17.

**Approved by the Board of Directors**

(signed) “B. P. Martin”  
B.P. Martin, Director

(signed) “W. Harden”  
W. Harden, Director

## CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

(Expressed in thousands of U.S. dollars) (unaudited)

	Note	Three Months Ended March 31		Nine Months Ended March 31	
		2015	2014	2015	2014
<b>Revenue</b>		<b>160,955</b>	147,581	<b>467,503</b>	434,037
<b>Cost of sales</b>	7	<b>132,158</b>	124,136	<b>390,568</b>	368,952
<b>Gross profit</b>		<b>28,797</b>	23,445	<b>76,935</b>	65,085
<b>Operating (income) expenses</b>					
Technical services, selling and administrative		<b>13,351</b>	12,803	<b>40,574</b>	38,180
Other income		<b>(181)</b>	(3)	<b>(359)</b>	(174)
Gain on sale of facilities	9	—	—	—	(420)
Research and development		<b>163</b>	97	<b>411</b>	335
Asset impairment	9	—	—	—	203
<b>Net operating expenses</b>		<b>13,333</b>	12,897	<b>40,626</b>	38,124
<b>Operating income</b>		<b>15,464</b>	10,548	<b>36,309</b>	26,961
Share of net income of associate	10	<b>1,263</b>	396	<b>3,257</b>	732
Finance expense		<b>(280)</b>	(234)	<b>(861)</b>	(766)
Finance income		<b>11</b>	25	<b>64</b>	85
<b>Income before income taxes</b>		<b>16,458</b>	10,735	<b>38,769</b>	27,012
Income tax expense	11	<b>5,827</b>	2,767	<b>13,009</b>	8,686
<b>Net income for the period</b>		<b>10,631</b>	7,968	<b>25,760</b>	18,326
<b>Retained earnings, beginning of period</b>		<b>78,558</b>	77,255	<b>63,429</b>	66,897
Net income for the period		<b>10,631</b>	7,968	<b>25,760</b>	18,326
<b>Retained earnings, end of period</b>		<b>89,189</b>	85,223	<b>89,189</b>	85,223
<b>Net income per share, basic and diluted</b>		<b>0.83</b>	0.62	<b>2.01</b>	1.43

Refer to accompanying notes to the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Expressed in thousands of U.S. dollars) (unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
<b>Net income for the period</b>	<b>10,631</b>	<b>7,968</b>	<b>25,760</b>	<b>18,326</b>
<b>Items that may be reclassified to net income:</b>				
Unrealized loss on translation of financial statements of related entities with foreign functional currency to U.S. dollar reporting currency	(2,187)	(899)	(4,256)	(1,177)
<b>Other comprehensive loss for the period</b>	<b>(2,187)</b>	<b>(899)</b>	<b>(4,256)</b>	<b>(1,177)</b>
<b>Comprehensive income for the period</b>	<b>8,444</b>	<b>7,069</b>	<b>21,504</b>	<b>17,149</b>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in thousands of U.S. dollars) (unaudited)

	Note	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
<b>Balance at June 30, 2013</b>		53,159	66,897	868	120,924
Change in currency translation		—	—	(1,177)	(1,177)
Net income for the period		—	18,326	—	18,326
<b>Balance at March 31, 2014</b>	12	53,159	85,223	(309)	138,073

	Note	Share capital	Retained earnings	Accumulated other comprehensive income (loss)	Total equity
<b>Balance at June 30, 2014</b>		53,159	63,429	(201)	116,387
Change in currency translation		—	—	(4,256)	(4,256)
Net income for the period		—	25,760	—	25,760
<b>Balance at March 31, 2015</b>	12	53,159	89,189	(4,457)	137,891

Accumulated other comprehensive income (loss) is comprised entirely of the unrealized loss on translation of financial statements of related entities with foreign functional currency to U.S. dollar reporting currency.

Refer to accompanying notes to the interim consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in thousands of U.S. dollars) (unaudited)

	Note	Three Months Ended March 31		Nine Months Ended March 31	
		2015	2014	2015	2014
<b>Cash flow from operating activities</b>					
Net income for the period		10,631	7,968	25,760	18,326
Add (deduct) items not affecting cash:					
Depreciation of property, plant and equipment		1,606	1,585	4,723	4,677
Deferred income taxes		35	(56)	(340)	(487)
Asset impairment loss	9	—	—	—	203
Share of net income of associate	10	(1,263)	(396)	(3,257)	(732)
(Gain) loss on sale of property, plant and equipment		(42)	(6)	(38)	11
Gain on sale of facilities	9	—	—	—	(420)
Amortization of intangible assets		268	303	791	770
Post-employment benefit expense		744	654	2,233	1,964
Other items not affecting cash		(90)	50	(90)	(125)
		<b>11,889</b>	<b>10,102</b>	<b>29,782</b>	<b>24,187</b>
<b>Net change in non-cash working capital and other balances related to operations:</b>					
Accounts receivable		3,324	4,062	(4,824)	(798)
Inventories	7	(2,572)	(3,936)	96	(1,515)
Prepaid and other current assets		401	233	476	(504)
Accounts payable and accrued liabilities		(4,926)	2,024	2,494	3,073
Advances from customers		765	(722)	3,334	1,560
Income taxes payable and recoverable		1,166	(1,594)	3,793	(1,719)
		<b>(1,842)</b>	<b>67</b>	<b>5,369</b>	<b>97</b>
Contributions to post-employment benefit plans		(778)	(2)	(2,302)	(7)
<b>Net cash from operating activities</b>		<b>9,269</b>	<b>10,167</b>	<b>32,849</b>	<b>24,277</b>
<b>Cash flow from investing activities</b>					
Proceeds on disposal of property, plant and equipment and facilities		57	29	80	789
Purchase of property, plant and equipment		(3,071)	(900)	(10,034)	(4,589)
Purchase of intangible assets		(10)	(262)	(21)	(312)
Decrease (increase) in loans receivable, net		514	200	(80)	(134)
Distributions from associate	10	—	—	1,068	—
<b>Net cash for investing activities</b>		<b>(2,510)</b>	<b>(933)</b>	<b>(8,987)</b>	<b>(4,246)</b>
<b>Cash flow from financing activities</b>					
Repayment of short- and long-term debt		(2,435)	(4,781)	(20,202)	(17,434)
Proceeds from short- and long-term debt		—	—	1,859	5,367
<b>Net cash for financing activities</b>		<b>(2,435)</b>	<b>(4,781)</b>	<b>(18,343)</b>	<b>(12,067)</b>
Effect of exchange rate changes on cash		(13)	(3)	(51)	(8)
<b>Increase in cash and cash equivalents</b>		<b>4,311</b>	<b>4,450</b>	<b>5,468</b>	<b>7,956</b>
Cash and cash equivalents – beginning of period		482	(399)	(675)	(3,905)
<b>Cash and cash equivalents – end of period</b>		<b>4,793</b>	<b>4,051</b>	<b>4,793</b>	<b>4,051</b>
<b>Cash and cash equivalents are comprised of:</b>					
Cash		6,021	4,059	6,021	4,059
Outstanding cheques in excess of bank balances		(1,228)	(8)	(1,228)	(8)
		<b>4,793</b>	<b>4,051</b>	<b>4,793</b>	<b>4,051</b>

Refer to accompanying notes to the interim consolidated financial statements. Certain prior period figures have been reclassified to conform to presentation in the current period – See Note 17.

(Expressed in U.S. Dollars unless otherwise indicated)

## **1. Nature of business**

Ridley Inc. (the Company) manufactures and distributes a full range of animal nutrition products including formulated complete feeds, premixes, feed blocks, animal care products, supplements, feed ingredients and animal health products. The Company's customers are located primarily in North America. The Company is incorporated in the province of Manitoba, with its registered office at c/o Aikins, MacAulay & Thorvaldson LLP, 30<sup>th</sup> Floor, 360 Main Street, Winnipeg, Manitoba, R3C 4G1.

The Company's corporate office and principal place of business is located at 424 North Riverfront Drive, Mankato, Minnesota, U.S.A., 56001. The ultimate controlling party of Ridley Inc. is Fairfax Financial Holdings Limited (Fairfax), a publicly listed company.

The Company's financial statements include the accounts for its wholly owned subsidiary Ridley U.S. Holdings Inc., a U.S. entity. The financial statements of Ridley U.S. Holdings Inc. herein include its wholly owned subsidiary Ridley USA Inc., a U.S. entity. The Company applies the equity method to record changes in its 30% equity investment in Masterfeeds Limited Partnership (Masterfeeds).

The Company is organized into four business units: U.S. Feed Operations (USFO), Ridley Feed Ingredients (RFI), Ridley Block Operations (RBO) and Corporate. These business units are described in Note 6.

The beef cattle feed sector of Ridley's business is seasonal, with a higher percentage of feed sold and earnings generated during the winter months. This seasonality is driven largely by weather conditions. If the weather is particularly cold and snowy during the winter, sales of feed for cattle increase as compared with normal seasonal patterns because the cattle are unable to graze under those conditions and have high energy requirements. If the weather is relatively warm during the winter, sales of feed for cattle may decrease as compared with normal seasonal patterns because the cattle may be better able to graze under those conditions. Other product lines are affected only marginally by seasonal conditions.

## **2. Basis of presentation**

The Company prepares its unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in Part 1 of the CPA Canada Handbook. The CPA Canada Handbook incorporates International Financial Reporting Standards (IFRS). These unaudited interim consolidated financial statements comply with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as issued by the International Accounting Standards Board (IASB); accordingly, certain note disclosures included in the annual consolidated financial statements prepared in accordance with IFRS have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the Company's audited annual consolidated financial statements for the fiscal year ended June 30, 2014.

The Audit Committee on behalf of the Board of Directors approved the unaudited interim consolidated financial statements on May 6, 2015.

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and revenue and expenses during the applicable reporting periods. Critical accounting estimates and judgments are described in Note 4.

The unaudited interim consolidated financial statements are prepared under the historical-cost convention, except certain financial instruments, post-employment benefit plans and provisions measured at their fair value.

The consolidated financial statements are presented in U.S. dollars, which is the U.S. subsidiaries' functional currency and the presentation currency of the Company. The U.S. dollar is the presentation currency as significantly all of the Company's revenue is denominated in U.S. dollars. Reporting in U.S. dollars increases transparency by significantly reducing the volatility of results due to fluctuation in the rate of exchange between the U.S. and Canadian currencies. The Canadian dollar is the functional currency of the Company's related entities in Canada. All amounts reported are in U.S. dollars unless otherwise stated.

### **3. Significant accounting policies**

The significant accounting policies are unchanged from those set out in the Company's fiscal 2014 audited annual consolidated financial statements except for the adoption of amendments described in Note 5. These policies have been applied to all periods presented in these interim consolidated financial statements, and have been applied consistently by both the Company and its subsidiaries using uniform accounting policies for like transactions and other events in similar circumstances.

### **4. Critical accounting estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent liabilities. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis and revisions to accounting estimates are recognized in the period that the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The estimates and assumptions that are critical to the determination of carrying value of assets and liabilities are as follows:

#### **a) Impairment of goodwill and other intangibles**

A critical component of impairment testing is determining the asset's recoverable value. Determining recoverable value involves significant management judgment including projections of future cash flows and appropriate discount rates. Qualitative factors include market presence and trends, customer relations, strength of local management, debt and capital markets, variability in cash flows, and other factors considered in the development of cash flow projections and selection of discount rates. The discounted cash flow projections used in determining recoverable value are subject to sensitivity in discount rates, expected cash flows, and assumed growth rates used for extrapolation purposes. A change in any significant assumption or estimate may result in a material change in the recoverable value.

## **b) Post-employment benefit plans**

Accounting for pension and post-retirement benefit plan obligations requires the use of actuarial assumptions. These assumptions depend on underlying economic conditions, government regulations, discount rates, investment performance, and mortality rates. These assumptions can change in the future and may result in a material change to post-employment benefit plan obligations and/or expense.

## **c) Income taxes**

Significant management judgment is required to determine deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized based on their best estimate of the likely timing that the temporary differences will be realized and the likelihood that taxable profits will exist in the future. If the assessment of the Company's ability to utilize the underlying deferred income tax deductions changes, then an increase in income tax would occur in the period in which the change is determined.

The Company maintains provisions for uncertain income tax positions with respect to income tax matters under discussion, dispute or appeal with tax authorities or otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. However, it is possible that the outcome of these matters is different from the amounts initially recorded; such difference will affect income tax in the period in which such determination is made.

## **5. Accounting standards development**

### **Adoption of new and amended accounting standards**

The Company adopted the following new accounting standards effective July 1, 2014:

#### **Amendments to IAS 36 Impairment of Assets**

In May 2013, the IASB issued limited scope amendments to IAS 36 "Impairment of Assets - Recoverable Amounts Disclosures for Non-Financial Assets" clarifying the requirement to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit for which a material impairment loss was recognized or reversed during the reporting period. In addition, the amendments require an entity to disclose the discount rate used in a present value technique that had been used in determining the recoverable amount of an impaired asset on the basis of fair value less costs of disposal. The Company has adopted these amendments effective July 1, 2014, and has determined that there is no impact to the consolidated financial statements.

#### **Amendments to IAS 32 Financial Instruments: Presentation**

In December 2011, the IASB amended IAS 32 "Financial Instruments: Presentation", clarifying the requirements for offsetting financial assets and liabilities. Previously, IAS 32 required an entity to offset a financial asset and financial liability only when the entity had a legally enforceable right to offset and intended to settle on a net basis or realize the asset and settle the liability simultaneously. The amendment clarifies that the right of offset must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency, or bankruptcy. The Company has adopted these amendments effective July 1, 2014, and has determined that there is no impact to the consolidated financial statements.

### **Amendments to IAS 19 Employee Benefits: Defined Benefit Plans - Employee Contributions**

In November 2013, the IASB further amended IAS 19 to simplify the accounting for contributions from employees or third parties, that are independent of the number of years of employee service, to defined benefit plans. The Company has adopted these amendments effective July 1, 2014, and has determined that there is no impact to the consolidated financial statements.

### **Annual Improvements 2010-2012 Cycle**

Annual Improvements 2010-2012 Cycle was issued in December 2013 by the IASB, and includes minor amendments to seven IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The Company has adopted Annual Improvements 2010-2012 Cycle effective July 1, 2014, and has determined that there is no impact to the consolidated financial statements.

### **Annual Improvements 2011-2013 Cycle**

Annual Improvements 2011-2013 Cycle was issued in December 2013 by the IASB, and includes minor amendments to four IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The Company has adopted Annual Improvements 2011-2013 Cycle effective July 1, 2014, and has determined that there is no impact to the consolidated financial statements.

### **Accounting standards issued but not yet adopted**

The following are new or amended standards issued by the IASB that are not yet effective, and have not been applied in preparing these interim consolidated financial statements.

### **Amendments to IAS 1 Presentation of Financial Statements**

In December 2014, the IASB issued amendments to IAS 1 “Presentation of Financial Statements” as part of their Disclosure Initiative project aimed at improving presentation and disclosure requirements. The amendments do not significantly change existing requirements, but instead primarily clarify guidance related to materiality, significant accounting policy designation, and considerations to be made in exercising professional judgement in disclosure matters. The amendments also add requirements for how subtotals should be presented in the statements of income and other comprehensive income and the statement of financial position. These amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.

### **Amendments to IAS 27 Separate Financial Statements**

In August 2014, the IASB issued minor amendments to IAS 27 “Separate Financial Statements” allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. These amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.

### **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures**

In September 2014, the IASB issued minor amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” related to the accounting for a sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full gain or loss be recognized when a transaction involves a business and a partial gain or loss be recognized when a transaction involves assets that do not constitute a business, even if those assets are housed in a subsidiary. These amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.

### **IFRS 15 Revenue from Contracts with Customers**

In May 2014, the IASB issued IFRS 15 “Revenue from Contracts with Customers”, a product of the joint efforts of the IASB and the Financial Accounting Standards Board (FASB) to converge revenue accounting standards. The new standard lays out the following five-step process for recognizing revenue: (1) identify the contract(s) with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when a performance obligation is satisfied. The standard also includes a comprehensive set of interim and annual disclosure requirements that require an entity to disclose certain qualitative and quantitative information about its contracts with customers, including the nature, amount, timing and uncertainty of revenue. This standard is effective for the first interim period within the annual period beginning on or after January 1, 2017; retrospective application, in one of two forms, is required and early adoption is permitted. Given the nature of the Company’s revenue, the issuance of this standard is not expected to have a significant impact on revenue recognition; however, further interim and annual disclosures will be required in the Company’s consolidated financial statements for fiscal 2018.

### **Amendments to IFRS 11 Joint Arrangements**

In May 2014, the IASB issued minor amendments to IFRS 11 “Joint Arrangements” concerning accounting for acquisitions of interests in joint operations. These amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.

### **Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets**

In May 2014, the IASB issued minor amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” clarifying acceptable methods of depreciation and amortization. These amendments are effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.

### **IFRS 9 Financial Instruments and Amendments to IFRS 7 Financial Instruments: Disclosures**

In July 2014, the IASB issued the complete version of IFRS 9 “Financial Instruments” which replaces the guidance in IAS 39 “Financial Instruments: Recognition and Measurement”. IFRS 9 includes requirements for the classification and measurement of financial assets and financial liabilities, an expected credit losses model that replaces the existing incurred loss impairment model, and a reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted in certain circumstances. IFRS 7 “Financial Instruments: Disclosures” was amended in December 2011 to require additional financial instrument disclosures upon transition from IAS 39 to IFRS 9. These amendments are effective on adoption of IFRS 9 with early adoption permitted where IFRS 9 is also early adopted.

### **Annual Improvements 2012-2014 Cycle**

Annual Improvements 2012-2014 Cycle was issued in September 2014 by the IASB, and includes minor amendments to four IFRSs. The annual improvements process is used to make necessary but non-urgent changes to IFRSs that are not included in other projects. The amendments issued are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

While the Company is currently assessing the impact of these amendments or standards, it does not expect the amendments or standards to have a material impact on the Company’s consolidated financial statements.

## 6. Segment Information

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. The Company's operations are conducted in four reportable segments as U.S. Feed Operations (USFO), Ridley Feed Ingredients (RFI), Ridley Block Operations (RBO), and Corporate.

The USFO segment consists of twenty full-line production facilities operating in the United States as Hubbard Feeds. USFO plants derive most of their business from manufacturing and marketing a broad range of complete feeds, supplements and premixes to meat, milk and egg producers, and owners of equine and companion animals located mostly in the Midwestern United States.

The RFI segment produces and distributes vitamin and trace mineral premixes, small packaged specialty products, medicated and non-medicated feed additives, and micro feed ingredients to customers throughout North America from its production facility in Mendota, Illinois.

The RBO segment manufactures a complete range of block supplements, including low moisture, pressed, compressed, composite and poured blocks, minerals, and dried molasses from eight U.S. facilities.

The Corporate segment contains no substantial revenue, 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 income before share of net income of associate, finance expense, finance income, and income taxes.

An analysis of segment information is as follows:

<b>Three Months Ended March 31, 2015 (\$000)</b>	<b>USFO</b>	<b>RFI</b>	<b>RBO</b>	<b>Corporate &amp; Eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>					
Revenue from unaffiliated customers	108,599	17,394	34,962	—	160,955
Intersegment revenues	3,876	15,255	15,022	(34,153)	—
<b>Revenue</b>	<b>112,475</b>	<b>32,649</b>	<b>49,984</b>	<b>(34,153)</b>	<b>160,955</b>
Cost of sales	99,070	29,874	37,367	(34,153)	132,158
<b>Gross profit</b>	<b>13,405</b>	<b>2,775</b>	<b>12,617</b>	<b>—</b>	<b>28,797</b>
Net operating expenses	8,185	1,225	3,111	812	13,333
<b>Operating income (loss)</b>	<b>5,220</b>	<b>1,550</b>	<b>9,506</b>	<b>(812)</b>	<b>15,464</b>
<hr/>					
Purchases of property, plant and equipment and intangible assets	807	965	1,309	—	3,081
Share of income of associate	—	—	—	(1,263)	(1,263)
Depreciation of property, plant and equipment	959	115	532	—	1,606
Amortization of intangible assets	79	45	144	—	268

<b>Three Months Ended March 31, 2014 (\$000)</b>	<b>USFO</b>	<b>RFI</b>	<b>RBO</b>	<b>Corporate &amp; Eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>					
Revenue from unaffiliated customers	102,548	16,895	28,138	—	147,581
Intersegment revenues	2,893	14,101	12,815	(29,809)	—
<b>Revenue</b>	<b>105,441</b>	<b>30,996</b>	<b>40,953</b>	<b>(29,809)</b>	<b>147,581</b>
Cost of sales	93,773	28,712	31,460	(29,809)	124,136
<b>Gross profit</b>	<b>11,668</b>	<b>2,284</b>	<b>9,493</b>	<b>—</b>	<b>23,445</b>
Net operating expenses	7,932	1,112	2,825	1,028	12,897
<b>Operating income (loss)</b>	<b>3,736</b>	<b>1,172</b>	<b>6,668</b>	<b>(1,028)</b>	<b>10,548</b>
<b>Purchases of property, plant and equipment and intangible assets</b>					
	611	90	461	—	1,162
Share of income of associate	—	—	—	(396)	(396)
Depreciation of property, plant and equipment	954	110	521	—	1,585
Amortization of intangible assets	113	33	157	—	303

<b>Nine Months Ended March 31, 2015 (\$000)</b>	<b>USFO</b>	<b>RFI</b>	<b>RBO</b>	<b>Corporate &amp; Eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>					
Revenue from unaffiliated customers	320,808	53,827	92,868	—	467,503
Intersegment revenues	7,899	46,279	34,077	(88,255)	—
<b>Revenue</b>	<b>328,707</b>	<b>100,106</b>	<b>126,945</b>	<b>(88,255)</b>	<b>467,503</b>
Cost of sales	289,752	91,664	97,407	(88,255)	390,568
<b>Gross profit</b>	<b>38,955</b>	<b>8,442</b>	<b>29,538</b>	<b>—</b>	<b>76,935</b>
Net operating expenses	25,288	3,575	9,245	2,518	40,626
<b>Operating income (loss)</b>	<b>13,667</b>	<b>4,867</b>	<b>20,293</b>	<b>(2,518)</b>	<b>36,309</b>

<b>Balances at March 31, 2015 (\$000)</b>	<b>USFO</b>	<b>RFI</b>	<b>RBO</b>	<b>Corporate &amp; Eliminations</b>	<b>Consolidated</b>
Total assets	88,878	27,223	72,246	29,872	218,219
Property, plant and equipment	35,133	6,159	28,566	—	69,858
Investment in associate	—	—	—	17,576	17,576
Goodwill	14,298	4,327	20,303	—	38,928

<b>Nine Months Ended March 31, 2015 (\$000)</b>	<b>USFO</b>	<b>RFI</b>	<b>RBO</b>	<b>Corporate &amp; Eliminations</b>	<b>Consolidated</b>
Purchase of property, plant and equipment and intangible assets	2,650	2,650	4,755	—	10,055
Share of income of associate	—	—	—	(3,257)	(3,257)
Depreciation of property, plant and equipment	2,829	333	1,561	—	4,723
Amortization of intangible assets	239	102	450	—	791

<b>Nine Months Ended March 31, 2014 (\$000)</b>	<b>USFO</b>	<b>RFI</b>	<b>RBO</b>	<b>Corporate &amp; Eliminations</b>	<b>Consolidated</b>
<b>Revenue</b>					
Revenue from unaffiliated customers	307,098	46,487	80,452	—	434,037
Intersegment revenues	6,649	41,710	31,448	(79,807)	—
<b>Revenue</b>	<b>313,747</b>	<b>88,197</b>	<b>111,900</b>	<b>(79,807)</b>	<b>434,037</b>
Cost of sales	280,075	82,216	86,468	(79,807)	368,952
<b>Gross profit</b>	<b>33,672</b>	<b>5,981</b>	<b>25,432</b>	<b>—</b>	<b>65,085</b>
Net operating expenses	23,564	3,350	8,595	2,615	38,124
<b>Operating income (loss)</b>	<b>10,108</b>	<b>2,631</b>	<b>16,837</b>	<b>(2,615)</b>	<b>26,961</b>

**Balances at March 31, 2014  
(\$000)**

Total assets	90,153	26,074	66,234	28,631	211,092
Property, plant and equipment	34,987	4,111	24,549	—	63,647
Investment in associate	—	—	—	17,086	17,086
Goodwill	14,298	4,327	20,303	—	38,928

**Nine Months Ended  
March 31, 2014 (\$000)**

Purchase of property, plant and equipment and intangible assets	2,633	315	1,953	—	4,901
Share of income of associate	—	—	—	(732)	(732)
Depreciation of property, plant and equipment	2,818	329	1,530	—	4,677
Amortization of intangible assets	240	76	454	—	770

**7. Inventories**

<b>(\$000)</b>	<b>March 31 2015</b>	<b>June 30 2014</b>	<b>March 31 2014</b>
Raw materials	<b>30,883</b>	31,063	31,063
Finished goods	<b>12,246</b>	12,162	12,430
<b>Total</b>	<b>43,129</b>	43,225	43,493

Cost of sales consists of the following:

<b>(\$000)</b>	<b>Three Months Ended March 31</b>		<b>Nine Months Ended March 31</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Raw materials and products consumed	<b>118,455</b>	112,368	<b>341,725</b>	325,082
Direct labour and fringe benefits	<b>5,385</b>	4,780	<b>16,089</b>	14,311
Other production costs	<b>7,147</b>	7,019	<b>20,791</b>	19,944
Net change in inventories	<b>(2,572)</b>	(3,936)	<b>96</b>	(1,515)
<b>Inventories recognized as expense</b>	<b>128,415</b>	120,231	<b>378,701</b>	357,822
Non allocated costs	<b>3,743</b>	3,905	<b>11,867</b>	11,130
<b>Cost of sales</b>	<b>132,158</b>	124,136	<b>390,568</b>	368,952

## 8. Statement of cash flow disclosures

Interest and income taxes paid are as follows: (\$000)	Three Months Ended March 31		Nine Months Ended March 31	
	2015	2014	2015	2014
Interest	65	56	182	180
Income taxes, net of refunds	4,626	4,624	9,556	11,012

## 9. Assets-held-for-sale, gain on sale of land, and impairment loss

Assets-held-for-sale at March 31, 2015, June 30, 2014 and March 31, 2014 consists of land and building associated with the closure of a production facility in Chambersburg, Pennsylvania.

During the first nine months of fiscal 2015, there has been no activity related to assets-held-for-sale.

During the first nine months of fiscal 2014, the Company's U.S. Feed Operations recorded a pre-tax impairment loss of \$203,000 upon closure of its Chambersburg, Pennsylvania production facility. The value was reduced to the carrying cost of the associated property of \$200,000. The decision to discontinue production at the Chambersburg facility was made after the Company determined its equine products could be manufactured more efficiently at its other locations. This segment also recorded a pre-tax gain of \$420,000 in the first nine months of fiscal 2014 from the sale of land associated with the closed production facility in Castleton, Indiana on net proceeds of \$750,000.

## 10. Investment in associate

Activity of the investment in associate for the nine months ended March 31, 2015 and 2014 is:

(\$000)	
<b>Investment in Masterfeeds at June 30, 2013</b>	<b>17,218</b>
Share of net income	732
Foreign currency adjustment	(864)
<b>Investment in Masterfeeds at March 31, 2014</b>	<b>17,086</b>
(\$000)	
<b>Investment in Masterfeeds at June 30, 2014</b>	<b>18,401</b>
Share of net income	3,257
Distribution received	(1,068)
Foreign currency adjustment	(3,014)
<b>Investment in Masterfeeds at March 31, 2015</b>	<b>17,576</b>

As a limited partnership, the associate is not subject to income taxes. Any taxable income is allocated to the respective partners.

## 11. Income tax

The Company's effective income tax rate approximates U.S. income tax rates. While income tax expense is impacted by the geographic distribution of income and losses within the Company, pre-tax income is predominantly generated by the Company's U.S. entities.

## 12. Share capital

As of March 31, 2015 and June 30, 2014, there were an unlimited number of common shares, with no par value, authorized. As of March 31, 2015 and June 30, 2014, there was \$53,159,000 of common stock outstanding, or 12,789,978 shares, with weighted average common shares outstanding of the same. There were no shares of common stock outstanding purchased for cancellation and no other share activity in the nine months ended March 31, 2015 and 2014.

On December 11, 2014, the Company received approval from The Toronto Stock Exchange (the TSX) to initiate a normal course issuer bid (NCIB) for the Company's shares through the facilities of the TSX. The NCIB permits the Company to purchase for cancellation up to 639,499 of its common shares over the twelve-month period ending December 15, 2015. As of March 31, 2015, the Company had not repurchased any shares under the current NCIB. Pursuant to the Company's NCIB that expired on December 15, 2014, the Company did not purchase shares in the previous twelve months.

## 13. Commitments and contingencies

### Legal matters

The Company is subject to various product liability or general claims and legal proceedings covering matters that arise in the ordinary course of business. All such matters are adequately covered by insurance or by accruals, are without merit, or are not expected to have a material adverse effect on the financial results of the Company.

## 14. 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.

Assets (Liabilities) (\$000)	Carrying Value <sup>(i)</sup>		
	March 31 2015	June 30 2014	March 31 2014
Cash	6,021	1,115	4,059
Accounts receivable	27,167	22,238	26,076
Loans receivable	500	420	553
Financial derivative instruments included in accounts payable and accrued liabilities	141	149	450
Outstanding cheques in excess of bank balance	(1,228)	(1,790)	(8)
Accounts payable and accrued liabilities	(34,558)	(31,894)	(33,395)
Advances from customers	(4,321)	(987)	(2,227)
Short-term and long-term debt	—	(18,328)	—
Financial liabilities included in other accrued liabilities	(1,418)	(1,584)	(1,760)

(i) Carrying values of financial instruments are equivalent to, or approximate, their respective fair values.

Financial instruments are designated into one of the following categories: fair value through profit or loss, loans and receivables, held-to-maturity investments, other financial liabilities, or available-for-sale. The carrying values of financial instruments are equivalent to their respective fair value, except loans receivable, which do not have readily determinable fair values, as replacement financing is not available in the marketplace. Cash and cash equivalents, accounts receivable, and loans receivable are classified as loans and receivables and are measured at amortized cost. Financial derivative instruments are measured at fair value through profit and loss. Accounts payable and accrued liabilities, advances from customers, short-term and long-term debt and financial liabilities included in other accrued liabilities are classified as other financial liabilities and are measured at amortized cost.

In the three and nine months ended March 31, 2015, the Company recorded expense of \$66,000 and \$185,000, respectively, within cost of goods sold, associated with market valuations of derivatives (2014 – income of \$284,000 and expense of \$133,000, respectively).

The carrying value of the Company's recognized financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, advances from customers, short-term debt, and financial liabilities included in other accrued liabilities, approximate their fair value due to their current maturities, or subjection to variable interest rates.

The fair value of commodity derivatives generally reflects the estimated amounts that the Company would have to pay, or would receive, upon termination of the contracts at the reporting date, thereby reflecting the current unrealized gains or losses of open contracts. These financial derivative instruments are valued using market rates provided by the financial institution that is the counter party to these contracts.

The inputs used for fair value measurements are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, and;
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The following tables present the classification of held for trading financial instruments within the fair value hierarchy. There were no transfers between levels in any of the periods presented.

#### Recurring measurements

As of March 31, 2015 (\$000)	Level 1	Level 2	Level 3
<b>Financial asset</b>			
Commodities derivative contracts	—	141	—
<b>As of June 30, 2014 (\$000)</b>			
<b>Financial asset</b>			
Commodities derivative contracts	—	149	—
<b>As of March 31, 2014 (\$000)</b>			
<b>Financial asset</b>			
Commodities derivative contracts	—	450	—

## **15. Financial risk management**

The Company is subject to a number of risk factors including ingredient prices, interest rates, foreign currency translation rates, liquidity, and customer credit performance. The Company manages risk and risk exposures through a combination of insurance, derivative financial instruments, a system of internal and disclosure controls, adherence to approved policies, and sound business practices. The Company may use certain derivative financial instruments to manage risks of fluctuation in commodity prices, interest rates, and foreign exchange rates. The Company does not purchase any derivative financial instruments for speculative purposes.

The Company's Executive Management Committee (Committee), which is comprised of the senior officers of the Company, establishes and reviews strategic and operational plans and policies, considers key business issues and makes determinations on their future direction. The Committee identifies risks, takes corrective actions, and encourages a proactive approach to risk management. In addition, these risks and related controls are reviewed with the Company's Board of Directors.

### **Ingredient price risk**

Ingredient price risk is the risk that the prices of the raw materials used in the manufacturing of animal feeds will fluctuate. A significant component of the Company's complete feed production consists of grain and protein meal (commodities). Complete feed is sold either through spot orders, or to a lesser extent, through longer-term, fixed-price sales contracts. In order to meet short-term production requirements, the Company maintains inventories of commodities to meet production requirements.

The Company is subject to this risk from the time that commodities are purchased to the time they are sold as part of a feed product. The Company also manufactures and distributes premixes that consist of significant components of vitamins and trace minerals. Vitamin and trace mineral prices are subject to volatility created by world demand and tight supplies; moreover, they require long lead times for delivery and large minimum order sizes. The Company mitigates its price risk exposure to the extent practical through several methods, including inventory management, the use of long-term purchase contracts, back-to-back buying and selling, and to a lesser extent, hedging on regulated futures and options markets.

### **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company finances a portion of its business using long-term variable rate credit facilities, thus exposing the Company to some risk of loss as a result of interest rate movement. The Company's strategy is to hedge, on an economic basis, its exposure to interest rates on total bank debt outstanding by utilizing interest rate hedges. The Company had no outstanding debt at March 31, 2015 and projected debt levels do not warrant hedging; therefore, no applicable hedges are outstanding at March 31, 2015.

### **Foreign currency exchange risk**

Foreign currency exchange risk is the risk that fair value will fluctuate because of changes in foreign exchange rates. The Company operates primarily in the U.S. and its operations are subject to volatility in foreign currency exchange (FX) differences when entering into contracts denominated in currencies other than U.S. dollars.

The Company's U.S. entities enter into some sales contracts in Canadian dollars; however, these contracts are not material. The Company manages the risk associated with holding U.S. and Canadian currencies by monitoring its net position and entering into forward exchange contracts when warranted for material net positions. Any gains or losses realized on FX differences on U.S. or Canadian dollar denominated transactions are recorded in other income.

The Company at times maintains inter-company loans between U.S. and Canadian entities. In these situations, forward exchange contracts are utilized to hedge fluctuations in foreign currency translation rates. Any gains or losses realized on FX differences related to U.S. dollar denominated inter-company loan transactions are recorded in finance expense. No applicable hedges are outstanding at March 31, 2015.

### **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company manages liquidity risk by maintaining adequate credit facilities to fund operational requirements and sustain growth-related capital expenditures, and by regularly monitoring actual and forecasted cash flow and debt levels. As of March 31, 2015, the Company had available funds to borrow of \$48,800,000 under its \$50,000,000 revolving credit agreement with U.S. Bank. The Company is well positioned to fund acquisitions and capital investments through its credit facilities.

### **Credit risk**

Credit risk is the potential that customers or a counterparty to a financial instrument fails to meet their obligations to the Company. The Company's financial assets exposed to credit risk consist primarily of trade accounts receivable and loans receivable. Trade accounts receivable are primarily short-term receivables from customers that arise in the normal course of business. The Company has entered into certain loans and collateral agreements with customers. Generally, the acquired security is subordinate to a primary commercial lender.

The Company reduces its exposures to credit risk by a number of factors. The Company deals with a large customer base consisting of both individuals and corporations, with no single customer representing more than 5% of the Company's total gross sales. The Company's customer base is geographically dispersed and comprised of customers requiring feed and supplements for several different animal species. This tends to minimize the risk posed to the Company by economic downturns that are either species or regionally based. The Company performs regular credit evaluations on all of its customers, including review of credit limits, and monitors the timely collection of customer balances.

The carrying amount of trade accounts receivable is reduced by the use of an allowance for doubtful accounts. The amount of loss is recognized in the statement of income and retained earnings within other income. When trade receivable balances are considered uncollectible, they are written off against the allowance for doubtful accounts. Any recoveries of previously written off accounts are also recognized in other income.

### **Capital management**

The Company's objective in managing capital is to maintain sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to deploy capital to provide an appropriate return on investment to its shareholders.

The Company includes funded debt (short-term and long-term debt) and shareholders' equity in the management of capital. The Board of Directors of the Company has established quantitative return on equity criteria for management. The Company's strategy is to maintain its ability to secure access to financing at a reasonable cost.

## **16. Related party transactions**

As of March 31, 2015, June 30, 2014, and March 31, 2014 Fairfax Financial Holdings Limited, the Company's majority shareholder, controlled 78.2% of the Company's outstanding shares.

Sales of product to Masterfeeds for the three and nine months ended March 31, 2015 were \$1,388,000 and \$3,893,000, respectively (2014 – \$2,088,000 and \$4,114,000, respectively). Sales transactions with Masterfeeds are carried out in commercial terms and conditions at market prices.

## **17. Reclassification of prior period amounts**

Presentation of cash and outstanding cheques in excess of bank balances has been modified in the current period to reclassify only outstanding items in excess of bank balances from cash to outstanding cheques in excess of bank balances. Comparative prior period amounts have been reclassified to conform to current period presentation (\$2,293,000 as at June 30, 2014 and \$3,114,000 as at March 31, 2014). There was no impact on net cash and cash equivalents.

## **18. Subsequent event**

On April 23, 2015, Ridley Inc. and a subsidiary of Alltech, Inc. (Alltech) announced that they have entered into a definitive agreement that provides for the acquisition of Ridley by Alltech for CAD \$40.75 per share. The total consideration payable to Ridley's shareholders is approximately CAD \$521.0 million. The acquisition will be effected pursuant to a court-approved plan of arrangement, or Arrangement Agreement (Arrangement), under The Corporations Act of Manitoba, in accordance with which Alltech will acquire all of the outstanding common shares of Ridley for CAD \$40.75, in cash, per common share, subject to terms and conditions of the Arrangement. The transaction is expected to close in the Company's fourth quarter of fiscal 2015, subject to certain customary conditions, including court approval and relevant regulatory approvals. The Arrangement will also be subject to the approval of at least 66 2/3% of the votes cast at a special meeting of Ridley shareholders to be called to consider the Arrangement. Fairfax Financial Holdings Limited, which holds approximately 78% of the outstanding common shares of Ridley, has entered into an irrevocable voting support agreement and agreed to vote its common shares in favour of the Arrangement. The Company will likely incur certain one-time fees and expenses for professional and legal services related to this transaction in the fourth quarter of fiscal 2015.