

SunOpta Inc.  
Form 10-Q  
August 13, 2014

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended **July 5, 2014**

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

**Commission file number: 001-34198**

**SUNOPTA INC.**

(Exact name of registrant as specified in its charter)

**CANADA**

(State or other jurisdiction of incorporation or  
organization)

**Not Applicable**

(I.R.S. Employer Identification No.)

**2838 Bovaird Drive West**

**Brampton, Ontario L7A 0H2, Canada**

(Address of principal executive offices)

**(905) 455-1990**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

Edgar Filing: SunOpta Inc. - Form 10-Q

or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐

No ☒

The number of the registrant's common shares outstanding as of August 6, 2014 was 66,936,317.

---

**SUNOPTA INC.**  
**FORM 10-Q**  
**For the quarterly period ended July 5, 2014**

**TABLE OF CONTENTS**

<b>PART I</b>	<b>FINANCIAL INFORMATION</b>	
<b>Item 1.</b>	<b>Financial Statements (unaudited)</b>	
	Consolidated Statements of Operations for the quarter and two quarters ended July 5, 2014 and June 29, 2013	5
	Consolidated Statements of Comprehensive Earnings for the quarter and two quarters ended July 5, 2014 and June 29, 2013	6
	Consolidated Balance Sheets as at July 5, 2014 and December 28, 2013	7
	Consolidated Statements of Shareholders' Equity as at and for the two quarters ended July 5, 2014 and June 29, 2013	8
	Consolidated Statements of Cash Flows for the quarter and two quarters ended July 5, 2014 and June 29, 2013	9
	Notes to Consolidated Financial Statements	10
<b>Item 2</b>	<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	22
<b>Item 3</b>	<b>Quantitative and Qualitative Disclosures about Market Risk</b>	45
<b>Item 4</b>	<b>Controls and Procedures</b>	45
<b>PART II</b>	<b>OTHER INFORMATION</b>	
<b>Item 1</b>	<b>Legal Proceedings</b>	47
<b>Item 1A</b>	<b>Risk Factors</b>	47
<b>Item 6</b>	<b>Exhibits</b>	47
	<b>Basis of Presentation</b>	

Except where the context otherwise requires, all references in this Quarterly Report on Form 10-Q ( "Form 10-Q" ) to the Company , SunOpta , we , us , our or similar words and phrases are to SunOpta Inc. and its subsidiaries, taken together.

In this report, all currency amounts are expressed in thousands of United States ( "U.S." ) dollars ( "\$" ), except per share amounts, unless otherwise stated. Amounts expressed in Canadian dollars are expressed in thousands of Canadian dollars and preceded by the symbol "Cdn \$", and amounts expressed in euros are expressed in thousands of euros and preceded by the symbol "€". As at July 5, 2014, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euros, were \$1.00 = Cdn \$1.0657 and \$1.00 = €0.7356. These rates are provided solely for convenience and do not necessarily reflect the rates used in the preparation of our financial statements.

### **Forward-Looking Statements**

This Form 10-Q contains forward-looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as "anticipate", "estimate", "intend", "project", "potential", "continue", "believe", "expect", "could", "would", "should", "might", "plan", "will", "may", "predict", "estimate", and words and phrases of similar impact and include, but are not limited to references to possible operational consolidation, reduction of non-core assets and operations, business strategies, plant and production capacities, revenue generation potential, anticipated construction costs, competitive strengths, goals, capital expenditure plans, business and operational growth and expansion plans, anticipated operating margins and operating income targets, gains or losses associated with business transactions, cost reductions, rationalization and improved efficiency

initiatives, proposed new product offerings, and references to the future growth of the business and global markets for the Company's products. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on certain assumptions and analyses we make in light of our experience and our interpretation of current conditions, historical trends and expected future developments, as well as other factors that we believe are appropriate in the circumstance.

**SUNOPTA INC.**

2

July 5, 2014 10-Q

---

Whether actual results and developments will agree with our expectations and predictions is subject to many risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from our expectations and predictions. We believe these factors include, but are not limited to, the following:

- our ability to renew our syndicated North American credit facilities when they become due on July 27, 2016;
- restrictions in our syndicated credit agreement on how we may operate our business;
- our ability to meet the covenants of our credit facilities;
- our potential additional capital needs in order to maintain current growth rates, which may not be available on favorable terms or at all;
- our customers' ability to choose not to buy products from us;
- loss of a key customer;
- changes in and difficulty in predicting consumer preferences for natural and organic food products;
- the highly competitive industry in which we operate;
- an interruption at one or more of our manufacturing facilities;
- the loss of service of our key management;
- the effective management of our supply chain;
- volatility in the prices of raw materials and energy;
- enactment of climate change legislation;
- unfavorable growing and operating conditions due to adverse weather conditions;
- dilution in the value of our common shares through the exercise of stock options, warrants, participation in our employee stock purchase plan and issuance of additional securities;
- our intention not to pay any cash dividends in the foreseeable future;
- impairment charges in goodwill or other intangible assets;
- technological innovation by our competitors;
- our ability to protect our intellectual property and proprietary rights;
- substantial environmental regulation and policies to which we are subject;
- significant food and health regulations to which SunOpta Foods is subject;
- agricultural policies that influence our operations;
- product liability suits, recalls and threatened market withdrawals that may be brought against us;
- litigation and regulatory enforcement concerning marketing and labeling of food products;
- our ability to realize the value of our investment in Opta Minerals Inc.;

Edgar Filing: SunOpta Inc. - Form 10-Q

- our lack of management and operational control over Mascoma Corporation and our ability to realize the value of our investment;
- fluctuations in exchange rates, interest rates and certain commodities;
- our ability to effectively manage our growth and integrate acquired companies; and
- the volatility of our operating results and share price.

Consequently all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that our actual results or the developments we anticipate will be realized. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our Annual Report on Form 10-K for the fiscal year ended December 28, 2013 ( Form 10-K ). For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read the risk factors under Item 1A, Risk Factors , of the Form 10-K.

**SUNOPTA INC.**

4

July 5, 2014 10-Q

---

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****SunOpta Inc.**

## Consolidated Statements of Operations

For the two quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

	July 5, 2014 \$	Quarter ended June 29, 2013 \$	July 5, 2014 \$	Two quarters ended June 29, 2013 \$
<b>Revenues</b>	338,288	311,170	671,815	593,995
<b>Cost of goods sold</b>	294,219	274,187	590,319	522,762
<b>Gross profit</b>	44,069	36,983	81,496	71,233
Selling, general and administrative expenses	25,680	22,839	50,218	45,750
Intangible asset amortization	1,092	1,200	2,220	2,448
Other expense (income), net (note 9)	137	647	(1,004)	1,012
Foreign exchange loss (gain)	546	(356)	223	(941)
<b>Earnings from continuing operations before the following</b>	16,614	12,653	29,839	22,964
Interest expense, net	2,010	2,238	4,158	3,928
Impairment loss on investment (note 6)	-	21,495	-	21,495
<b>Earnings (loss) from continuing operations before income taxes</b>	14,604	(11,080)	25,681	(2,459)
Provision for income taxes	5,607	3,958	10,064	7,233
<b>Earnings (loss) from continuing operations</b>	8,997	(15,038)	15,617	(9,692)
Loss from discontinued operations, net of income taxes (note 3)	-	(302)	-	(360)
<b>Earnings (loss)</b>	8,997	(15,340)	15,617	(10,052)
	289	(59)	269	104

Edgar Filing: SunOpta Inc. - Form 10-Q

Earnings (loss) attributable  
to non-controlling interests

**Earnings (loss)**

**attributable to SunOpta  
Inc.**

8,708

(15,281)

15,348

(10,156)

**Earnings (loss) per share  
basic (note 10)**

- from continuing  
operations

0.13

(0.23)

0.23

(0.15)

- from discontinued  
operations

-

-

-

(0.01)

0.13

(0.23)

0.23

(0.15)

**Earnings (loss) per share  
diluted (note 10)**

- from continuing  
operations

0.13

(0.23)

0.23

(0.15)

- from discontinued  
operations

-

-

-

(0.01)

0.13

(0.23)

0.23

(0.15)

(See accompanying notes to consolidated financial statements)

**SUNOPTA INC.**

5

July 5, 2014 10-Q



**SunOpta Inc.**

## Consolidated Statements of Comprehensive Earnings

For the two quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars)

	July 5, 2014 \$	Quarter ended June 29, 2013 \$	July 5, 2014 \$	Two quarters ended June 29, 2013 \$
<b>Earnings (loss) from continuing operations</b>	8,997	(15,038)	15,617	(9,692)
Loss from discontinued operations, net of income taxes	-	(302)	-	(360)
<b>Earnings (loss)</b>	8,997	(15,340)	15,617	(10,052)
Currency translation adjustment	(338)	1,076	(470)	(508)
Change in fair value of interest rate swap, net of taxes (note 4)	24	454	(36)	220
<b>Other comprehensive income (loss), net of income taxes</b>	(314)	1,530	(506)	(288)
<b>Comprehensive earnings (loss)</b>	8,683	(13,810)	15,111	(10,340)
Comprehensive earnings (loss) attributable to non-controlling interests	309	321	348	296
<b>Comprehensive earnings (loss) attributable to SunOpta Inc.</b>	8,374	(14,131)	14,763	(10,636)

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

6

July 5, 2014 10-Q

**SunOpta Inc.**

## Consolidated Balance Sheets

As at July 5, 2014 and December 28, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars)

	July 5, 2014 \$	December 28, 2013 \$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 11)	6,727	8,537
Accounts receivable	133,022	109,917
Inventories (note 5)	255,883	274,286
Prepaid expenses and other current assets	20,266	16,067
Current income taxes recoverable	3,541	6,116
Deferred income taxes	3,950	4,806
	423,389	419,729
<b>Investment</b> (note 6)	12,350	12,350
<b>Property, plant and equipment</b>	154,797	158,073
<b>Goodwill</b>	53,600	53,673
<b>Intangible assets</b>	45,178	47,991
<b>Deferred income taxes</b>	12,117	12,565
<b>Other assets</b>	1,563	1,554
	702,994	705,935
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 7)	127,967	141,853
Accounts payable and accrued liabilities	125,196	129,829
Customer and other deposits	3,894	3,408
Income taxes payable	1,162	2,564
Other current liabilities	4,000	2,114
Current portion of long-term debt (note 7)	6,190	6,354
Current portion of long-term liabilities	249	1,034
	268,658	287,156
<b>Long-term debt</b> (note 7)	39,843	42,654
<b>Long-term liabilities</b>	1,703	3,072
<b>Deferred income taxes</b>	31,015	30,441
	341,219	363,323
<b>EQUITY</b>		
<b>SunOpta Inc. shareholders' equity</b>		
Common shares, no par value, unlimited shares authorized, 66,918,863 shares issued (December 28, 2013 - 66,527,691)	189,280	186,376
Additional paid-in capital	20,471	19,323

Edgar Filing: SunOpta Inc. - Form 10-Q

Retained earnings	131,556	116,208
Accumulated other comprehensive income	2,812	3,397
	344,119	325,304
<b>Non-controlling interests</b>	17,656	17,308
<b>Total equity</b>	361,775	342,612
	702,994	705,935

**Commitments and contingencies** (note 12)

(See accompanying notes to consolidated financial statements)

**SUNOPTA INC.**

7

July 5, 2014 10-Q

**SunOpta Inc.**

## Consolidated Statements of Shareholders' Equity

As at and for the two quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars)

	000s	Common shares \$	Additional paid-in capital \$	Retained earnings \$	Accumulated other com- prehensive income \$	Non-controlling interests \$	Total \$
Balance at December 28, 2013	66,528	186,376	19,323	116,208	3,397	17,308	342,612
Employee stock purchase plan	30	299	-	-	-	-	299
Exercise of options	361	2,605	(657)	-	-	-	1,948
Stock-based compensation	-	-	1,805	-	-	-	1,805
Earnings from continuing operations	-	-	-	15,348	-	269	15,617
Currency translation adjustment	-	-	-	-	(561)	91	(470)
Change in fair value of interest rate swap, net of income taxes (note 4)	-	-	-	-	(24)	(12)	(36)
<b>Balance at July 5, 2014</b>	66,919	189,280	20,471	131,556	2,812	17,656	361,775
	000s	Common shares \$	Additional paid-in capital \$	Retained earnings \$	Accumulated other com- prehensive income \$	Non-controlling interests \$	Total \$
Balance at December 29, 2012	66,007	183,027	16,855	124,732	1,537	17,384	343,535

Edgar Filing: SunOpta Inc. - Form 10-Q

Employee stock purchase plan	46	289	-	-	-	-	289
Exercise of options	252	1,426	(484)	-	-	-	942
Stock-based compensation	-	-	1,541	-	-	-	1,541
Earnings from continuing operations	-	-	-	(9,796)	-	104	(9,692)
Loss from discontinued operations, net of income taxes	-	-	-	(360)	-	-	(360)
Currency translation adjustment	-	-	-	-	(625)	117	(508)
Change in fair value of interest rate swap, net of income taxes (note 4)	-	-	-	-	145	75	220
<b>Balance at June 29, 2013</b>	<b>66,305</b>	<b>184,742</b>	<b>17,912</b>	<b>114,576</b>	<b>1,057</b>	<b>17,680</b>	<b>335,967</b>

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

8

July 5, 2014 10-Q

**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the two quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars)

	July 5, 2014 \$	Quarter ended June 29, 2013 \$	July 5, 2014 \$	Two quarters ended June 29, 2013 \$
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Earnings (loss)	8,997	(15,340)	15,617	(10,052)
Loss from discontinued operations	-	(302)	-	(360)
Earnings (loss) from continuing operations	8,997	(15,038)	15,617	(9,692)
Items not affecting cash:				
Depreciation and amortization	5,950	5,429	11,786	10,849
Stock-based compensation	974	856	1,805	1,541
Unrealized loss (gain) on derivative instruments (note 4)	(406)	199	219	942
Deferred income taxes	1,474	564	1,878	1,505
Fair value of contingent consideration (note 9)	-	-	(1,373)	-
Impairment loss on investment (note 6)	-	21,495	-	21,495
Other	(535)	(219)	(184)	103
Changes in non-cash working capital, net of businesses acquired (note 11)	16,728	15,191	(9,162)	(4,985)
Net cash flows from operations - continuing operations	33,182	28,477	20,586	21,758
Net cash flows from operations - discontinued operations	-	(4,570)	-	(4,608)
	33,182	23,907	20,586	17,150
<b>Investing activities</b>				
Purchases of property, plant and equipment	(4,063)	(14,083)	(7,287)	(21,976)
Acquisitions of businesses, net of cash acquired (note 2)	-	-	-	(3,828)
	-	(1,074)	(800)	(1,074)

Edgar Filing: SunOpta Inc. - Form 10-Q

Payment of contingent consideration (note 4)				
Other	(35)	(341)	44	(838)
Net cash flows from investing activities - continuing operations	(4,098)	(15,498)	(8,043)	(27,716)
<b>Financing activities</b>				
Increase (decrease) under line of credit facilities (note 7)	(29,094)	(7,857)	(13,565)	12,782
Borrowings under long-term debt (note 7)	150	112	210	344
Repayment of long-term debt (note 7)	(1,585)	(1,601)	(3,156)	(4,020)
Proceeds from the issuance of common shares	1,582	567	2,247	1,231
Other	19	11	(79)	(48)
Net cash flows from financing activities - continuing operations	(28,928)	(8,768)	(14,343)	10,289
Foreign exchange gain (loss) on cash held in a foreign currency	(66)	110	(10)	(103)
Increase (decrease) in cash and cash equivalents in the period	90	(249)	(1,810)	(380)
Cash and cash equivalents - beginning of the period	6,637	6,709	8,537	6,840
Cash and cash equivalents - end of the period	6,727	6,460	6,727	6,460
Supplemental cash flow information (note 11)				

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

9

July 5, 2014 10-Q

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

**1. Description of Business and Significant Accounting Policies**

SunOpta Inc. (the Company or SunOpta) was incorporated under the laws of Canada on November 13, 1973. The Company operates businesses focused on a healthy products portfolio that promotes sustainable well-being. The Company operates in two industry segments, the largest being SunOpta Foods, which consists of three reportable segments Global Sourcing and Supply, Value Added Ingredients, and Consumer Products that operate in the natural, organic and specialty food sectors and utilize a number of integrated business models to bring cost-effective and quality products to market. In addition to SunOpta Foods, the Company owned approximately 66% of Opta Minerals Inc. (Opta Minerals) as at July 5, 2014 and December 28, 2013, on a non-dilutive basis. Opta Minerals is a vertically integrated provider of custom process solutions and industrial mineral products for use primarily in the steel, foundry, loose abrasive cleaning, and municipal water filtration industries. As at July 5, 2014 and December 28, 2013, the Company also had an approximate 19% equity ownership position in Mascoma Corporation (Mascoma), on a non-dilutive basis. Mascoma is an innovative company leveraging internally developed technologies to drive bioconversion of biomass for petroleum replacements.

***Basis of Presentation***

The interim consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, and in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, these condensed interim consolidated financial statements do not include all of the disclosures required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the quarter and two quarters ended July 5, 2014 are not necessarily indicative of the results that may be expected for the full year ending January 3, 2015 or for any other period. The interim consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the annual consolidated financial statements for the year ended December 28, 2013. For further information, refer to the consolidated financial statements, and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2013.

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers, which will supersede existing revenue recognition guidance under U.S. GAAP. Under the new standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The guidance is effective for annual and interim periods beginning on or after December 15, 2016, and is to be applied on either a full retrospective or modified retrospective basis. Early adoption is not permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which raises the threshold for disposals to qualify as discontinued operations by focusing on strategic shift that have or will have a major effect on a company's operations and financial results. The guidance



allows companies to have significant continuing involvement and continuing cash flows with the disposed component. The guidance is effective for annual and interim periods beginning on or after December 15, 2014, and is to be applied on a prospective basis. The Company will apply the new standard to any divestitures occurring after January 3, 2015.

**SUNOPTA INC.**

10

July 5, 2014 10-Q

---

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

**2. Business Acquisition*****Bulgarian Processing Operation***

On December 31, 2012, the Company acquired a grains handling and processing facility located in Silistra, Bulgaria and operated as the Organic Land Corporation OOD ( OLC ). The facility is located near a protected and chemical free agricultural area, which produces organic products including sunflower, flax seed, corn, barley and soybeans. This acquisition diversified the Company's organic sunflower processing operations and should allow it to expand its capabilities into the other organic products grown in the region following the expansion of production capabilities. The Company had been sourcing non-genetically modified sunflower kernel from OLC from late 2011 through to the date of acquisition. Since the acquisition date, the results of operations of OLC have been included in Global Sourcing and Supply.

This transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the fair values of the assets acquired and liabilities assumed, as well as the total consideration transferred to effect the acquisition of OLC as of the acquisition date.

	\$
Cash and cash equivalents	70
Accounts receivables	378
Inventories	55
Other current assets	21
Property, plant and equipment	4,067
Accounts payable and accrued liabilities	(228)
Long-term debt <sup>(1)</sup>	(465)
Total cash consideration	3,898

(1) Subsequent to the acquisition date, the Company fully repaid OLC's existing bank loans.

**3. Discontinued Operations**

On August 12, 2011, the Company disposed of its interest in the Colorado Sun Oil Processing LLC ( CSOP ) joint venture to Colorado Mills, LLC ( Colorado Mills ) pursuant to the outcome of related bankruptcy proceedings. CSOP operated a vegetable oil refinery adjacent to Colorado Mills' sunflower crush plant and was formerly part of the former Grains and Foods Group operating segment. The operating results of CSOP were reclassified to discontinued operations, including legal fees and interest costs incurred in connection with a separate arbitration proceeding related to the joint venture agreement. The arbitration proceeding was settled on June 18, 2013. In connection with the settlement, the Company paid Colorado Mills \$5,884, consisting of cash and equipment in use at the CSOP refinery.

**SUNOPTA INC.**

11

July 5, 2014 10-Q

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

**4. Derivative Financial Instruments and Fair Value Measurements**

The following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as of July 5, 2014 and December 28, 2013:

		July 5, 2014			
		Fair value	Level 1	Level 2	Level 3
		asset (liability)			
		\$	\$	\$	\$
(a)	Commodity futures and forward contracts <sup>(1)</sup>				
	Unrealized short-term derivative asset	2,870	1,105	1,765	-
	Unrealized long-term derivative asset	32	-	32	-
	Unrealized short-term derivative liability	(3,303)	-	(3,303)	-
	Unrealized long-term derivative liability	(183)	-	(183)	-
(b)	Inventories carried at market <sup>(2)</sup>	11,532	-	11,532	-
(c)	Interest rate swaps <sup>(3)</sup>	(358)	-	(358)	-
(d)	Forward foreign currency contracts <sup>(4)</sup>	188	-	188	-
(e)	Contingent consideration <sup>(5)</sup>	(328)	-	-	(328)

		December 28, 2013			
		Fair value	Level 1	Level 2	Level 3
		asset (liability)			
		\$	\$	\$	\$
(a)	Commodity futures and forward contracts <sup>(1)</sup>				
	Unrealized short-term derivative asset	1,459	284	1,175	-
	Unrealized long-term derivative asset	29	-	29	-
	Unrealized short-term derivative liability	(1,841)	-	(1,841)	-
	Unrealized long-term derivative liability	(12)	-	(12)	-
(b)	Inventories carried at market <sup>(2)</sup>	11,836	-	11,836	-
(c)	Interest rate swaps <sup>(3)</sup>	(311)	-	(311)	-
(d)	Forward foreign currency contracts <sup>(4)</sup>	(371)	-	(371)	-
(e)	Contingent consideration <sup>(5)</sup>	(2,671)	-	-	(2,671)

- (1) Unrealized short-term derivative asset is included in prepaid expenses and other current assets, unrealized long-term derivative asset is included in other assets, unrealized short-term derivative liability is included in other current liabilities and unrealized long-term derivative liability is included in long-term liabilities on the consolidated balance sheets.
- (2) Inventories carried at market are included in inventories on the consolidated balance sheets.
- (3) The interest rate swaps are included in long-term liabilities on the consolidated balance sheets.
- (4) The forward foreign currency contracts are included in accounts receivable or accounts payable and accrued liabilities on the consolidated balance sheets.
- (5) Contingent consideration obligations are included in long-term liabilities (including the current portion thereof) on the consolidated balance sheets.

(a) Commodity futures and forward contracts

The Company's derivative contracts that are measured at fair value include exchange-traded commodity futures and forward commodity purchase and sale contracts. Exchange-traded futures are valued based on unadjusted quotes for identical assets priced in active markets and are classified as level 1. Fair value for forward commodity purchase and sale contracts is estimated based on exchange-quoted prices adjusted for differences in local markets. Local market adjustments use observable inputs or market transactions for similar assets or liabilities, and, as a result, are classified as level 2. Based on historical experience with the Company's suppliers and customers, the Company's own credit risk, and the Company's knowledge of current market conditions, the Company does not view non-performance risk to be a significant input to fair value for the majority of its forward commodity purchase and sale contracts.

SUNOPTA INC.

12

July 5, 2014 10-Q

---

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company's risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains, as well as the prices of cocoa and coffee. These derivative instruments are not designated as hedges for accounting purposes. Gains and losses on changes in fair value of these derivative instruments are included in cost of goods sold on the consolidated statement of operations. For the quarter ended July 5, 2014, the Company recognized a gain of \$406 (June 29, 2013 loss of \$199) and for the two quarters ended July 5, 2014, the Company recognized a loss of \$219 (June 29, 2013 loss of \$942) related to changes in the fair value of these derivatives.

At July 5, 2014, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

	Number of bushels purchased (sold)	
	Corn	Soybeans
Forward commodity purchase contracts	1,930	1,855
Forward commodity sale contracts	(1,007)	(1,880)
Commodity futures contracts	(1,110)	(590)

In addition, as at July 5, 2014, the Company also had open forward contracts to sell 115 lots of cocoa and 19 lots of coffee.

## (b) Inventories carried at market

Grains inventory carried at fair value is determined using quoted market prices from the Chicago Board of Trade (CBOT). Estimated fair market values for grains inventory quantities at period end are valued using the quoted price on the CBOT adjusted for differences in local markets, and broker or dealer quotes. These assets are placed in level 2 of the fair value hierarchy, as there are observable quoted prices for similar assets in active markets. Gains and losses on commodity grains inventory are included in cost of goods sold on the consolidated statements of operations. As at July 5, 2014, the Company had 257,398 bushels of commodity corn and 579,391 bushels of commodity soybeans in inventories carried at market.

## (c) Interest rate swaps

As at July 5, 2014, Opta Minerals held interest rate swaps with a notional value of Cdn \$39,475 to pay fixed rates of 1.85% to 2.02%, plus a margin of 2.0% to 3.5% based on certain financial ratios of Opta Minerals, and receive a variable rate based on various reference rates including prime, bankers' acceptances or LIBOR, plus the same margin, until May 2017. The net notional value decreases in accordance with the quarterly principal repayments on Opta Minerals' non-revolving term credit facility (see note 7).

At each period end, the Company calculates the marked-to-market fair value of the interest rate swaps using a valuation technique using quoted observable prices for similar instruments as the primary input. Based on this valuation, the previously recorded fair value is adjusted to the current marked-to-market position. The marked-to-market gain or loss is placed in level 2 of the fair value hierarchy. As the interest rate swaps are designated as a cash flow hedge for accounting purposes, gains and losses on changes in the fair value of these

derivative instruments are included on the consolidated statements of comprehensive earnings. For the quarter ended July 5, 2014, the Company recognized a \$31 gain (June 29, 2013 gain of \$614), net of income tax expense of \$7 (June 29, 2013 income tax expense of \$160) and for the two quarters ended July 5, 2014, the Company recognized a \$47 loss (June 29, 2013 gain of \$298), net of income tax benefit of \$11 (June 29, 2013 income tax expense of \$78) related to changes in the fair value of these derivatives.

**SUNOPTA INC.**

13

July 5, 2014 10-Q

---

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

**(d) Foreign forward currency contracts**

As part of its risk management strategy, the Company enters into forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. For any open forward foreign exchange contracts at period end, the contract rate is compared to the forward rate, and a gain or loss is recorded. These contracts are placed in level 2 of the fair value hierarchy, as the inputs used in making the fair value determination are derived from and are corroborated by observable market data. While these forward foreign exchange contracts typically represent economic hedges that are not designated as hedging instruments, certain of these contracts may be designated as hedges. As at July 5, 2014, the Company had open forward foreign exchange contracts with a notional value of €16,303 (\$22,162). Gains and losses on changes in the fair value of these derivative instruments are included in foreign exchange loss (gain) on the consolidated statement of operations. For the quarter ended July 5, 2014, the Company recognized a gain of \$275 (June 29, 2013 loss of \$223) and for the two quarters ended July 5, 2014, the Company recognized a gain of \$559 (June 29, 2013 gain of \$391) related to changes in the fair value of these derivatives.

**(e) Contingent consideration**

The fair value measurement of contingent consideration arising from business acquisitions is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows. For the two quarters ended July 5, 2014, the change in the fair value of the contingent consideration liability reflected a payment of \$800 and a fair value adjustment of \$1,373 (see note 9) in connection with the settlement of remaining earn-out related to the acquisition Edner of Nevada, Inc. (Edner) on December 14, 2010.

**5. Inventories**

	July 5, 2014	December 28, 2013
	\$	\$
Raw materials and work-in-process	171,081	177,407
Finished goods	70,803	77,984
Company-owned grain	19,796	23,773
Inventory reserves	(5,797)	(4,878)
	255,883	274,286

**6. Investment**

The Company accounts for its investment in Mascoma using the cost method. During the second quarter of 2013, the Company recorded an other-than-temporary impairment loss of \$21,495 to write down the carrying value of its investment in Mascoma to an estimated fair value of \$12,350. As at July 5, 2014 and December 28, 2013, the Company did not estimate the fair value of its investment in Mascoma, as no events or changes in circumstances were identified that may have had a significant adverse effect on the Company's ability to recover the remaining carrying value of its investment.





**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

**7. Bank Indebtedness and Long-Term Debt**

	July 5, 2014	December 28, 2013
	\$	\$
<b>Bank indebtedness:</b>		
North American credit facilities <sup>(1)</sup>	51,682	64,382
European credit facilities <sup>(2)</sup>	60,863	61,892
Opta Minerals revolving term credit facility <sup>(3)</sup>	15,422	15,579
	127,967	141,853
<b>Long-term debt:</b>		
Opta Minerals non-revolving term credit facility <sup>(3)</sup>	39,877	42,253
Lease obligations	5,995	6,444
Other	161	311
	46,033	49,008
Less: current portion	6,190	6,354
	39,843	42,654

**(1) North American credit facilities**

The syndicated North American credit facilities support the core North American food operations of the Company.

On July 27, 2012, the Company entered into an amended and restated credit agreement with a syndicate of lenders. The amended agreement provides secured revolving credit facilities of Cdn \$10,000 (or the equivalent U.S. dollar amount) and \$165,000, as well as an additional \$50,000 in availability upon the exercise of an uncommitted accordion feature. These facilities mature on July 27, 2016, with the outstanding principal amount repayable in full on the maturity date.

Interest on borrowings under the facilities accrues based on various reference rates including LIBOR, plus an applicable margin of 1.75% to 2.50%, which is set quarterly based on average borrowing availability. As at July 5, 2014, the weighted-average interest rate on the facilities was 2.15%.

The facilities are collateralized by substantially all of the assets of the Company and its subsidiaries, excluding Opta Minerals and The Organic Corporation ( TOC ).

**(2) European credit facilities**

The European credit facilities support the global sourcing, supply and processing capabilities of the international sourcing and supply operations of Global Sourcing and Supply.

On September 25, 2012, TOC and certain of its subsidiaries entered into a credit facilities agreement with two lenders, which provides for a €45,000 revolving credit facility covering working capital needs and a €3,000 pre-settlement facility covering currency hedging requirements. On May 23, 2014, the lenders increased the

amount available under the revolving credit facility to €51,000 until July 31, 2014. On July 24, 2014, the lenders further increased the amount available under the revolving credit facility to €54,000 until September 30, 2014. As of July 5, 2014 and December 28, 2013, €44,033 (\$59,859) and €42,661 (\$58,616), respectively, of this facility had been utilized. The revolving credit facility is secured by the working capital of TOC and certain of its subsidiaries. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date. Interest costs under the facilities accrue based on either a loan margin of 1.75% or an overdraft margin of 1.85% plus the cost of funds as set by each of the lenders on a periodic basis. The cost of funds as set by the lenders was 0.10% at July 5, 2014.

SUNOPTA INC.

15

July 5, 2014 10-Q

---

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

On April 29, 2014, a subsidiary of TOC amended its revolving credit facility agreement dated May 22, 2013, to provide up to €4,500 to cover the working capital needs of TOC's Bulgarian operations. The facility is secured by the accounts receivable and inventories of the Bulgarian operations and is fully guaranteed by TOC. Interest accrues under the facility based on Euribor plus a margin of 2.75%, and borrowings under the facility are repayable in full on April 30, 2015. As of July 5, 2014 and December 28, 2013, €739 (\$1,004) and €2,385 (\$3,276), respectively, was borrowed under this facility.

(3) Opta Minerals credit facilities

These credit facilities are specific to the operations of Opta Minerals.

On May 8, 2014, Opta Minerals amended and extended its credit agreement dated May 18, 2012, which provides for a Cdn \$20,000 revolving term credit facility and a Cdn \$52,500 non-revolving term credit facility. The revolving term credit facility now matures on August 14, 2015, with the outstanding principal amount repayable in full on the maturity date. The principal amount of the non-revolving term credit facility is repayable in equal quarterly installments of approximately Cdn \$1,312. Opta Minerals may be required to make additional repayments on the non-revolving term credit facility if certain financial covenants are not met. The non-revolving term credit facility matures on May 18, 2017, with the remaining outstanding principal amount repayable in full on the maturity date.

Interest on the borrowings under these facilities accrues at the borrower's option based on various reference rates including LIBOR, plus an applicable margin of 2.00% to 5.50% based on certain financial ratios of Opta Minerals. Opta Minerals utilizes interest rate swaps to hedge the interest payments on a portion of the borrowings under the non-revolving term credit facility (see note 4). As at July 5, 2014, the weighted-average interest rate on the credit facilities was 6.64%, after taking into account the related interest rate hedging activities.

The credit facilities are collateralized by a first priority security interest on substantially all of the assets of Opta Minerals, and are without recourse to SunOpta Inc.

Also on May 8, 2014, certain financial covenants under the Opta Minerals credit agreement were amended for the quarterly periods ending June 30, 2014 through September 30, 2015. Opta Minerals was in compliance with all its financial covenants as at June 30, 2014.

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

**8. Stock-Based Compensation**

Under the Company's 2013 Stock Incentive Plan, the Company may grant a variety of stock-based awards including stock options, restricted stock units ( RSUs ) and performance share units ( PSUs ) to selected employees and directors of the Company.

***Stock Options***

For the two quarters ended July 5, 2014, the Company granted 373,279 options to employees that vest ratably on each of the first through fifth anniversaries of the grant date and expire on the tenth anniversary of the grant date. The weighted-average grant-date fair value of these options was \$6.77, which is recognized on a straight-line basis over the five-year vesting period based on the number of stock options expected to vest.

The following table summarizes the weighted-average assumptions used in the Black-Scholes option-pricing model to determine the fair value of the stock options granted:

Exercise price	\$	11.34
Dividend yield		0%
Expected volatility		61.4%
Risk-free interest rate		2.2%
Expected life of options (in years)		6.5

***Restricted Stock Units and Performance Share Units***

For the two quarters ended July 5, 2014, the Company granted 72,173 RSUs and 102,167 PSUs to certain employees and directors of the Company.

Time-based RSUs vest ratably on each of the first through third anniversaries of the grant date. The fair value of each RSU granted was estimated to be \$11.30 based on the fair market value of a share of the Company's common stock on the date of grant. The grant-date fair value is recognized on a straight-line basis over the three-year vesting period based on the number of RSUs expected to vest.

Performance-based PSUs vest three years following the grant date. The number of PSUs that ultimately vest (up to a specified maximum) will be determined based on performance relative to predetermined performance measures of the Company. If the Company's performance is below a specified performance level, no PSUs will vest. The fair value of each PSU granted was estimated to be \$11.30 based on the fair market value of a share of the Company's common stock on the date of grant. Each reporting period, the number of PSUs that are expected to vest is re-determined and the grant-date fair value of these PSUs is amortized on a straight-line basis over the remaining vesting period less amounts previously recognized.

Each vested RSU and PSU will be settled through the issuance of common shares of the Company and are therefore treated as equity awards.



**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

**9. Other Expense (Income), Net**

The components of other expense (income) are as follows:

	July 5, 2014	Quarter ended June 29, 2013	July 5, 2014	Two quarters ended June 29, 2013
	\$	\$	\$	\$
Fair value of contingent consideration <sup>(1)</sup>	-	-	(1,373)	-
Severance and other rationalization costs	27	581	186	868
Acquisition-related transaction costs	-	-	-	127
Other	110	66	183	17
	137	647	(1,004)	1,012

**(1) Fair value of contingent consideration**

For the two quarters ended July 5, 2014, the Company recorded a gain of \$1,373 in connection with the settlement of the remaining earn-out related to the acquisition of Edner.

**10. Earnings Per Share**

Earnings (loss) per share are calculated as follows:

	July 5, 2014	Quarter ended June 29, 2013	July 5, 2014	Two quarters ended June 29, 2013
Earnings (loss) from continuing operations attributable to SunOpta Inc.	\$ 8,708	\$ (14,979)	\$ 15,348	\$ (9,796)
Loss from discontinued operations, net of income taxes	-	(302)	-	(360)
Earnings (loss) attributable to SunOpta Inc.	\$ 8,708	\$ (15,281)	\$ 15,348	\$ (10,156)
Basic weighted-average number of shares outstanding	66,715,349	66,202,211	66,666,617	66,147,358
Dilutive potential of the following:				
Employee/director stock options and RSUs	1,202,657	979,281	885,433	888,566
Warrants	540,128	332,025	506,362	310,504
	68,458,134	67,513,517	68,058,412	67,346,428

Diluted weighted-average  
number of shares  
outstanding

Earnings (loss) per share -  
basic:

- from continuing operations	\$	0.13	\$	(0.23)	\$	0.23	\$	(0.15)
- from discontinued operations		-		-		-		(0.01)
	\$	0.13	\$	(0.23)	\$	0.23	\$	(0.15)

Earnings (loss) per share -  
diluted:

- from continuing operations	\$	0.13	\$	(0.23)	\$	0.23	\$	(0.15)
- from discontinued operations		-		-		-		(0.01)
	\$	0.13	\$	(0.23)	\$	0.23	\$	(0.15)

**SUNOPTA INC.**

18

July 5, 2014 10-Q

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

For the quarter ended July 5, 2014, stock options to purchase nil (June 29, 2013 - 330,500) common shares were excluded from the calculation of diluted earnings per share due to their anti-dilutive effect. For the two quarters ended July 5, 2014, stock options to purchase 340,966 (June 29, 2013 - 1,713,400) common shares were excluded from the calculation of diluted earnings per share due to their anti-dilutive effect.

For the quarter and two quarters ended June 29, 2013, all potential dilutive common shares were excluded from the calculation of diluted loss per share due to their anti-dilutive effect of reducing the loss per share.

**11. Supplemental Cash Flow Information**

	July 5, 2014 \$	June 29, 2013 \$	July 5, 2014 \$	June 29, 2013 \$
Changes in non-cash working capital, net of businesses acquired:				
Accounts receivable	4,299	(2,958)	(22,978)	(7,441)
Inventories	13,233	9,520	18,447	5,504
Income tax recoverable	(1,946)	864	1,397	371
Prepaid expenses and other current assets	(1,241)	(1,153)	(2,782)	1,766
Accounts payable and accrued liabilities	6,285	8,491	(3,724)	(9,578)
Customer and other deposits	(3,902)	427	478	4,393
	16,728	15,191	(9,162)	(4,985)

As at July 5, 2014, cash and cash equivalents included \$3,008 (December 28, 2013 - \$4,084) that was specific to Opta Minerals and cannot be utilized by the Company for general corporate purposes.

**12. Commitments and Contingencies**

Various claims and potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

**13. Segmented Information**

In the fourth quarter of 2013, the Company implemented changes to its organizational structure to align and focus the operations of SunOpta Foods on three key go-to-market categories: raw material sourcing and supply; value-added ingredients; and consumer-packaged products. Consequently, the Company realigned the operating segments of SunOpta Foods to reflect the resulting changes in management reporting and accountability to the Company's Chief Executive Officer. The Company believes this operational structure better aligns with SunOpta Foods' integrated field-to-table business model and product portfolio. The segment information presented below for the quarter and two quarters ended June 29, 2013 has been restated to reflect the realigned operating segments of SunOpta Foods. The Opta Minerals operating segment remained unchanged.

Effective with the realignment, the Company operates in the following four reportable segments:



- Global Sourcing and Supply aggregates the Company's North American raw grain and sunflower operating segment and its international organic ingredient operating segment, which are focused on the procurement and sale of specialty and organic grains and seeds, raw material ingredients, and organic commodities.

SUNOPTA INC.

19

July 5, 2014 10-Q

---

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

- Value Added Ingredients manufactures and supplies fiber-, grain- and fruit-based ingredients focusing on cereal, bakery, dairy, snack and food service market categories.
- Consumer Products manufactures and supplies branded and private label aseptic beverages; re-sealable pouch products; individually quick frozen fruits and vegetables; premium juices; shelf stable juices and waters; and fruit- and grain-based snacks.
- Opta Minerals processes, distributes and recycles industrial minerals, silica-free abrasives, and specialty sands for use in the steel, foundry, loose abrasive cleaning, and municipal water filtration industries.

In addition, Corporate Services provides a variety of management, financial, information technology, treasury and administration services to each of the SunOpta Foods operating segments from the Company's offices in Brampton, Ontario and Edina, Minnesota.

When reviewing the operating results of the Company's operating segments, management uses segment revenues from external customers and segment operating income to assess performance and allocate resources. Segment operating income excludes other income or expense items and goodwill impairment losses. In addition, interest expense and income amounts, and provisions for income taxes are not allocated to operating segments.

					Quarter ended July 5, 2014	
	Global Sourcing and Supply \$	Value Added Ingredients \$	Consumer Products \$	SunOpta Foods \$	Opta Minerals \$	Consol- idated \$
Segment revenues from external customers	157,466	33,562	112,017	303,045	35,243	338,288
Segment operating income	8,360	1,290	8,164	17,814	1,571	19,385
Corporate Services						(2,634)
Other expense, net						(137)
Interest expense, net						(2,010)
Earnings from continuing operations						14,604

before  
income  
taxes

	Quarter ended June 29, 2013					
	Global Sourcing and Supply \$	Value Added Ingredients \$	Consumer Products \$	SunOpta Foods \$	Opta Minerals \$	Consol- idated \$
Segment revenues from external customers	144,900	33,043	95,765	273,708	37,462	311,170
Segment operating income	4,052	1,953	8,279	14,284	903	15,187
Corporate Services						(1,887)
Other expense, net						(647)
Interest expense, net						(2,238)
Impairment loss on investment						(21,495)
Loss from continuing operations before income taxes						(11,080)

SUNOPTA INC.

20

July 5, 2014 10-Q

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters ended July 5, 2014 and June 29, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars, except per share amounts)

						Two quarters ended July 5, 2014
	Global Sourcing and Supply \$	Value Added Ingredients \$	Consumer Products \$	SunOpta Foods \$	Opta Minerals \$	Consol- idated \$
Segment revenues from external customers	300,824	71,310	229,893	602,027	69,788	671,815
Segment operating income	11,418	3,637	16,100	31,155	2,596	33,751
Corporate Services						(4,916)
Other income, net						1,004
Interest expense, net						(4,158)
Earnings from continuing operations before income taxes						25,681
						Two quarters ended June 29, 2013
	Global Sourcing and Supply \$	Value Added Ingredients \$	Consumer Products \$	SunOpta Foods \$	Opta Minerals \$	Consol- idated \$
Segment revenues from external customers	269,809	64,548	185,951	520,308	73,687	593,995
Segment operating	5,725	3,953	14,230	23,908	3,366	27,274

income									
Corporate									
Services									(3,298)
Other									
expense,									
net									(1,012)
Interest									
expense,									
net									(3,928)
Impairment									
loss on									
investment									(21,495)
Loss from									
continuing									
operations									
before									
income									
taxes									(2,459)

SUNOPTA INC.

21

July 5, 2014 10-Q

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Forward-Looking Financial Information**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the interim consolidated financial statements, and notes thereto, for the quarter ended July 5, 2014 contained under Item 1 of this Quarterly Report on Form 10-Q ( Form 10-Q ) and in conjunction with the annual consolidated financial statements, and notes thereto, contained in the Annual Report on Form 10-K for the fiscal year ended December 28, 2013 ( Form 10-K ). Unless otherwise indicated herein, the discussion and analysis contained in this MD&A includes information available to August 13, 2014.

Certain statements contained in this MD&A may constitute forward-looking statements as defined under securities laws. Forward-looking statements may relate to our future outlook and anticipated events or results and may include statements regarding our future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives. In some cases, forward-looking statements can be identified by terms such as anticipate , estimate , intend , project , potential , continue , believe , expect , should , might , plan , will , may , predict , or other similar expressions concerning matters that are not historical. To the extent any forward-looking statements contain future-oriented financial information or financial outlooks, such information is being provided to enable a reader to assess our financial condition, material changes in our financial condition, our results of operations, and our liquidity and capital resources. Readers are cautioned that this information may not be appropriate for any other purpose, including investment decisions.

Forward-looking statements contained in this MD&A are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While we consider these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking statements are also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors are more fully described in the Risk Factors section at Item 1A of the Form 10-K.

Forward-looking statements contained in this commentary are based on our current estimates, expectations and projections, which we believe are reasonable as of the date of this report. You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Other than as required under securities laws, we do not undertake to update any forward-looking information at any particular time.

All dollar amounts in this MD&A are expressed in thousands of U.S. dollars, except per share amounts, unless otherwise noted.

### **Calendar Year**

We operate on a fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal year 2014 will be a 53-week period ending on January 3, 2015, with quarterly periods ending on April 5, July 5 and October 4, 2014, whereas fiscal year 2013 was a 52-week period ending on December 28, 2013, with quarterly periods ending on March 30, June 29 and September 28, 2013. As a result, the first two quarters of 2014 consisted of 27 weeks, compared with 26 weeks for the first two quarters of 2013. Except as otherwise noted in this MD&A, the impact of the additional week on our results of operations for the first half of 2014 was insignificant relative to the first half of 2013.

## **Operational Realignment**

In the fourth quarter of 2013, we realigned the operating segments of SunOpta Foods to focus on three key go-to-market categories: raw material sourcing and supply; value-added ingredients; and consumer-packaged products. We believe this operational structure better aligns with our integrated field to table business model and product portfolio. In addition, we believe this structure better supports our strategy of growing our value-added packaged foods and ingredients portfolios, and leveraging our sourcing and supply capabilities and production capacity. Effective with the realignment, SunOpta Foods operates in the following three reportable segments: Global Sourcing and Supply (with incorporates our North American raw grain and sunflower operating segment and our international organic ingredient operating segment); Value Added Ingredients; and Consumer Products. The Opta Minerals operating segment remained unchanged. The segmented operations information provided in the Consolidated Financial Statements and this MD&A for the quarter and two quarters ended June 29, 2013 has been restated to reflect these realigned reportable segments.

## **Business Developments during the First Two Quarters of 2014**

### ***Opta Minerals***

On June 19, 2014, we announced that the Board of Directors of Opta Minerals Inc. ( Opta Minerals ) had established a special committee of independent directors (the Special Committee ) to conduct a review of strategic alternatives available to Opta Minerals with a view to enhancing value for all shareholders. The Special Committee will review and evaluate all proposals received as part of the strategic review process, and will make recommendations to the Board thereon. There is no defined timeline for the strategic alternatives review and there can be no assurance that the review of strategic alternatives will result in any specific action. We currently own approximately 66% of Opta Minerals on a non-dilutive basis. We have identified Opta Minerals as a non-core holding.

### ***Expansion of Aseptic Processing and Packaging Operations***

In the first quarter of 2014, we initiated a further expansion to our aseptic processing and packaging operations in Modesto, California, in order to meet committed customer demand and enable new growth opportunities. In connection with this expansion, we are adding a third processor at the Modesto facility, which is expected to be commissioned in the first quarter of 2015. We also expect to add additional aseptic filling lines at the Modesto plant in order to meet increased product demand from new and existing customers across a broad array of categories including non-dairy, nutritional beverages and dairy. The continued investment in our aseptic platform is directly aligned with our core strategies to aggressively grow our value-added ingredients and packaged foods portfolio, and to leverage our integrated platform to become a pure play natural and organic foods company.

## **Other Developments**

### ***Chair of the Board of Directors***

On July 24, 2014, we announced the appointment of Alan Murray as Chair of the Board of Directors of SunOpta. Mr. Murray replaced Jeremy Kendall who retired after serving as Chair of the Board for 31 years. Mr. Kendall will remain active on the Board as a Director and Past Chair. Mr. Kendall also served as Chief Executive Officer until February 2007. Mr. Murray was appointed a director of SunOpta in July 2010, Vice Chair in March 2011, and served as Chair of the Compensation Committee and as a member of the Corporate Governance and Audit Committees at various times.

### ***Corporate Social Responsibility Report***

## Edgar Filing: SunOpta Inc. - Form 10-Q

On June 23, 2014, we released our 2013 Corporate Social Responsibility Report, which provides an update on progress towards our 2013 sustainability goals covering social, environmental and economic objectives, and further reinforces our commitment to becoming an increasingly sustainable organization. This report covers the operations of SunOpta, including wholly-owned subsidiaries and joint venture operations, excluding Opta Minerals, and is available on our website.

The 2013 Corporate Social Responsibility Progress Report and the other information included on our website is not included in, or incorporated by reference into, this Form 10-Q.

**SUNOPTA INC.**

23

July 5, 2014 10-Q

---



**Consolidated Results of Operations for the quarters ended July 5, 2014 and June 29, 2013**

<b>For the quarter ended</b>	<b>July 5, 2014</b>	<b>June 29, 2013</b>	<b>Change</b>	<b>Change</b>
	\$	\$	\$	%
<b>Revenue</b>				
SunOpta Foods	303,045	273,708	29,337	10.7%
Opta Minerals	35,243	37,462	(2,219)	-5.9%
<b>Total Revenue</b>	<b>338,288</b>	<b>311,170</b>	<b>27,118</b>	<b>8.7%</b>
<b>Gross Profit</b>				
SunOpta Foods	37,556	31,415	6,141	19.5%
Opta Minerals	6,513	5,568	945	17.0%
<b>Total Gross Profit</b>	<b>44,069</b>	<b>36,983</b>	<b>7,086</b>	<b>19.2%</b>
<b>Segment Operating Income (Loss)<sup>(1)</sup></b>				
SunOpta Foods	17,814	14,284	3,530	24.7%
Opta Minerals	1,571	903	668	74.0%
Corporate Services	(2,634)	(1,887)	(747)	-39.6%
<b>Total Segment Operating Income</b>	<b>16,751</b>	<b>13,300</b>	<b>3,451</b>	<b>25.9%</b>
Other expense, net	137	647	(510)	-78.8%
<b>Earnings from continuing operations before the following</b>	<b>16,614</b>	<b>12,653</b>	<b>3,961</b>	<b>31.3%</b>
Interest expense, net	2,010	2,238	(228)	-10.2%
Impairment loss on investment	-	21,495	(21,495)	-100.0%
Provision for income taxes	5,607	3,958	1,649	41.7%
Earnings (loss) from continuing operations	8,997	(15,038)	24,035	159.8%
Earnings (loss) attributable to non-controlling interests	289	(59)	348	589.8%
Loss from discontinued operations, net of taxes	-	(302)	302	100.0%
<b>Earnings (loss) attributable to SunOpta Inc.<sup>(2)</sup></b>	<b>8,708</b>	<b>(15,281)</b>	<b>23,989</b>	<b>157.0%</b>

- (1) When assessing the financial performance of our operating segments, we use an internal measure of operating income that excludes other income/expense items and any goodwill impairment losses determined in accordance with U.S. GAAP. This measure is the basis on which management, including the Chief Executive Officer, assesses the underlying performance of our operating segments. We believe that disclosing this non-GAAP measure assists investors in comparing financial performance across reporting periods on a consistent basis by excluding items that are not indicative of our core operating performance. However, the non-GAAP measure of operating income should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP. The following table presents a reconciliation of segment operating income (loss) to earnings from continuing operations before the following, which we consider to be the most directly comparable U.S. GAAP financial measure.

<b>For the quarter ended</b>	<b>Global Sourcing and Supply</b>	<b>Value Added Ingredients</b>	<b>Consumer Products</b>	<b>SunOpta Foods</b>	<b>Opta Minerals</b>	<b>Corporate Services</b>	<b>Consolidated</b>
<b>July 5, 2014</b>	\$	\$	\$	\$	\$	\$	\$
	8,360	1,290	8,164	17,814	1,571	(2,634)	16,751

Segment  
operating income  
(loss)

Other income (expense), net	76	-	20	96	(162)	(71)	(137)
--------------------------------	----	---	----	----	-------	------	-------

Earnings (loss)  
from continuing  
operations before  
the following

8,436	1,290	8,184	17,910	1,409	(2,705)	16,614
-------	-------	-------	--------	-------	---------	--------

# **June 29, 2013**

Segment  
operating income  
(loss)

4,052	1,953	8,279	14,284	903	(1,887)	13,300
-------	-------	-------	--------	-----	---------	--------

Other income  
(expense), net

16	(153)	12	(125)	(524)	2	(647)
----	-------	----	-------	-------	---	-------

Earnings (loss)  
from continuing  
operations before  
the following

4,068	1,800	8,291	14,159	379	(1,885)	12,653
-------	-------	-------	--------	-----	---------	--------

**SUNOPTA INC.**

24

July 5, 2014 10-Q

## Edgar Filing: SunOpta Inc. - Form 10-Q

We believe that investors' understanding of our financial performance is enhanced by disclosing the specific items that we exclude from segment operating income. However, any measure of operating income excluding any or all of these items is not, and should not be viewed as, a substitute for operating income prepared under U.S. GAAP. These items are presented solely to allow investors to more fully understand how we assess financial performance.

Revenues for the quarter ended July 5, 2014 increased by 8.7% to \$338,288 from \$311,170 for the quarter ended June 29, 2013. Revenues in SunOpta Foods increased by 10.7% to \$303,045 and revenues in Opta Minerals decreased by 5.9% to \$35,243. Excluding the impact of changes including foreign exchange rates and commodity-related pricing, revenues increased 10.5% on a consolidated basis and approximately 12.6% within SunOpta Foods. Contributing to the increase in revenues within SunOpta Foods was stronger demand for organic ingredients in the U.S. and Europe; and growth in consumer packaged categories including aseptic beverage products, re-sealable pouch products and retail frozen foods. At Opta Minerals, the decrease in revenues reflected lower volumes and pricing for industrial mineral products due to competitive pressures; and reduced pricing on certain steel products, though offset through higher volumes.

Gross profit increased \$7,086, or 19.2%, to \$44,069 for the quarter ended July 5, 2014, compared with \$36,983 for the quarter ended June 29, 2013. As a percentage of revenues, gross profit for the quarter ended July 5, 2014 was 13.0% compared to 11.9% for the quarter ended June 29, 2013, an increase of 1.1%. Within SunOpta Foods, the gross profit percentage was 12.4% for the second quarter of 2014, compared with 11.5% for the second quarter of 2013, which reflected the net effect of higher margins on organic ingredient sales in the U.S. and Europe; improved performance in our sunflower operations; and an increased contribution from higher margin aseptic beverage products. These positive factors were offset by lower margins on organic feed and specialty corn sales; and weaker performance in our premium juice operations. The gross profit percentage at Opta Minerals increased to 18.5% in the second quarter of 2014, compared with 14.9% in the second quarter of 2013, primarily due to a favorable product mix of higher margin steel products relative to lower margin industrial mineral products, as well as the favorable impact of plant cost rationalizations.

Total segment operating income for the quarter ended July 5, 2014 increased by \$3,451, or 25.9%, to \$16,751, compared with \$13,300 for the quarter ended June 29, 2013. As a percentage of revenues, segment operating income was 5.0% for the quarter ended July 5, 2014, compared with 4.3% for the quarter ended June 29, 2013. The increase in segment operating income reflected higher overall gross profit as described above, partially offset by a \$2,841 increase in selling, general and administrative ( SG&A ) expenses, primarily due to the addition of a number of senior leadership resources in 2013 in connection with the operational realignment within SunOpta Foods, as well as increased headcount to support the growth of our international sourcing and supply operations. A foreign exchange loss of \$546 was recorded for the quarter ended July 5, 2014, compared with a gain of \$356 for the quarter ended June 29, 2013, mainly related to the impact of exchange rate movements on intercompany and third-party loan balances at Opta Minerals.

Further details on revenue, gross margin and segment operating income variances are provided below under Segmented Operations Information .

Other expense for the quarter ended July 5, 2014 of \$137 included employee severance and other related costs. Other expense for the quarter ended June 29, 2013 of \$647 included employee severance and other costs in connection with the operational realignment within SunOpta Foods and the rationalization and integration of acquired businesses by Opta Minerals.

The decrease in interest expense of \$228 to \$2,010 for the quarter ended July 5, 2014, compared with \$2,238 for the quarter ended June 29, 2013, reflected financing costs incurred in the second quarter of 2013 related to amendments to the Opta Minerals credit agreement.

In the second quarter of 2013, we recognized an impairment loss of \$21,495 on our non-core equity investment in Mascoma Corporation ( Mascoma ).

Edgar Filing: SunOpta Inc. - Form 10-Q

The provision for income tax for the quarter ended July 5, 2014 was \$5,607, or 38.4% of earnings before taxes, compared with \$3,958, or 38.0% of earnings before taxes, for the quarter ended June 29, 2013 (excluding the impairment loss on investment, for which the related deferred tax asset is considered more likely than not to be unrealized). Excluding discrete items, the annual effective income tax rate for fiscal 2014 is expected to be between 37% and 39%.

Earnings attributable to non-controlling interests for the quarter ended July 5, 2014 were \$289, compared with losses of \$59 for the quarter ended June 29, 2013. The \$348 increase reflected higher net earnings at Opta Minerals and an improved contribution from the specialty coffee operations of a less-than-wholly-owned subsidiary.

**SUNOPTA INC.**

25

July 5, 2014 10-Q

---

## Edgar Filing: SunOpta Inc. - Form 10-Q

Earnings from continuing operations attributable to SunOpta Inc. for the quarter ended July 5, 2014 were \$8,708, compared with a loss from continuing operations of \$14,979 for the quarter ended June 29, 2013 (including the \$21,495 impairment loss on investment), an increase of \$23,687. Diluted earnings per share from continuing operations were \$0.13 for the quarter ended July 5, 2014, compared with diluted loss per share of \$0.23 for the quarter ended June 29, 2013.

Loss from discontinued operations of \$302 for the quarter ended June 29, 2013 reflected legal fees and interest costs in connection with arbitration proceedings related to Colorado Sun Oil Processing LLC ( CSOP ), which were settled in June 2013. CSOP was disposed of in August 2011.

On a consolidated basis, we realized earnings of \$8,708 (diluted earnings per share of \$0.13) for the quarter ended July 5, 2014, compared with a loss of \$15,281 (diluted loss per share of \$0.23) for the quarter ended June 29, 2013.

### Segmented Operations Information

#### SunOpta Foods

For the quarter ended	July 5, 2014	June 29, 2013	Change	% Change
-----------------------	--------------	---------------	--------	----------

Revenues	\$	303,045	\$	273,708	\$	29,337	10.7%
Gross Margin		37,556		31,415		6,141	19.5%
Gross Margin %		12.4%		11.5%			0.9%

Operating Income	\$	17,814	\$	14,284	\$	3,530	24.7%
Operating Income %		5.9%		5.2%			0.7%

SunOpta Foods contributed \$303,045 or 89.6% of consolidated revenue for the quarter ended July 5, 2014, compared with \$273,708 or 88.0% of consolidated revenues for the quarter ended June 29, 2013, an increase of \$29,337 or 10.7%. The table below explains the increase in revenue by reportable segment for SunOpta Foods:

SunOpta Foods Revenue Changes	
Revenues for the quarter ended June 29, 2013	\$273,708
Increase in Global Sourcing and Supply	12,566
Increase in Value Added Ingredients	519
Increase in Consumer Products	16,252
Revenues for the quarter ended July 5, 2014	<b>\$303,045</b>

Gross margin in SunOpta Foods increased by \$6,141, or 19.5%, for the quarter ended July 5, 2014 to \$37,556, or 12.4% of revenues, compared to \$31,415, or 11.5% of revenues for the quarter ended June 29, 2013. The table below explains the increase in gross margin by group for SunOpta Foods:

SunOpta Foods Gross Margin Changes	
Gross margin for the quarter ended June 29, 2013	\$31,415
Increase in Global Sourcing and Supply	5,026
Increase in Value Added Ingredients	315
Increase in Consumer Products	800
Gross margin for the quarter ended July 5, 2014	<b>\$37,556</b>



Operating income in SunOpta Foods increased by \$3,530, or 24.7%, for the quarter ended July 5, 2014 to \$17,814 or 5.9% of revenues, compared to \$14,284 or 5.2% of revenues for the quarter ended June 29, 2013. The table below explains the increase in operating income for SunOpta Foods:

<b>SunOpta Foods Operating Income Changes</b>	
Operating Income for the quarter ended June 29, 2013	\$14,284
Increase in gross margin, as noted above	6,141
Increase in SG&A costs	(1,465)
Increase in corporate cost allocations	(1,330)
Increase in foreign exchange gains	184
Operating Income for the quarter ended July 5, 2014	<b>\$17,814</b>

Further details on revenue, gross margin and operating income variances within SunOpta Foods are provided in the segmented operations information that follows.

### Global Sourcing and Supply

For the quarter ended	July 5, 2014	June 29, 2013	Change	% Change
Revenues	\$ 157,466	\$ 144,900	\$ 12,566	8.7%
Gross Margin	17,654	12,628	5,026	39.8%
Gross Margin %	11.2%	8.7%		2.5%
Operating Income	\$ 8,360	\$ 4,052	\$ 4,308	106.3%
Operating Income %	5.3%	2.8%		2.5%

Global Sourcing and Supply contributed \$157,466 in revenues for the quarter ended July 5, 2014, compared to \$144,900 for the quarter ended June 29, 2013, an increase of \$12,566 or 8.7%. Excluding the impact of changes including foreign exchange rates and commodity-related pricing, revenues increased approximately 12.3% in Global Sourcing and Supply. The table below explains the increase in revenue:

<b>Global Sourcing and Supply Revenue Changes</b>	
Revenues for the quarter ended June 29, 2013	\$144,900
Higher volumes of organic raw materials including alternative sweeteners, chia, quinoa, fruits and vegetables	25,192
Favorable impact on euro denominated sales due to the stronger euro relative to the U.S. dollar	1,698
Lower volumes of non-GMO corn and soy	(6,508)
Reduced pricing for organic food and feed products	(5,259)
Reduced pricing for non-GMO corn, partially offset by increased pricing for non-GMO soy	(1,687)
Lower in-shell sunflower sales due to reduced exports, partially offset by higher volumes of planting seeds and agronomy products	(870)
Revenues for the quarter ended July 5, 2014	<b>\$157,466</b>

Gross margin in Global Sourcing and Supply increased by \$5,026 to \$17,654 for the quarter ended July 5, 2014 compared to \$12,628 for the quarter ended June 29, 2013, and the gross margin percentage increased by 2.5% to 11.2%. The increase in gross margin as a percentage of revenue was primarily due to favorable sales mix on organic raw materials and improved sunflower processing yields, partially offset by lower pricing spread on organic feed

products and specialty corn. The table below explains the increase in gross margin:

**SUNOPTA INC.**

27

July 5, 2014 10-Q

---



<b>Global Sourcing and Supply Gross Margin Changes</b>	
Gross margin for the quarter ended June 29, 2013	\$12,628
Margin impact on increased volumes of organic raw materials, partially offset by lower pricing spread on organic feed and specialty corn products	3,067
Improved sunflower processing yields and operating efficiencies, partially offset by lower contribution from sales of planting seeds	2,845
Lower volumes of non-GMO and specialty soy and corn	(886)
Gross margin for the quarter ended July 5, 2014	<b>\$17,654</b>

Operating income in Global Sourcing and Supply increased by \$4,308, or 106.3%, to \$8,360 for the quarter ended July 5, 2014, compared to \$4,052 for the quarter ended June 29, 2013. The table below explains the increase in operating income:

<b>Global Sourcing and Supply Operating Income Changes</b>	
Operating income for the quarter ended June 29, 2013	\$4,052
Increase in gross margin, as explained above	5,026
Increased foreign exchange gains	184
Increased SG&A, due primarily to higher compensation costs from increased headcount and short-term incentives, partially offset by decreased travel, marketing and general office spending	(443)
Increase in corporate cost allocations	(318)
Unfavorable impact on expenses due to the stronger euro relative to the U.S. dollar	(141)
Operating income for the quarter ended July 5, 2014	<b>\$8,360</b>

Looking forward, we believe Global Sourcing and Supply is well positioned in growing natural and organic food categories. We intend to focus our efforts on (i) growing our identity preserved, non-GMO and organic sourcing and supply capabilities; (ii) leveraging our international sourcing and supply capabilities internally, and forward and backward integrating where opportunities exist; (iii) expanding our processing expertise and increasing our value-added capabilities; and (iv) expanding our international sales base via strategic relationships for procurement of product to drive incremental sales volume. Our long-term target for Global Sourcing and Supply is to achieve a segment operating margin of 4% to 5%, which assumes we are able to secure a consistent quantity and quality of natural and organic raw materials, improve product mix, and control costs. The statements in this paragraph are forward-looking statements. See **Forward-Looking Statements** above. Increased supply pressure in the commodity-based markets in which we operate, increased competition, volume decreases or loss of customers, unexpected delays in our expansion plans, or our inability to secure quality inputs or achieve our product mix or cost reduction goals, along with the other factors described above under **Forward-Looking Statements**, could adversely impact our ability to meet these forward-looking expectations.

**Value Added Ingredients**

For the quarter ended	July 5, 2014	June 29, 2013	Change	% Change
-----------------------	--------------	---------------	--------	----------

Revenues	\$ 33,562	\$ 33,043	\$ 519	1.6%
Gross Margin	4,631	4,316	315	7.3%
Gross Margin %	13.8%	13.1%		0.7%

Operating Income	\$ 1,290	\$ 1,953	\$ (663)	-33.9%
Operating Income %	3.8%	5.9%		-2.1%

Value Added Ingredients contributed \$33,562 in revenues for the quarter ended July 5, 2014, compared to \$33,043 for the quarter ended June 29, 2013, an increase of \$519 or 1.6%. The table below explains the increase in revenue:

<b>Value Added Ingredients Revenue Changes</b>	
Revenues for the quarter ended June 29, 2013	\$33,043
Higher volumes of fruit ingredients	604
Lower volumes of fiber and grain-based ingredient products, partially offset by higher contract manufacturing sales	(85)
Revenues for the quarter ended July 5, 2014	<b>\$33,562</b>

Value Added Ingredients gross margin increased by \$315 to \$4,631 for the quarter ended July 5, 2014 compared to \$4,316 for the quarter ended June 29, 2013, and the gross margin percentage increased by 0.7% to 13.8%. The increase in gross margin as a percentage of revenue is due to improved efficiencies from higher production volumes of fruit ingredients, partially offset by higher operating costs and lower production volumes for fiber products and grain-based ingredients. The table below explains the increase in gross margin:

<b>Value Added Ingredients Gross Margin Changes</b>	
Gross margin for the quarter ended June 29, 2013	\$4,316
Higher sales volume combined with improved production efficiencies for fruit ingredients, partially offset by higher operating costs and lower production volumes for fiber products and grain-based ingredients	315
Gross margin for the quarter ended July 5, 2014	<b>\$4,631</b>

Operating income in Value Added Ingredients decreased by \$663, or 33.9%, to \$1,290 for the quarter ended July 5, 2014, compared to \$1,953 for the quarter ended June 29, 2013. The table below explains the decrease in operating income:

<b>Value Added Ingredients Operating Income Changes</b>	
Operating income for the quarter ended June 29, 2013	\$1,953
Increase in gross margin, as explained above	315
Increase in SG&A, primarily due to higher compensation costs including short-term incentives	(767)
Increase in corporate cost allocations	(211)
Operating income for the quarter ended July 5, 2014	<b>\$1,290</b>



Looking forward, we intend to concentrate on growing Value Added Ingredient's fiber products and fruit- and grains-based ingredients portfolios and customer base through product and process innovation and diversification. We intend to continue to introduce alternative ingredients offerings of our own and have introduced rice and cellulose fibers; a novel fiber for beverage applications; and a new specialty starch among others. We also expect to leverage our expanded aseptic fruit ingredient line at our South Gate, California facility to drive incremental volumes and cost savings. The focus of Value Added Ingredients continues to revolve around a culture of innovation and continuous improvement, to further increase capacity utilization, reduce costs, and sustain margins. Our long-term target for Value Added Ingredients is to realize segment operating margins of 8% to 10%. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. An unexpected increase in input costs, increased competition, loss of key customers, an inability to introduce new products to the market, or implement our strategies and goals relating to pricing, capacity utilization or cost reductions, along with the other factors described above under Forward-Looking Statements, could adversely impact our ability to meet these forward-looking expectations.

### Consumer Products

For the quarter ended	July 5, 2014	June 29, 2013	Change	% Change
Revenues	\$ 112,017	\$ 95,765	\$ 16,252	17.0%
Gross Margin	15,271	14,471	800	5.5%
Gross Margin %	13.6%	15.1%		-1.5%
Operating income	\$ 8,164	\$ 8,279	\$ (115)	-1.4%
Operating Income %	7.3%	8.6%		-1.3%

Consumer Products contributed \$112,017 in revenues for the quarter ended July 5, 2014, compared to \$95,765 for the quarter ended June 29, 2013, a \$16,252 or 17.0% increase. The table below explains the increase in revenue:

Consumer Products Revenue Changes	
Revenues for the quarter ended June 29, 2013	\$95,765
Increased volume of aseptically packaged beverages, in particular almond beverage, private label and foodservice soymilk, dairy, as well as teas and broths	12,519
Increased sales of re-sealable pouch products	3,132
Higher volumes of private label retail frozen food offerings	1,112
Higher sales of private label snack products	665
Lower volumes of private label beverage and premium juice products	(1,176)
Revenues for the quarter ended July 5, 2014	<b>\$112,017</b>

Gross margin in Consumer Products increased by \$800 to \$15,271 for the quarter ended July 5, 2014 compared to \$14,471 for the quarter ended June 29, 2013, and the gross margin percentage decreased by 1.5% to 13.6%. The decrease in gross margin as a percentage of revenue was due to additional plant and operating costs associated with the significant growth and expansion of the aseptic and pouch businesses, as well as increased costs associated with the retrofit of our premium juice facility. The table below explains the increase in gross margin:

<b>Consumer Products Gross Margin Changes</b>	
Gross Margin for the quarter ended June 29, 2013	\$14,471
Higher volume and improved pricing for aseptically packaged beverages, private retail frozen foods and healthy snacks, partially offset by higher costs from plant expansions and lower private label beverage sales	1,675
Margin impact of outsourcing extraction activities and low production volume during the retrofit of our premium juice facility	(875)
Gross Margin for the quarter ended July 5, 2014	<b>\$15,271</b>

Operating income in Consumer Products decreased by \$115, or 1.4%, to \$8,164 for the quarter ended July 5, 2014, compared to \$8,279 for the quarter ended June 29, 2013. The table below explains the decrease in operating income:

<b>Consumer Products Operating Income Changes</b>	
Operating Income for the quarter ended June 29, 2013	\$8,279
Increase in gross margin, as explained above	800
Increase in corporate cost allocations	(801)
Higher compensation related SG&A expenses	(114)
Operating Income for the quarter ended July 5, 2014	<b>\$8,164</b>

Looking forward, we expect improvements in margins and operating income from Consumer Products through the growth of our aseptic and non-aseptic beverage, pouch, snack and frozen food offerings. We remain customer focused and continue to develop new ways to bring new value-added packaged products and processes to market, leveraging our global raw material sourcing and supply, and value-added ingredient capabilities. We expect the multi-serve and single-serve fillers installed in 2013 at our Alexandria, Minnesota and Modesto, California facilities will continue to enhance our ability to serve the non-dairy alternative beverage category, with both new and innovative packaging formats and a number of new product offerings beyond non-dairy beverages including organic dairy and nutritional beverages, and we recently announced further expansion of our Modesto operation (as described above under

Business Developments in the First Two Quarters of 2014 ). We also commissioned two additional flexible re-sealable pouch filling lines at our Allentown facility during 2013, increasing our total annual filling capacity to approximately 140 million pouches. Continued new product development, innovation in healthy snacks and the expansion of our integrated juice operations, combined with increasing demand for portable nutritious fruit and grain snack offerings are expected to drive growth in this business. Long term we are targeting 12% to 14% operating margins from Consumer Products. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. Unfavorable shifts in consumer preferences, increased competition, volume decreases or loss of customers, unexpected delays in our expansion plans, inefficiencies in our manufacturing processes, lack of consumer product acceptance, or our inability to successfully implement the particular goals and strategies indicated above, along with the other factors described above under Forward-Looking Statements , could have an adverse impact on these forward-looking expectations.

**Opta Minerals**

For the quarter ended	July 5, 2014	June 29, 2013	Change	% Change
-----------------------	--------------	---------------	--------	----------

Revenues	\$	35,243	\$	37,462	\$	(2,219)	-5.9%
Gross Margin		6,513		5,568		945	17.0%
Gross Margin %		18.5%		14.9%			3.6%

Operating Income	\$	1,571	\$	903	\$	668	74.0%
Operating Income %		4.5%		2.4%			2.1%

Opta Minerals contributed \$35,243 in revenues for the quarter ended July 5, 2014, compared to \$37,462 for the quarter ended June 29, 2013, a decrease of \$2,219 or 5.9%. The table below explains the decrease in revenue:

<b>Opta Minerals Revenue Changes</b>	
Revenues for the quarter ended June 29, 2013	\$37,462
Decreased volumes of abrasive and industrial mineral products	(3,298)
Higher volumes, partially offset by reduced pricing for steel and magnesium products	1,079
Revenues for the quarter ended July 5, 2014	<b>\$35,243</b>

Gross margin for Opta Minerals increased by \$945 to \$6,513 for the quarter ended July 5, 2014 compared to \$5,568 for the quarter ended June 29, 2013, and the gross margin percentage increased by 3.6% to 18.5%. The increase in gross margin as a percentage of revenue was due primarily to improved pricing along with higher plant utilization and cost reductions for industrial mineral products. The table below explains the increase in gross margin:

<b>Opta Minerals Gross Margin Changes</b>	
Gross Margin for the quarter ended June 29, 2013	\$5,568
Impact of improved pricing along with higher plant utilization and cost reductions for industrial mineral products	884
Margin impact from higher volumes of steel and magnesium products, partially offset by lower pricing	61
Gross Margin for the quarter ended July 5, 2014	<b>\$6,513</b>

Operating income for Opta Minerals increased by \$668, or 74.0%, to \$1,571 for the quarter ended July 5, 2014, compared to \$903 for the quarter ended June 29, 2013. The table below explains the increase in operating income:

<b>Opta Minerals Operating Income Changes</b>	
Operating Income for the quarter ended June 29, 2013	\$903
Increase in gross margin, as explained above	945
Decrease in SG&A, primarily due to lower compensation costs through the rationalization and integration of acquired businesses	594
Increase in foreign exchange losses	(871)
Operating Income for the quarter ended July 5, 2014	<b>\$1,571</b>

We have identified Opta Minerals as a non-core holding. As described above under **Business Developments** during the First Two Quarters of 2014, Opta Minerals is reviewing strategic alternatives. Opta Minerals is focused on leveraging its global platform to drive expansion of existing product offerings to a wider customer base and new geographies. In addition, it continues to focus on maximizing operating efficiencies and introducing new and innovative products to the markets it serves. We own approximately 66% of Opta Minerals and segment operating income is presented prior to non-controlling interest expense. The statements in this paragraph are forward-looking statements. See **Forward-Looking Statements** above. An extended period of softness in the steel and foundry industries, slowdowns in the economy, or delays in bringing new products and operations completely online, along with the other factors described above under **Forward-Looking Statements**, could have an adverse impact on these forward-looking expectations.

### Corporate Services

For the quarter ended	July 5, 2014	June 29, 2013	Change	% Change
-----------------------	--------------	---------------	--------	----------

Operating Loss	\$ (2,634)	\$ (1,887)	\$ (747)	-39.6%
----------------	------------	------------	----------	--------

Operating loss at Corporate Services increased by \$747 to \$2,634 for the quarter ended July 5, 2014, from a loss of \$1,887 for the quarter ended June 29, 2013. The table below explains the increase in operating loss:

<b>Corporate Services Operating Income Changes</b>	
Operating Loss for the quarter ended June 29, 2013	\$(1,887)
Higher compensation-related costs due to increased headcount, short-term incentives, stock-based compensation and health benefits	(1,188)
Increased IT consulting, professional fees and other general office spending	(687)
Decrease in foreign exchange gains	(202)
Increase in corporate management fees that are allocated to SunOpta operating groups	1,330
Operating Loss for the quarter ended July 5, 2014	<b>\$(2,634)</b>

Management fees mainly consist of salaries of corporate personnel who perform back office functions for divisions, as well as costs related to the enterprise resource management system. These expenses are allocated to the groups based on (1) specific identification of allocable costs that represent a service provided to each segment and (2) a proportionate distribution of costs based on a weighting of factors such as revenue contribution and number of people employed within each segment.

**Consolidated Results of Operations for the two quarters ended July 5, 2014 and June 29, 2013**

<b>For the two quarters ended</b>	<b>July 5, 2014</b>	<b>June 29, 2013</b>	<b>Change</b>	<b>Change</b>
	\$	\$	\$	%
<b>Revenues</b>				
SunOpta Foods	602,027	520,308	81,719	15.7%
Opta Minerals	69,788	73,687	(3,899)	-5.3%
<b>Total revenues</b>	<b>671,815</b>	<b>593,995</b>	<b>77,820</b>	<b>13.1%</b>
<b>Gross profit</b>				
SunOpta Foods	70,084	58,428	11,656	19.9%
Opta Minerals	11,412	12,805	(1,393)	-10.9%
<b>Total gross profit</b>	<b>81,496</b>	<b>71,233</b>	<b>10,263</b>	<b>14.4%</b>
<b>Segment operating income (loss)<sup>(1)</sup></b>				
SunOpta Foods	31,155	23,908	7,247	30.3%
Opta Minerals	2,596	3,366	(770)	-22.9%
Corporate Services	(4,916)	(3,298)	(1,618)	-49.1%
<b>Total segment operating income</b>	<b>28,835</b>	<b>23,976</b>	<b>4,859</b>	<b>20.3%</b>
Other expense (income), net	(1,004)	1,012	(2,016)	-199.2%
<b>Earnings from continuing operations before the following</b>	<b>29,839</b>	<b>22,964</b>	<b>6,875</b>	<b>29.9%</b>
Interest expense, net	4,158	3,928	230	5.9%
Impairment loss on investment	-	21,495	(21,495)	-100.0%
Provision for income taxes	10,064	7,233	2,831	39.1%
Earnings (loss) from continuing operations	15,617	(9,692)	25,309	261.1%
Earnings attributable to non-controlling interests	269	104	165	158.7%
Loss from discontinued operations, net of taxes	-	(360)	360	100.0%
<b>Earnings (loss) attributable to SunOpta Inc.</b>	<b>15,348</b>	<b>(10,156)</b>	<b>25,504</b>	<b>251.1%</b>

- (1) The following table presents a reconciliation of segment operating income (loss) to earnings (loss) from continuing operations before the following , which we consider to be the most directly comparable U.S. GAAP financial measure (refer to note (1) to the Consolidated Results of Operations for the quarters ended July 5, 2014 and June 29, 2013 table regarding the use of non-GAAP measures).

	<b>Global Sourcing and Supply</b>	<b>Value Added Ingredients</b>	<b>Consumer Products</b>	<b>SunOpta Foods</b>	<b>Opta Minerals</b>	<b>Corporate Services</b>	<b>Consol- idated</b>
<b>For the two quarters ended July 5, 2014</b>	\$	\$	\$	\$	\$	\$	\$
Segment operating income (loss)	11,418	3,637	16,100	31,155	2,596	(4,916)	28,835
Other income (expense), net	70	-	1,307	1,377	(281)	(92)	1,004
Earnings (loss) from continuing	11,488	3,637	17,407	32,532	2,315	(5,008)	29,839



operations before  
the following

**June 29, 2013**

Segment							
operating income							
(loss)	5,725	3,953	14,230	23,908	3,366	(3,298)	23,976
Other income							
(expense), net	(39)	(280)	131	(188)	(762)	(62)	(1,012)
Earnings (loss)							
from continuing							
operations before							
the following	5,686	3,673	14,361	23,720	2,604	(3,360)	22,964

**SUNOPTA INC.**

34

July 5, 2014 10-Q

Revenues for the two quarters ended July 5, 2014 increased by 13.1% to \$671,815 from \$593,995 for the two quarters ended June 29, 2013. Revenues in SunOpta Foods increased by 15.7% to \$602,027 and revenues in Opta Minerals decreased by 5.3% to \$69,788. Excluding the impact of changes including foreign exchange rates and commodity-related pricing, as well as the impact of the additional week of sales in the first half of 2014, revenues increased 12.1% on a consolidated basis and 14.4% within SunOpta Foods. Contributing to the increase in revenues within SunOpta Foods was stronger demand for organic ingredients in the U.S. and Europe; growth in consumer packaged categories including aseptic beverage products, resealable pouch products, and retail frozen foods; and increased value-added fruit ingredient volumes. At Opta Minerals, the decrease in revenues reflected lower volumes and pricing for industrial mineral products due to competitive pressures; reduced pricing on certain steel products, though offset through higher volumes; and weather-related slowdowns in North America in the first quarter of 2014.

Gross profit increased \$10,263, or 14.4%, to \$81,496 for the two quarters ended July 5, 2014, compared with \$71,233 for the two quarters ended June 29, 2013. As a percentage of revenues, gross profit for the two quarters ended July 5, 2014 was 12.1% compared to 12.0% for the two quarters ended June 29, 2013, an increase of 0.1%. Within SunOpta Foods, the gross profit percentage was 11.6% for the first half of 2014, compared with 11.2% for the first half of 2013, which reflected the net effect of higher margins on organic ingredient sales in the U.S. and Europe; improved performance in our sunflower operations; and an increased contribution from higher margin aseptic beverage products. These positive factors were offset by lower margins on organic feed and specialty corn sales; weaker performance in our premium juice operations; and higher operating costs in the first quarter of 2014 due in part to adverse weather conditions in North America. The gross profit percentage at Opta Minerals declined to 16.4% in the first half of 2014, compared with 17.4% in the first half of 2013, primarily due to pricing pressures on certain steel and industrial mineral products, as well as weather-related higher operating costs in the first quarter of 2014, partially offset by the favorable impact of plant cost rationalizations.

Total segment operating income for the two quarters ended July 5, 2014 increased by \$4,859, or 20.3%, to \$28,835, compared with \$23,976 for the two quarters ended June 29, 2013. As a percentage of revenues, segment operating income was 4.3% for the two quarters ended July 5, 2014, compared with 4.0% for the two quarters ended June 29, 2013. The increase in segment operating income reflected higher overall gross profit as described above, partially offset by a \$4,468 increase in SG&A expenses, primarily due to the addition of a number of senior leadership resources in 2013 in connection with the operational realignment within SunOpta Foods, as well as increased headcount to support the growth of our international sourcing and supply operations. A foreign exchange loss of \$223 was recorded for the two quarters ended July 5, 2014, compared with a gain of \$941 for the quarter ended June 29, 2013, mainly related to the impact of exchange rate movements on intercompany and third-party loan balances at Opta Minerals.

Further details on revenue, gross margin and segment operating income variances are provided below under Segmented Operations Information .

Other income for the two quarters ended July 5, 2014 of \$1,004 included a gain of \$1,373 on the settlement in the first quarter of 2014 of the earn-out related to the acquisition of Edner of Nevada, Inc. in December 2010, net of employee severance and other related costs. Other expense for the two quarters ended June 29, 2013 of \$1,012 included employee severance and other costs in connection with the operational realignment within SunOpta Foods and the rationalization and integration of acquired businesses by Opta Minerals, as well as acquisition-related transaction costs.

The increase in interest expense of \$230 to \$4,158 for the two quarters ended July 5, 2014, compared with \$3,928 for the two quarters ended June 29, 2013, reflected higher borrowings under our European credit facilities to fund the increased working capital levels of our growing international sourcing and supply operations and higher applicable interest rates on borrowings under Opta Minerals credit facilities, partially offset by reduced borrowings under our North American credit facilities as a result of improved operating cash flows.

In the second quarter of 2013, we recognized an impairment loss of \$21,495 on our non-core equity investment in Mascoma.

The provision for income tax for the two quarters ended July 5, 2014 was \$10,064, or 39.2% of earnings before taxes, compared with \$7,233, or 38.0% of earnings before taxes, for the two quarters ended June 29, 2013 (excluding the impairment loss on investment, for which the related deferred tax asset is considered more likely than not to be unrealized). The increase in the effective tax rate reflected a change in the jurisdictional mix of earnings.

Earnings attributable to non-controlling interests for the two quarters ended July 5, 2014 were \$269, compared with earnings of \$104 for the two quarters ended June 29, 2013. The \$165 increase reflected higher net earnings at Opta Minerals and an improved contribution from the specialty coffee operations of a less-than-wholly-owned subsidiary.

**SUNOPTA INC.**

35

July 5, 2014 10-Q

---

Earnings from continuing operations for the two quarters ended July 5, 2014 were \$15,348, compared with a loss from continuing operations of \$9,796 for the two quarters ended June 29, 2013 (including the \$21,495 impairment loss on investment), an increase of \$25,144. Diluted earnings per share from continuing operations were \$0.23 for the two quarters ended July 5, 2014, compared with diluted loss per share of \$0.15 for the two quarters ended June 29, 2013.

Loss from discontinued operations of \$360 for the quarter ended June 29, 2013 reflected legal fees and interest costs in connection with arbitration proceedings related to CSOP, which were settled in June 2013. CSOP was disposed of in August 2011.

On a consolidated basis, we realized earnings of \$15,348 (diluted earnings per share of \$0.23) for the two quarters ended July 5, 2014, compared with a loss of \$10,156 (diluted loss per share of \$0.15) for the two quarters ended June 29, 2013.

## Segmented Operations Information

### SunOpta Foods

**For the two quarters ended**      **July 5, 2014**      **June 29, 2013**      **Change**      **% Change**

Revenues	\$	602,027	\$	520,308	\$	81,719	15.7%
Gross margin		70,084		58,428		11,656	19.9%
Gross margin %		11.6%		11.2%			0.4%

Operating income	\$	31,155	\$	23,908	\$	7,247	30.3%
Operating income %		5.2%		4.6%			0.6%

SunOpta Foods contributed \$602,027 or 89.6% of consolidated revenue for the two quarters ended July 5, 2014, compared with \$520,308 or 87.6% of consolidated revenues for the two quarters ended June 29, 2013, an increase of \$81,719 or 15.7%. The table below explains the increase in revenue by reportable segment for SunOpta Foods:

<b>SunOpta Foods Revenue Changes</b>	
Revenues for the two quarters ended June 29, 2013	\$520,308
Increase in Global Sourcing and Supply	31,015
Increase in Value Added Ingredients	6,762
Increase in Consumer Products	43,942
Revenues for the two quarters ended July 5, 2014	<b>\$602,027</b>

Gross margin in SunOpta Foods increased by \$11,656, or 19.9%, for the two quarters ended July 5, 2014 to \$70,084, or 11.6% of revenues, compared with \$58,428, or 11.2% of revenues for the two quarters ended June 29, 2013. The table below explains the increase in gross margin by reportable segment for SunOpta Foods:

<b>SunOpta Foods Gross Margin Changes</b>	
Gross margin for the two quarters ended June 29, 2013	\$58,428
Increase in Global Sourcing and Supply	7,174
Increase in Value Added Ingredients	984
Increase in Consumer Products	3,498
Gross margin for the two quarters ended July 5, 2014	<b>\$70,084</b>



Operating income in SunOpta Foods increased by \$7,247, or 30.3%, for the two quarters ended July 5, 2014 to \$31,155 or 5.2% of revenues, compared with \$23,908 or 4.6% of revenues for the two quarters ended June 29, 2013. The table below explains the increase in operating income for SunOpta Foods:

<b>SunOpta Foods Operating Income Changes</b>	
Operating income for the two quarters ended June 29, 2013	\$23,908
Increase in gross margin, as explained above	11,656
Increase in corporate cost allocations	(2,654)
Increase in SG&A costs	(1,653)
Decrease in foreign exchange gains	(102)
Operating income for the two quarters ended July 5, 2014	<b>\$31,155</b>

Further details on revenue, gross margin and operating income variances within SunOpta Foods are provided in the segmented operations information that follows.

### Global Sourcing and Supply

**For the two quarters ended**      **July 5, 2014**      **June 29, 2013**      **Change**      **% Change**

Revenues	\$ 300,824	\$ 269,809	\$ 31,015	11.5%
Gross margin	29,613	22,439	7,174	32.0%
Gross margin %	9.8%	8.3%		1.5%

Operating income	\$ 11,418	\$ 5,725	\$ 5,693	99.4%
Operating income %	3.8%	2.1%		1.7%

Global Sourcing and Supply contributed \$300,824 in revenues for the two quarters ended July 5, 2014, compared to \$269,809 for the two quarters ended June 29, 2013, an increase of \$31,015 or 11.5%. Excluding the impact of changes including foreign exchange rates, commodity-related pricing and the additional week of sales in the first quarter of 2014, Global Sourcing and Supply's revenues increased approximately 13.1%. The table below explains the increase in revenue:

<b>Global Sourcing and Supply Revenue Changes</b>	
Revenues for the two quarters ended June 29, 2013	\$269,809
Higher volumes of organic raw materials including alternative sweeteners, chia, quinoa, fruits and vegetables	51,375
Favorable impact on euro denominated sales due to the stronger euro relative to the U.S. dollar	2,968
Reduced pricing for organic food and feed products	(12,726)
Reduced pricing for non-GMO corn and soy	(5,591)
Lower volumes of non-GMO corn and soy	(4,554)
Lower in-shell sunflower sales due to reduced exports, partially offset by higher volumes of planting seeds and agronomy products	(457)
Revenues for the two quarters ended July 5, 2014	<b>\$300,824</b>

Gross margin in Global Sourcing and Supply increased by \$7,174 to \$29,613 for the two quarters ended July 5, 2014 compared to \$22,439 for the two quarters ended June 29, 2013, and the gross margin percentage increased by 1.5% to 9.8%. The increase in gross margin as a percentage of revenue was primarily due to favorable sales mix on organic raw materials and improved sunflower processing yields, partially offset by lower pricing spread on organic feed products and specialty corn, as well as start-up costs related to our cocoa processing facility in the Netherlands. The table below explains the increase in gross margin:

<b>Global Sourcing and Supply Gross Margin Changes</b>	
Gross margin for the two quarters ended June 29, 2013	\$22,439
Margin impact on increased volumes of organic raw materials, partially offset by lower pricing spread on organic feed and specialty corn products	5,128
Improved sunflower processing yields and operating efficiencies, partially offset by lower contribution from sales of planting seeds	3,415
Lower volumes of non-GMO and specialty corn	(703)
Decreased margin due to start-up costs and plant inefficiencies related to our cocoa processing facility	(666)
Gross margin for the two quarters ended July 5, 2014	<b>\$29,613</b>

Operating income in Global Sourcing and Supply increased by \$5,693, or 99.4%, to \$11,418 for the two quarters ended July 5, 2014, compared to \$5,725 for the two quarters ended June 29, 2013. The table below explains the increase in operating income:

<b>Global Sourcing and Supply Operating Income Changes</b>	
Operating income for the two quarters ended June 29, 2013	\$5,725
Increase in gross margin, as explained above	7,174
Increased SG&A, due primarily to higher compensation costs from increased headcount and short-term incentives, partially offset by decreased travel, marketing and general office spending	(505)
Increase in corporate cost allocations	(632)
Unfavorable impact on expenses due to the stronger euro relative to the U.S. dollar	(242)
Lower foreign exchange gains	(102)
Operating income for the two quarters ended July 5, 2014	<b>\$11,418</b>

**Value Added Ingredients**

For the two quarters ended	July 5, 2014	June 29, 2013	Change	% Change
----------------------------	--------------	---------------	--------	----------

Revenues	\$ 71,310	\$ 64,548	\$ 6,762	10.5%
Gross margin	10,260	9,276	984	10.6%
Gross margin %	14.4%	14.4%		0.0%

Operating income	\$ 3,637	\$ 3,953	\$ (316)	-8.0%
Operating income %	5.1%	6.1%		-1.0%

Value Added Ingredients contributed \$71,310 in revenues for the two quarters ended July 5, 2014, compared to \$64,548 for the two quarters ended June 29, 2013, an increase of \$6,762 or 10.5%. Excluding the additional week of sales in the first quarter of 2014, revenues increased approximately 6.3% in Value Added Ingredients. The table below explains the increase in revenue:

Value Added Ingredients Revenue Changes	
Revenues for the two quarters ended June 29, 2013	\$64,548
Higher volumes of fruit ingredients	6,465
Increase in contract manufacturing and fiber sales, partially offset by lower grain-based ingredient sales	297
Revenues for the two quarters ended July 5, 2014	<b>\$71,310</b>

Value Added Ingredients gross margin increased by \$984 to \$10,260 for the two quarters ended July 5, 2014 compared to \$9,276 for the two quarters ended June 29, 2013, and the gross margin percentage remain unchanged at 14.4%. Gross margin as a percentage of revenue was unchanged as improved efficiencies from higher production volumes of fruit ingredients were offset by higher operating costs and lower production volumes for fiber products and grain-based ingredients. The table below explains the increase in gross margin:

Value Added Ingredients Gross Margin Changes	
Gross margin for the two quarters ended June 29, 2013	\$9,276
Higher sales volume combined with improved production efficiencies for fruit ingredients, partially offset by higher operating costs and lower production volumes for fiber products and grain-based ingredients	984
Gross margin for the two quarters ended July 5, 2014	<b>\$10,260</b>

Operating income in Value Added Ingredients decreased by \$316, or 8.0%, to \$3,637 for the two quarters ended July 5, 2014, compared to \$3,953 for the two quarters ended June 29, 2013. The table below explains the decrease in operating income:

Value Added Ingredients Operating Income Changes	
Operating income for the two quarters ended June 29, 2013	\$3,953
Increase in gross margin, as explained above	984
Increase in SG&A, primarily due to higher compensation costs including short-term incentives	(879)
Increase in corporate cost allocations	(421)
Operating income for the two quarters ended July 5, 2014	<b>\$3,637</b>





**Consumer Products**

**For the two quarters ended      July 5, 2014      June 29, 2013      Change      % Change**

Revenues	\$	229,893	\$	185,951	\$	43,942	23.6%
Gross margin		30,211		26,713		3,498	13.1%
Gross margin %		13.1%		14.4%			-1.3%

Operating income	\$	16,100	\$	14,230	\$	1,870	13.1%
Operating income %		7.0%		7.7%			-0.7%

Consumer Products contributed \$229,893 in revenues for the two quarters ended July 5, 2014, compared to \$185,951 for the two quarters ended June 29, 2013, an increase of \$43,942 or 23.6%. Excluding the additional week of sales in the first quarter of 2014, revenues increased approximately 19.1% in Consumer Products. The table below explains the increase in revenue:

<b>Consumer Products Revenue Changes</b>	
Revenues for the two quarters ended June 29, 2013	\$185,951
Increased volume of aseptically packaged beverages, in particular almond beverage, private label and foodservice soymilk, dairy, as well as teas and broths	29,523
Increased sales of re-sealable pouch products	7,111
Higher volumes of private label retail frozen food offerings	5,205
Higher sales of private label snack products	2,103
Revenues for the two quarters ended July 5, 2014	<b>\$229,893</b>

Gross margin in Consumer Products increased by \$3,498 to \$30,211 for the two quarters ended July 5, 2014 compared to \$26,713 for the two quarters ended June 29, 2013, and the gross margin percentage decreased by 1.3% to 13.1%. The decrease in gross margin as a percentage of revenue was due to additional plant and operating costs associated with the significant growth and expansion of the aseptic and pouch businesses as well as increased costs associated with the retrofit of our premium juice facility. The table below explains the increase in gross margin:

<b>Consumer Products Gross Margin Changes</b>	
Gross margin for the two quarters ended June 29, 2013	\$26,713
Higher volume and improved pricing for aseptically packaged beverages, private retail frozen foods and healthy snacks, partially offset by higher costs from plant expansions	4,745
Margin impact of outsourcing extraction activities and low production volume during the retrofit of our premium juice facility	(1,247)
Gross margin for the two quarters ended July 5, 2014	<b>\$30,211</b>

Operating income in Consumer Products increased by \$1,870, or 13.1%, to \$16,100 for the two quarters ended July 5, 2014, compared to \$14,230 for the two quarters ended June 29, 2013. The table below explains the increase in operating income:

<b>Consumer Products Operating Income Changes</b>	
Operating income for the two quarters ended June 29, 2013	\$14,230
Increase in gross margin, as explained above	3,498
Increase in corporate cost allocations	(1,601)
Higher other SG&A expenses	(27)
Operating income for the two quarters ended July 5, 2014	<b>\$16,100</b>

### Opta Minerals

**For the two quarters ended**      **July 5, 2014**      **June 29, 2013**      **Change**      **% Change**

Revenues	\$	69,788	\$	73,687	\$	(3,899)	-5.3%
Gross margin		11,412		12,805		(1,393)	-10.9%
Gross margin %		16.4%		17.4%			-1.0%

Operating income	\$	2,596	\$	3,366	\$	(770)	-22.9%
Operating income %		3.7%		4.6%			-0.9%

Opta Minerals contributed \$69,788 in revenues for the two quarters ended July 5, 2014, compared to \$73,687 for the two quarters ended June 29, 2013, a decrease of \$3,899 or 5.3%. The table below explains the decrease in revenue:

<b>Opta Minerals Revenue Changes</b>	
Revenues for the two quarters ended June 29, 2013	\$73,687
Decreased volumes of abrasive and industrial mineral products	(4,749)
Higher volumes, partially offset by reduced pricing for steel and magnesium products	850
Revenues for the two quarters ended July 5, 2014	<b>\$69,788</b>

Gross margin for Opta Minerals decreased by \$1,393 to \$11,412 for the two quarters ended July 5, 2014 compared to \$12,805 for the two quarters ended June 29, 2013, and the gross margin percentage decreased by 1.0% to 16.4%. The decrease in gross margin as a percentage of revenue was due to competitive pricing on steel and magnesium products and higher operating costs due in part to adverse weather conditions in North America during the first quarter of 2014. The table below explains the decrease in gross margin:

<b>Opta Minerals Gross Margin Changes</b>	
Gross margin for the two quarters ended June 29, 2013	\$12,805
Impact of lower pricing for steel and magnesium products, partially offset by increased volumes	(1,216)
Impact of lower volumes of abrasive and industrial mineral products due in part to adverse weather conditions in North America, partially offset by improved plant utilization and cost reductions	(177)
Gross margin for the two quarters ended July 5, 2014	<b>\$11,412</b>

Operating income for Opta Minerals decreased by \$770, or 22.9%, to \$2,596 for the two quarters ended July 5, 2014, compared to \$3,366 for the two quarters ended June 29, 2013. The table below explains the decrease in operating income:

<b>Opta Minerals Operating Income Changes</b>	
Operating income for the two quarters ended June 29, 2013	\$3,366
Decrease in gross margin, as explained above	(1,393)
Decrease in SG&A, primarily due to lower compensation costs through the rationalization and integration of acquired businesses	1,347
Increase in foreign exchange losses	(724)
Operating income for the two quarters ended July 5, 2014	<b>\$2,596</b>

### Corporate Services

**For the two quarters ended**      **July 5, 2014**      **June 29, 2013**      **Change**      **% Change**

Operating loss                      \$      (4,916)      \$      (3,298)      \$      (1,618)      -49.1%

Operating loss at Corporate Services increased by \$1,618 to \$4,916 for the two quarters ended July 5, 2014, from a loss of \$3,298 for the two quarters ended June 29, 2013. The table below explains the increase in operating loss:

<b>Corporate Services Operating Loss Changes</b>	
Operating loss for the two quarters ended June 29, 2013	\$(3,298)
Higher compensation-related costs due to increased headcount, short-term incentives, stock-based compensation and health benefits	(2,649)
Increased IT consulting, professional fees and other general office spending	(1,279)
Decrease in foreign exchange gains	(344)
Increase in corporate management fees that are allocated to SunOpta operating groups	2,654
Operating loss for the two quarters ended July 5, 2014	<b>\$(4,916)</b>

## Liquidity and Capital Resources

We have the following sources from which we can fund our operating cash requirements:

- Existing cash and cash equivalents;
- Available operating lines of credit;
- Cash flows generated from operating activities;
- Cash flows generated from the exercise, if any, of stock options or warrants during the year;
- Potential additional long-term financing, including the offer and sale of debt and/or equity securities; and
- Potential sales of non-core divisions, or assets.

On July 27, 2012, we entered into an amended and restated credit agreement with a syndicate of lenders. The amended agreement provides secured revolving credit facilities of Cdn \$10,000 and \$165,000, as well as an additional \$50,000 in availability upon the exercise of an uncommitted accordion feature. These facilities mature on July 27, 2016, with the outstanding principal amount repayable in full on the maturity date. These facilities support our core North American food operations.

On September 25, 2012, The Organic Corporation ( TOC ) and certain of its subsidiaries entered into a credit facilities agreement with two lenders, which provides for a €45,000 revolving credit facility covering working capital needs and a €3,000 pre-settlement facility covering currency hedging requirements. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date, and the credit limit can be extended or adjusted based on the needs of the business and upon approval of the lenders. On May 23, 2014, the lenders increased the amount available under the revolving credit facility to €51,000 until July 31, 2014. On July 24, 2014, the lenders further increased the amount available under the revolving credit facility to €54,000 until September 30, 2014. These facilities support the global sourcing, supply and processing capabilities of TOC. In addition, on April 29, 2014, a subsidiary of TOC entered into an amended revolving credit facility agreement to provide up to €4,500 to cover the working capital needs of TOC's Bulgarian operations. Borrowings under this facility are repayable in full on April 30, 2015.

On May 8, 2014, Opta Minerals amended and extended its credit agreement dated May 18, 2012, which provides for a Cdn \$20,000 revolving term credit facility and a Cdn \$52,500 non-revolving term credit facility. The revolving term credit facility now matures on August 14, 2015, with the outstanding principal amount repayable in full on the maturity date. The principal amount of the non-revolving term credit facility is repayable in equal quarterly installments of approximately Cdn \$1,312. Opta Minerals may be required to make additional repayments on the non-revolving term credit facility if certain financial covenants are not met. The non-revolving term credit facility matures on May 18, 2017, with the remaining outstanding principal amount repayable in full on the maturity date. These credit facilities are specific to the operations of Opta Minerals; are standalone and separate from facilities used to finance our core food operations; and are without recourse to SunOpta Inc. Also on May 8, 2014, certain financial covenants under the Opta Minerals credit agreement were amended for the quarterly periods ending June 30, 2014 through September 30, 2015. Opta Minerals was in compliance with all its financial covenants as at June 30, 2014.

We have an effective registration statement on file with the U.S. Securities and Exchange Commission, pursuant to which we may offer up to \$200,000 of debt, equity and other securities. We also have a prospectus on file with Canadian securities regulators covering the offer and sale of up to \$200,000 of debt, equity and other securities. While the U.S. registration statement and the Canadian prospectus could be used by us for a public offering of debt, equity or other securities to raise additional capital, our ability to conduct any such future offerings will be subject to market conditions.

In order to finance significant acquisitions that may arise in the future, we may need additional sources of cash that we could attempt to obtain through a combination of additional bank or subordinated financing, a private or public offering of debt or equity securities, or the issuance of common stock as consideration in an acquisition. There can be

no assurance that these types of financing would be available or, if so, on terms that are acceptable to us.

**SUNOPTA INC.**

43

July 5, 2014 10-Q

---

In the event that we require additional liquidity due to market conditions, unexpected actions by our lenders, changes to our growth strategy, or other factors, our ability to obtain any additional financing on favorable terms, if at all, could be limited.

## Cash Flows

### *Cash flows for the quarter ended July 5, 2014*

Net cash and cash equivalents increased \$90 in the second quarter of 2014 to \$6,727 as at July 5, 2014, compared with \$6,637 at April 5, 2014, which primarily reflected operating cash flows of \$33,182 and cash proceeds on the exercise of employee stock options of \$1,582, mostly offset by the following uses of cash:

- net repayments under our credit facilities of \$29,094;
- capital expenditures of \$4,063, primarily related to expansion of our premium juice and aseptic production facilities and expansion of storage capacity at our Bulgarian grains handling and processing facility, operated as the Organic Land Corporation ( OLC ); and
- net repayments of long-term debt of \$1,435.

Cash provided by operating activities of continuing operations was \$33,182 in the second quarter of 2014, compared with \$28,477 in the second quarter of 2013, an increase of \$4,705, reflecting the improved year-over-year operating performance within SunOpta Foods. Cash used in operating activities related to discontinued operation of \$4,570 in the second quarter of 2013 mainly related to cash paid in connection with the CSOP arbitration settlement.

Cash used in investing activities of continuing operations declined by \$11,400 to \$4,098 in the second quarter of 2014, compared with \$15,498 in the second quarter of 2013, mainly due to a decrease in capital expenditures of \$10,020, reflecting higher spending in the second quarter of 2013 related to an expansion of our aseptic processing and packaging operations, construction of our cocoa processing facility and expansion of production capabilities at OLC.

Cash used in financing activities of continuing operations was \$28,928 in the second quarter of 2014, compared with \$8,768 in the second quarter of 2013, an increase of \$20,160, which mainly reflected a \$21,237 increase in net repayments under our credit facilities, due primarily to reduced capital spending and higher operating cash flows in the second quarter of 2014, compared with the second quarter of 2013.

### *Cash flows for the two quarters ended July 5, 2014*

Net cash and cash equivalents decreased \$1,810 in the first half of 2014 to \$6,727 as at July 5, 2014, compared with \$8,537 at December 28, 2013, which primarily reflected the following uses of cash:

- net repayments under our credit facilities of \$13,565;
- capital expenditures of \$7,287, primarily related to expansion of our premium juice and aseptic production facilities, expansion of storage capacity at our Bulgarian grains handling and processing facility and completion of our cocoa processing facility in the Netherlands; and
- net repayments of long-term debt of \$2,946.

These uses of cash were mostly offset by operating cash flows of \$20,586 and cash proceeds on the exercise of employee stock options of \$2,247.

Cash provided by operating activities of continuing operations was \$20,586 in the first half of 2014, compared with \$21,758 in the first half of 2013, a decrease of \$1,172, reflecting an increase in working capital levels in the first half of 2014 to support the operating growth within SunOpta Foods. Cash used in operating activities related to discontinued operations in the first half of 2013 of \$4,608 mainly related to cash paid in connection with the CSOP

arbitration settlement.

Cash used in investing activities of continuing operations declined by \$19,673 to \$8,043 in the first half of 2014, compared with \$27,716 in the first half of 2013, mainly due to a decrease in capital expenditures of \$14,689, reflecting higher spending in the second quarter of 2013 related to an expansion of our aseptic processing and packaging operations, construction of our cocoa processing facility, expansion of production capabilities at OLC and expansion of our grains milling and roasting capacity. Also contributing to the year-over-year decline in cash used in investing activities was net cash paid of \$3,828 to acquire OLC in the first half of 2013.

**SUNOPTA INC.**

44

July 5, 2014 10-Q

---



Cash used in financing activities of continuing operations was \$14,343 in the first half of 2014, compared with cash provided of \$10,289 in the first half of 2013, an increase in cash used of \$24,632, which mainly reflected net repayments under our credit facilities of \$13,565 in the first half of 2014, compared with net borrowings of \$12,782 in the first half of 2013, reflecting reduced capital and business acquisition spending in the first half of 2014, compared with the first half of 2013, as well as higher year-over-year operating cash flows.

### **Off-Balance Sheet Arrangements**

There are currently no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition.

### **Contractual Obligations**

Other than the amendments to the European and Opta Minerals credit agreements described above under **Liquidity and Capital Resources**, there have been no material changes outside the normal course of business in our contractual obligations since December 28, 2013.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. The estimates and assumptions made require us to exercise our judgment and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. We continually evaluate the information that forms the basis of our estimates and assumptions as our business and the business environment generally changes. The use of estimates is pervasive throughout our financial statements. There have been no material changes to the critical accounting estimates disclosed under the heading **Critical Accounting Estimates** in Item 7, **Management's Discussion and Analysis of Financial Condition and Results of Operations**, of the Form 10-K.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A, **Quantitative and Qualitative Disclosures about Market Risk**, of the Form 10-K. There have been no material changes to our exposures to market risks since December 28, 2013.

### **Item 4. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Our management has established disclosure controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the **Exchange Act**) is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commission's rules and forms. Such disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to its management to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure

controls and procedures were effective as of July 5, 2014.

**SUNOPTA INC.**

45

July 5, 2014 10-Q

---

***Changes in Internal Control Over Financial Reporting***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in our internal control over financial reporting (as such term is defined under Rule 13a-15(f) promulgated under the Exchange Act) occurred during the quarter ended July 5, 2014. Based on that evaluation, management concluded that there were no changes in our internal control over financial reporting during the quarter ended July 5, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

SUNOPTA INC.

46

July 5, 2014 10-Q

---

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time, we are involved in litigation incident to the ordinary conduct of our business. For a discussion of legal proceedings, see note 12 to the interim consolidated financial statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Item 1A. Risk Factors**

Certain risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 28, 2013. Other than described below, there have been no material changes to the previously-reported risk factors as of the date of this quarterly report. All of such previously reported risk factors continue to apply to our business and should be carefully reviewed in connection with an evaluation of our Company. The following disclosures are in addition to previously reported risk factors.

***The Company Does Not Currently Intend to Pay any Cash Dividends on its Common Shares in the Foreseeable Future; Therefore, the Company's Shareholders May Not be Able to Receive a Return on their Common Shares Until They Sell Them***

The Company has never paid or declared any cash dividends on its common shares. The Company does not anticipate paying any cash dividends on its common shares in the foreseeable future because, among other reasons, the Company currently intends to retain any future earnings to finance its business. The future payment of dividends will be dependent on factors such as cash on hand and achieving profitability, the financial requirements to fund growth, the Company's general financial condition and other factors the board of directors of the Company may consider appropriate in the circumstances. Until the Company pays dividends, which it may never do, its shareholders will not be able to receive a return on their common shares unless they sell them.

**Item 6. Exhibits**

The list of exhibits in the Exhibit Index is incorporated herein by reference.

SUNOPTA INC.

47

July 5, 2014 10-Q

---

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUNOPTA INC.

Date: August 13, 2014

/s/ Robert McKeracher  
Robert McKeracher  
Vice President and Chief Financial Officer  
(Authorized Signatory and Principal Financial Officer)

**SUNOPTA INC.**

48

July 5, 2014 10-Q

---

**EXHIBIT INDEX****Exhibit No. Description**

<u>10.1*</u>	<u>Stock Deferral Plan for Non-Employee Directors dated August 12, 2014.</u>
<u>31.1</u>	<u>Certification by Steven Bromley, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.</u>
<u>31.2</u>	<u>Certification by Robert McKeracher, Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.</u>
<u>32</u>	<u>Certifications by Steven Bromley, Chief Executive Officer, and Robert McKeracher, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith.

**SUNOPTA INC.**

49

July 5, 2014 10-Q