SunOpta Inc.
Form 10-Q
November 07, 2012

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

FORM 10-Q

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

For the quarterly period ended **September 29, 2012**

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	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2838 Bovaird Drive West **Brampton, Ontario L7A 0H2, Canada**	**(905) 455-1990**
(Address of principal executive offices)	(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 [X] 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 [X] No [_]

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

The number of the registrant s common shares outstanding as of November 2, 2012 was 65,980,314.

SUNOPTA INC.
FORM 10-Q
For the quarterly period ended September 29, 2012

TABLE OF CONTENTS

Basis of Presentation

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 to 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 preceded by the symbol Cdn $ and amounts expressed in euros are preceded by the symbol € . As at September 29, 2012, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euro, were $1.00 = Cdn $0.9832 and $1.00 = €0.7782. These rates are provided solely for convenience and do not necessarily reflect the rates used by us 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 , c believe , expect , could , would , should , might , plan , will , may , predict , the negatives of such t 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.

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 credit facilities when they become due of 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 conditions due to adverse weather conditions;
- dilution in the value of our common shares through the exercise of stock options, participation in our employee stock purchase plan and issuance of additional securities;
- 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 lack of management and operational control over Mascoma Corporation;
- 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 31, 2011 (Form 10-K). For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors under Item 1A of Part II of this Form 10-Q and under Item 1A, Risk Factors, of the Form 10-K.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SunOpta Inc.
Consolidated Statements of Operations
For the quarter and three quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

		Quarter ended		Three quarters ended
	September 29, 2012 $	October 1, 2011 $	**September 29, 2012** $	October 1, 2011 $
Revenues	**279,339**	257,011	**820,975**	777,549
Cost of goods sold	**246,158**	226,990	**716,220**	682,916
Gross profit	**33,181**	30,021	**104,755**	94,633
Selling, general and administrative expenses	**19,395**	20,591	**61,911**	61,497
Intangible asset amortization	**1,225**	1,045	**3,653**	3,078
Other expense (income), net (note 9)	**264**	7	**2,006**	(2,887)
Foreign exchange (gain) loss	**(130)**	1,022	**(629)**	1,176
Earnings from continuing operations before the following	**12,427**	7,356	**37,814**	31,769
Interest expense, net	**2,339**	2,033	**7,480**	6,537
Earnings from continuing operations before income taxes	**10,088**	5,323	**30,334**	25,232
Provision for income taxes	**3,947**	1,451	**10,302**	8,875
Earnings from continuing operations	**6,141**	3,872	**20,032**	16,357
Discontinued operations (note 3)				
Earnings (loss) from discontinued operations, net of income taxes	**112**	(433)	**517**	(2,057)
Gain on sale of discontinued operations, net of income taxes	**-**	71	**676**	71

Earnings (loss) from discontinued operations, net of income taxes	**112**	(362)	**1,193**	(1,986)
Earnings	**6,253**	3,510	**21,225**	14,371
Earnings attributable to non-controlling interests	**449**	144	**1,384**	1,523
Earnings attributable to SunOpta Inc.	**5,804**	3,366	**19,841**	12,848
Earnings (loss) per share basic (note 10)				
- from continuing operations	**0.09**	0.06	**0.28**	0.23
- from discontinued operations	**-**	(0.01)	**0.02**	(0.03)
	0.09	0.05	**0.30**	0.20
Earnings (loss) per share diluted (note 10)				
- from continuing operations	**0.09**	0.06	**0.28**	0.22
- from discontinued operations	**-**	(0.01)	**0.02**	(0.03)
	0.09	0.05	**0.30**	0.19

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Comprehensive Earnings (Loss)
For the quarter and three quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	**September 29, 2012** $	October 1, 2011 $
Earnings from continuing operations	**6,141**	3,872	**20,032**	16,357
Earnings (loss) from discontinued operations, net of income taxes	**112**	(362)	**1,193**	(1,986)
Earnings	**6,253**	3,510	**21,225**	14,371
Currency translation adjustment	**590**	(4,069)	**(238)**	(572)
Change in fair value of interest rate swap, net of taxes	**(7)**	79	**(162)**	292
Other comprehensive earnings (loss), net of income taxes	**583**	(3,990)	**(400)**	(280)
Comprehensive earnings (loss)	**6,836**	(480)	**20,825**	14,091
Comprehensive earnings attributable to non-controlling interests	**433**	238	**1,212**	1,699
Comprehensive earnings (loss) attributable to SunOpta Inc.	**6,403**	(718)	**19,613**	12,392

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Balance Sheets
As at September 29, 2012 and December 31, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars)

	September 29, 2012 $	December 31, 2011 $
ASSETS		
Current assets		
Cash and cash equivalents (note 11)	**4,187**	2,378
Accounts receivable	**115,979**	88,898
Inventories (note 5)	**224,556**	228,455
Prepaid expenses and other current assets	**22,851**	21,378
Current income taxes recoverable	**1,106**	1,503
Deferred income taxes	**4,946**	4,773
Current assets held for sale (note 1)	**-**	17,923
	373,625	365,308
Investments (note 6)	**33,845**	33,845
Property, plant and equipment	**135,709**	120,584
Goodwill	**57,008**	49,387
Intangible assets	**54,416**	48,035
Deferred income taxes	**12,435**	11,751
Other assets	**2,270**	1,854
Non-current assets held for sale (note 1)	**-**	739
	669,308	631,503
LIABILITIES		
Current liabilities		
Bank indebtedness (note 7)	**111,237**	109,718
Accounts payable and accrued liabilities	**118,928**	114,308
Customer and other deposits	**3,493**	843
Income taxes payable	**3,117**	1,229
Other current liabilities	**3,809**	1,419
Current portion of long-term debt (note 7)	**5,924**	35,198
Current portion of long-term liabilities	**569**	995
Current liabilities held for sale (note 1)	**-**	5,920
	247,077	269,630
Long-term debt (note 7)	**47,836**	17,066
Long-term liabilities	**6,586**	5,586
Deferred income taxes	**30,689**	24,273
	332,188	316,555
EQUITY		
SunOpta Inc. shareholders equity		

Common shares, no par value, unlimited shares authorized, 65,977,814 shares issued (December 31, 2011 - 65,796,398)	**182,916**	182,108
Additional paid-in capital (note 8)	**16,147**	14,134
Retained earnings	**120,349**	100,508
Accumulated other comprehensive income	**795**	2,382
	320,207	299,132
Non-controlling interests	**16,913**	15,816
Total equity	**337,120**	314,948
	669,308	631,503
Commitments and contingencies (note 12)		

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Shareholders Equity
As at and for the three quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars)

		Common shares	**Additional paid-in capital**	**Retained earnings**	**Accumulated other comprehensive income**	**Non-controlling interests**	**Total**
	000s	$	$	$	$	$	$
Balance at December 31, 2011	65,796	182,108	14,134	100,508	2,382	15,816	314,948
Employee share purchase plan and compensation grants	85	446	-	-	-	-	446
Exercise of options	97	362	(128)	-	-	-	234
Stock-based compensation	-	-	2,141	-	-	-	2,141
Earnings from continuing operations	-	-	-	18,648	-	1,384	20,032
Earnings from discontinued operations, net of income taxes	-	-	-	1,193	(1,359)	-	(166)
Currency translation adjustment	-	-	-	-	(121)	(117)	(238)
Change in fair value of interest rate swap, net of income taxes	-	-	-	-	(107)	(55)	(162)
Payment to non-controlling interests	-	-	-	-	-	(115)	(115)
Balance at September 29, 2012	**65,978**	**182,916**	**16,147**	**120,349**	**795**	**16,913**	**337,120**

		Common shares	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Non-controlling interests	Total
	000s	$	$	$	$	$	$

Balance at January 1, 2011	65,500	180,661	12,336	95,212	2,833	14,085	305,127
Employee share purchase plan and compensation grants	150	504	-	-	-	-	504
Exercise of options	93	586	(101)	-	-	-	485
Stock-based compensation	-	-	1,536	-	-	-	1,536
Earnings from continuing operations	-	-	-	14,834	-	1,523	16,357
Loss from discontinued operations, net of income taxes	-	-	-	(1,986)	-	-	(1,986)
Currency translation adjustment	-	-	-	-	(650)	78	(572)
Change in fair value of interest rate swap, net of income taxes	-	-	-	-	194	98	292
Balance at October 1, 2011	65,743	181,751	13,771	108,060	2,377	15,784	321,743

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Cash Flows
For the quarter and three quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars)

		Quarter ended		Three quarters ended
	September 29, 2012 $	October 1, 2011 $	**September 29, 2012 $**	October 1, 2011 $
Cash provided by (used in)				
Operating activities				
Earnings	**6,253**	3,510	**21,225**	14,371
Earnings (loss) from discontinued operations	**112**	(362)	**1,193**	(1,986)
Earnings from continuing operations	**6,141**	3,872	**20,032**	16,357
Items not affecting cash:				
Depreciation and amortization	**5,155**	4,497	**14,946**	13,354
Unrealized gain on foreign exchange	**(76)**	(991)	**(169)**	(22)
Deferred income taxes	**(639)**	1,114	**3,077**	5,835
Stock-based compensation	**713**	555	**2,041**	1,536
Loss (gain) on sale of property, plant and equipment	**-**	584	**-**	(3,240)
Unrealized loss (gain) on derivative instruments	**(3,075)**	646	**(1,178)**	(3,272)
Other	**508**	375	**1,217**	310
Changes in non-cash working capital, net of business acquired (note 11)	**7,462**	990	**(1,921)**	(31,903)
Net cash flows from operations - continuing operations	**16,189**	11,642	**38,045**	(1,045)
Net cash flows from operations - discontinued operations	**313**	(903)	**(3)**	(1,638)
	16,502	10,739	**38,042**	(2,683)
Investing activities				
Acquisitions of businesses, net of cash acquired (note 2)	**(11,644)**	(2,500)	**(29,174)**	(2,500)
Purchases of property, plant and equipment	**(5,709)**	(6,082)	**(17,623)**	(15,256)
	-	-	**-**	2,773

Proceeds from sale of property, plant and equipment				
Payment of contingent consideration	**(61)**	-	**(388)**	-
Purchases of intangible assets	**(56)**	-	**(81)**	(67)
Other	**122**	411	**(84)**	(30)
Net cash flows from investing activities - continuing operations	**(17,348)**	(8,171)	**(47,350)**	(15,080)
Net cash flows from investing activities - discontinued operations	**-**	(318)	**12,134**	(388)
	(17,348)	(8,489)	**(35,216)**	(15,468)
Financing activities				
Increase under line of credit facilities (note 7)	**56,959**	4,759	**46,434**	33,186
Repayment of line of credit facilities (note 7)	**(45,295)**	-	**(45,296)**	-
Borrowings under long-term debt (note 7)	**15,234**	1,875	**34,607**	1,912
Repayment of long-term debt (note 7)	**(24,136)**	(6,697)	**(34,959)**	(13,423)
Financing costs	**(1,315)**	-	**(2,490)**	(186)
Proceeds from the issuance of common shares	**257**	242	**680**	989
Other	**53**	(19)	**24**	802
Net cash flows from financing activities - continuing operations	**1,757**	160	**(1,000)**	23,280
Foreign exchange gain (loss) on cash held in a foreign currency	**29**	(457)	**(17)**	(246)
Increase in cash and cash equivalents in the period	**940**	1,953	**1,809**	4,883
Discontinued operations cash activity included above:				
Add: Balance included at beginning of period	**-**	212	**-**	308
Cash and cash equivalents - beginning of the period	**3,247**	5,361	**2,378**	2,335
Cash and cash equivalents - end of the period	**4,187**	7,526	**4,187**	7,526

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(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 has two industry groups, the largest being SunOpta Foods, which consists of four operating segments that operate in the natural, organic and specialty foods sectors and utilizes a number of integrated business models to bring cost-effective and quality products to market. In addition to SunOpta Foods, the Company owned approximately 66.2% of Opta Minerals Inc. (Opta Minerals) as at September 29, 2012. Opta Minerals is a vertically integrated provider of custom process solutions and industrial minerals products for use primarily in the steel, foundry, loose abrasive cleaning, construction and marine/bridge cleaning industries. The Company also has an ownership position in Mascoma Corporation (Mascoma), an innovative biofuels company (see note 6).

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 three quarters ended September 29, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 29, 2012 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 31, 2011 (except as described below under Comparative balances and Adoption of new accounting standards). For further information, see the consolidated financial statements, and notes thereto, included in the Company s Current Report on Form 8-K filed on June 25, 2012.

Comparative balances

As a result of the divestiture of the Company s interest in Purity Life Natural Health Products (Purity) on June 5, 2012 (see note 3), the operating results and cash flows of Purity for the quarter and three quarters ended October 1, 2011 have been reclassified to discontinued operations. In addition, the net assets of Purity have been reclassified and reported as held for sale on the consolidated balance sheet as at December 31, 2011.

As more fully described in note 13, segmented information for the quarter and three quarters ended October 1, 2011 has been restated to reflect the realignment of the Company s operating segments within SunOpta Foods implemented during the first quarter of 2012, and the divestiture of Purity (as noted above). The realignment of the Company s operating segments did not change the Company s previously reported consolidated results of operations, financial position or cash flows.

Adoption of new accounting standards

Effective January 1, 2012, the Company adopted on a prospective basis the provisions of the following new accounting standards:

- Amendments to fair value measurement and disclosure requirements.
- Guidance related to the presentation of net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements. The amendments did not change the components of other comprehensive income as reported in the Company s separate statement of comprehensive earnings.
- Guidance on the accounting for goodwill that permits a qualitative approach to determining the likelihood of a goodwill impairment charge.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

The adoption of these new standards did not have a significant impact on the interim consolidated financial statements.

2. Business acquisitions

WGI Heavy Metals, Incorporated

On August 29, 2012, Opta Minerals paid $14,098 in cash to acquire approximately 94% of the outstanding common shares of WGI Heavy Metals, Incorporated (WGI), pursuant to an offer by Opta Minerals to acquire all of the outstanding common shares of WGI for Cdn $0.60 cash per share. The fair value of the remaining outstanding common shares of WGI amounted to $870 based on the terms of the offer. The fair value of the remaining outstanding common shares has been included in accrued liabilities, as Opta Minerals had commenced a compulsory acquisition of the outstanding common shares of WGI not tendered to the offer. The compulsory acquisition is expected to be completed on or about November 8, 2012, following which Opta Minerals will own 100% of WGI. WGI s principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure water jet cutting machine replacement parts and components. This acquisition complements Opta Minerals existing product portfolio and expands product line offerings to new and existing customers.

The acquisition of WGI has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. The amounts recognized for the assets acquired and liabilities assumed are provisional due to the short duration since the acquisition date to obtain the information necessary to complete the valuation process for intangible assets and property, plant and equipment. The Company expects to finalize these amounts no later than one year from the acquisition date.

	Amounts Recognized as of Acquisition Date $
Cash and cash equivalents	2,454
Accounts receivable[(1)]	4,922
Inventories	7,404
Other current assets	111
Property, plant and equipment	4,991
Intangible assets[(2)]	630
Deferred income tax	290
Accounts payable and accrued liabilities	(5,056)
Bank indebtedness and long-term debt	(551)
Other long-term liabilities	(227)
Total consideration	14,968

(1) Includes trade accounts receivable with a fair value of $4,365. The gross contractual amount of trade accounts receivable was $5,097, of which $732 is expected to be uncollectible.

(2) Intangible assets principally consist of acquired customer and other relationships, which are being amortized over their estimated useful lives of approximately 15 years.

The acquired assets, assumed liabilities and results of operations of WGI have been included in the Opta Minerals operating segment since the date of acquisition. The revenues and losses of WGI attributable to SunOpta Inc. that are included in the consolidated statement of operations for the period from the acquisition date to September 29, 2012 were $2,286 and $105, respectively.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)
Babco Industrial Corp.

On February 10, 2012, Opta Minerals acquired all of the outstanding common shares of Babco Industrial Corp. (Babco), located in Regina, Saskatchewan. Babco is an industrial processor of petroleum coke. This acquisition complements Opta Minerals existing product portfolio and provides for additional product line offerings to new and existing customers in the region.

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

	Amounts Recognized as of Acquisition Date $
Net assets acquired	
Accounts receivable(1)	467
Inventories	372
Other current assets	20
Property, plant and equipment	4,909
Goodwill(2)	7,675
Intangible assets(3)	9,347
Accounts payable and accrued liabilities	(692)
Deferred income taxes	(2,808)
Long-term debt(4)	(1,145)
	18,145
Consideration	
Cash consideration	17,530
Contingent consideration(5)	615
	18,145

(1) The fair value of accounts receivable acquired is equal to the gross contractual amount receivable.

(2) Goodwill is calculated as the difference between the acquisition-date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents (i) synergies and economies of scale expected to result from combining the operations of Opta Minerals and Babco, (ii) the value of the going-concern element of Babco s existing business (that is, the higher rate of return on the assembled net assets versus if Opta Minerals had acquired all of the net assets separately), and (iii) the value of Babco s assembled workforce that does not qualify for separate recognition as an intangible asset.

(3)

Intangible assets consist of acquired customer relationships, which are being amortized over their estimated useful lives of approximately 15 years.

(4) In conjunction with the acquisition, Opta Minerals fully repaid Babco s existing banking facilities.

(5) Represents the fair value of contingent consideration payments of up to approximately $1,300 if Babco achieves certain earnings before interest, taxes, depreciation and amortization (EBITDA) targets over the next five years. The fair value of the contingent consideration was measured using a discounted cash flow analysis based on level 3 inputs, which included a forecasted EBITDA growth rate of 2.5% and a risk-adjusted discount rate of 18.0%.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)
In addition to the recognition of the fair values of the assets acquired and liabilities assumed at the acquisition date, Opta Minerals determined that in connection with its subsequent amalgamation with Babco during the quarter ended June 30, 2012, it was more likely than not that the combined company would be able to realize a portion of Opta Minerals pre-existing non-capital loss carryforwards. As a result, Opta Minerals released $990 of a valuation allowance against its deferred tax assets, resulting in a corresponding deferred tax benefit (before non-controlling interest) recognized in the provision for income taxes for the three quarters ended September 29, 2012.

The acquired assets (including goodwill), assumed liabilities and results of operations of Babco have been included in the Opta Minerals operating segment since the date of acquisition. The revenues and earnings of Babco attributable to SunOpta Inc. that are included in the consolidated statement of operations for the period from the acquisition date to September 29, 2012 were $8,667 and $1,545, respectively.

Pro forma consolidated results of operations (unaudited)

The following table presents unaudited pro forma consolidated results of operations for the quarter and three quarters ended September 29, 2012 and October 1, 2011, as if the acquisitions of WGI and Babco had occurred as of January 2, 2011.

		Quarter ended		Three quarters ended
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
	$	$	$	$
Pro forma revenues	284,632	269,955	843,509	817,635
Pro forma earnings attributable to SunOpta Inc.	4,836	3,609	18,235	13,635
Pro forma earnings per share				
Basic	0.07	0.06	0.28	0.21
Diluted	0.07	0.05	0.27	0.20

The pro forma consolidated results of operations were prepared using the acquisition method of accounting and are based on unaudited historical financial information of the Company, WGI and Babco. The pro forma information reflects primarily the following pro forma adjustments:

- incremental amortization expense related to the fair value of the identifiable intangible assets acquired;
- additional depreciation expense related to the fair value adjustment to property, plant and equipment acquired;
- additional interest costs associated with an increase in borrowings under Opta Minerals non-revolving term credit facility, which were used to finance the acquisitions;
- exclusion of acquisition-related transaction costs incurred by Opta Minerals from pro forma earnings for the quarter and three quarters ended September 29, 2012, and the inclusion of those costs in pro forma earnings for the quarter and three quarters ended October 1, 2011; and
- consequential tax effects of the preceding adjustments.

The pro forma information is not necessarily indicative of what the Company s consolidated results of operations actually would have been had the acquisitions of WGI and Babco been completed on January 2, 2011. In addition, the pro forma information does not purport to project the future results of operations of the Company.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)
3. Divestitures

Purity Life Natural Health Products

On June 5, 2012, the Company completed the sale of Purity, its Canadian natural health products distribution business, for consideration of $13,443 (Cdn $14,000) in cash at closing, plus up to approximately $672 (Cdn $700) if Purity achieves certain earnings targets during the one-year period following the closing date. The contingent consideration will not be recognized by the Company until realized. The divestiture of Purity is consistent with the Company s strategy to focus on its core natural and organic foods sourcing and processing business. Purity was formerly part of the Company s International Foods Group operating segment.

The Company recognized the following gain on sale in discontinued operations:

Cash consideration	$	13,443
Transaction and related costs		(1,254)
Net proceeds		12,189
Net assets sold		12,939
Accumulated currency translation adjustment related to net assets sold		(1,359)
Pre-tax gain on sale		609
Recovery of income taxes[(1)]		67
Gain on sale of discontinued operations, net of income taxes	$	676

(1) The divestiture resulted in a pre-tax accounting loss on sale of $750 (before giving effect to the accumulated currency translation adjustment). The Company recognized a recovery of income taxes for the associated loss for Canadian tax purposes.

The operating results of Purity for the current and comparative periods are included within earnings (loss) from discontinued operations, net of income taxes, as follows:

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
Revenues	-	15,409	26,914	46,013
Earnings (loss) before income taxes	(20)	(64)	1,034	(1,378)
Recovery of (provision for) income taxes	5	14	(300)	309
Earnings (loss) from discontinued operations, net of income taxes	(15)	(50)	734	(1,069)

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)
Colorado Sun Oil Processing LLC

Colorado Sun Oil Processing LLC (CSOP) was organized in 2008 under the terms of a joint venture agreement with Colorado Mills, LLC (Colorado Mills) to construct and operate a vegetable oil refinery adjacent to Colorado Mills sunflower crush plant. On August 12, 2011, the U.S. Bankruptcy Court, District of Colorado, accepted an asset purchase agreement submitted by Colorado Mills for CSOP and rejected an asset purchase agreement submitted by the Company. Based on the bankruptcy court ruling, the Company disposed of its interest in the CSOP joint venture, which was previously consolidated as a variable interest entity as part of the Grains and Foods Group, and recognized a gain on sale of discontinued operations of $71 in the quarter ended October 1, 2011. In addition, the operating results of CSOP for the current and comparative periods, which include legal fees and interest costs incurred in connection with arbitration proceedings related to the joint venture agreement (see note 12), are included within earnings (loss) from discontinued operations, net of income taxes, as follows:

		Quarter ended		Three quarters ended
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
Revenues	-	204	-	538
Earnings (loss) before income taxes	208	(764)	(356)	(1,974)
Recovery of (provision for) income taxes	(81)	283	139	732
Loss allocated to non-controlling interests	-	98	-	254
Earnings (loss) from discontinued operations, net of income taxes	127	(383)	(217)	(988)

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(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 September 29, 2012 and December 31, 2011:

					September 29, 2012
		Fair value asset (liability)	Level 1	Level 2	Level 3
		$	$	$	$
(a)	Commodity futures and forward contracts[1]				
	Unrealized short-term derivative gain	5,382	-	5,382	-
	Unrealized long-term derivative gain	262	-	262	-
	Unrealized short-term derivative loss	(3,540)	(891)	(2,649)	-
	Unrealized long-term derivative loss	(10)	-	(10)	-
(b)	Inventories carried at market[2]	18,625	-	18,625	-
(c)	Interest rate swaps[3]	(497)	-	(497)	-
(d)	Forward foreign currency contracts[4]	304	-	304	-
(e)	Contingent consideration[5]	(4,487)	-	-	(4,487)

					December 31, 2011
		Fair value asset (liability)	Level 1	Level 2	Level 3
		$	$	$	$
(a)	Commodity futures and forward contracts[1]				
	Unrealized short-term derivative gain	2,125	34	2,091	-
	Unrealized long-term derivative gain	271	-	271	-
	Unrealized short-term derivative loss	(1,410)	-	(1,410)	-
	Unrealized long-term derivative loss	(70)	-	(70)	-
(b)	Inventories carried at market[2]	12,685	-	12,685	-
(c)	Interest rate swaps[3]	(256)	-	(256)	-
(d)	Forward foreign currency contracts[4]	(149)	-	(149)	-
(e)	Contingent consideration[5]	(4,456)	-	-	(4,456)

(1) Unrealized short-term derivative gain is included in prepaid expenses and other current assets, unrealized long-term derivative gain is included in other assets, unrealized short-term derivative loss is included in other current liabilities and unrealized long-term derivative loss 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 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.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(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. These derivative instruments are not designated as hedging instruments. For the quarter and three quarters ended September 29, 2012, gains of $3,074 and $1,178, respectively, were recorded in cost of goods sold on the consolidated statement of operations related to changes in the fair value of these derivatives, compared with a loss of $36 and a gain of $3,272 in the corresponding periods of 2011.

At September 29, 2012, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

		Number of bushels purchase (sale)
	Corn	Soybeans
Forward commodity purchase contracts	1,515	698
Forward commodity sale contracts	(807)	(662)
Commodity futures contracts	(1,292)	(673)

In addition, as at September 29, 2012, the Company also had open forward contracts to sell 132 lots of cocoa.

(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 sales on the consolidated statements of operations. As at September 29, 2012, the Company had 592,399 bushels of commodity corn and 644,928 bushels of commodity soybeans in inventories carried at market.

(c) Interest rate swaps

Opta Minerals utilizes interest rate swaps to minimize its exposure to interest rate risk. In February 2012, Opta Minerals entered into a five-year interest rate swap with a notional value of Cdn $19,000 ($19,324) to pay a fixed rate of 1.85%, 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. In August 2012, the notional value of the interest rate swap increased to Cdn $34,000 ($34,581). The net notional value decreases in accordance with the quarterly principal repayments on the non-revolving term credit facility.

At each period end, the Company calculates the mark-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 mark-to-market position. The mark-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.

(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 September 29, 2012, the Company had open forward foreign exchange contracts with a notional value of €10,129 and $7,403. For the quarter and three quarters ended September 29, 2012, the Company recognized an unrealized loss of $16 and an unrealized gain of $304, respectively, related to changes in the fair value of these derivatives, which was included in foreign exchange loss on the consolidated statements of operations, compared with an unrealized loss of $359 and an unrealized loss of $554 in corresponding periods of 2011.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

(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 three quarters ended September 29, 2012, the change in the fair value of the contingent consideration liability reflected the addition of the acquisition-date fair value of the contingent consideration arising from the acquisition of Babco of $617 (see note 2) and the payment of $388 to the former owners of Edner of Nevada, Inc. The balance of the change in the fair value of the contingent consideration liability related to (i) changes in the probability of achievement of the factors on which the contingencies are based, (ii) the accretion of interest expense, and (iii) changes in foreign currency exchange rates, which were not material for the quarter and three quarters ended September 29, 2012.

5. Inventories

	September 29, 2012	December 31, 2011
	$	$
Raw materials and work-in-process	138,183	147,051
Finished goods	66,416	70,358
Company-owned grain	24,935	17,351
Inventory reserves	(4,978)	(6,305)
	224,556	228,455

6. Investments

Mascoma Corporation

As at September 29, 2012, the Company held an 18.65% equity ownership position in Mascoma. Mascoma is a privately-held renewable fuels company headquartered in the U.S. that has developed innovative technology for the low-cost conversion of abundant biomass. On August 31, 2010, the Company sold 100% of its ownership interest in SunOpta Bioprocess Inc. to Mascoma in exchange for its equity ownership position in Mascoma. The Company is accounting for its investment in Mascoma using the cost method, as the Company does not have the ability to exercise significant influence over the operating and financial policies of Mascoma.

Although Mascoma has a history of recurring operating losses and negative cash flows, the Company considers the value of its investment to be predicated on the future prospects for Mascoma s products and technologies. Mascoma s ability to continue as a going concern is dependent on a number of factors, including its ability to raise additional capital to fund its operational, capital expenditure and debt service requirements, as well as to support its product-development activities. Each reporting period, the Company evaluates whether events or changes in circumstances have occurred that may have a significant adverse effect on its ability to recover the carrying value of its investment. The Company considers the pricing of recent arms-length private offerings of Mascoma s equity securities, as well as other available information relating to Mascoma to assess the commercial viability and future earnings potential of its products and technologies, as well as its ability to secure additional funding as required. On the basis of its overall assessment, the Company determined that the carrying value of its investment in Mascoma was recoverable as at September 29, 2012.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

7. Bank indebtedness and long-term debt

	September 29, 2012 $	December 31, 2011 $
Bank indebtedness		
Canadian line of credit facility(1)	-	26
U.S. line of credit facility(1)	38,025	51,617
Opta Minerals revolving term credit facility(2)	7,057	-
Opta Minerals Canadian line of credit facility(2)	-	7,765
European credit facilities(3)	65,353	-
TOC line of credit facilities(3)	-	50,310
Other	802	-
	111,237	109,718
Long-term debt		
Non-revolving real estate term facility(1)	-	12,133
Non-revolving machinery and equipment term facility(1)	-	11,078
Opta Minerals non-revolving term credit facility(2)	52,219	-
Opta Minerals term loan facility(2)	-	6,392
Opta Minerals revolving acquisition facility(2)	-	12,420
Promissory notes	-	8,744
Other	1,541	1,497
	53,760	52,264
Less: current portion	5,924	35,198
	47,836	17,066

(1) Syndicated credit facilities

The syndicated 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. The facilities replaced the Company s previous line of credit facilities of Cdn $10,000 and $115,000, and refinanced non-revolving term facilities totalling approximately $21,000, which were due to mature on October 30, 2012.

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 September 29, 2012, the weighted-average interest rate on the facilities was 2.46%.

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

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

(2) Opta Minerals credit facilities

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

On July 24, 2012, Opta Minerals amended its credit agreement dated May 18, 2012, to provide for a Cdn $20,000 revolving term credit facility (reducing to Cdn $15,000 on January 1, 2013) and a Cdn $52,500 non-revolving term credit facility. The revolving term credit facility matures on August 14, 2013, with the outstanding principal amount repayable in full on the maturity date. The first tranche of the non-revolving term credit facility, in the amount of Cdn $37,500, was used by Opta Minerals to refinance borrowings under its existing term loan and revolving acquisition facilities. The principal is repayable in equal quarterly installments of approximately Cdn $938. The second tranche of Cdn $15,000 was primarily used to fund the acquisition of WGI (see note 2), with the principal being repayable in equal quarterly installments of Cdn $375. Opta Minerals may be required to make additional repayments on the non- revolving term credit facility if certain financial ratios are 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 accrue at the borrower s option based on various reference rates including LIBOR, plus an applicable margin of 2.00% to 3.50% based on certain financial ratios of Opta Minerals. As described in note 4, Opta Minerals utilizes interest rate swaps to hedge the interest payments on a portion of the borrowings under the non-revolving term credit facility. As at September 29, 2012, the weighted-average interest rate on the amended credit facilities was 5.80%, 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.

(3) European credit facilities

The European credit facilities support the global sourcing, supply and processing capabilities of the Company s International Foods Group.

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. The revolving credit facility is secured by the working capital of TOC and certain of its subsidiaries. A portion of the revolving credit facility was used to repay an existing €35,000 line of credit facility of TOC. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date, and the credit limit may be extended or adjusted upon approval of the lenders.

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 initial applicable cost of funds was set by the lenders at 0.115%.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

8. Stock-based compensation

For the three quarters ended September 29, 2012, the Company granted 1,375,000 options to employees that vest ratably on each of the first through fifth anniversary of the grant date and expire on the tenth anniversary of the grant date. These options had a weighted-average grant-date fair value of $3.41 per option. The following table summarizes the weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the options granted:

Exercise price	$	5.56
Dividend yield		0%
Expected volatility		65.8%
Risk-free interest rate		1.2%
Expected life of options (in years)		6.5

9. Other expense (income), net

	Quarter ended		Three quarters ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
	$	$	$	$
(a) Severance and other rationalization costs	-	-	1,295	427
(b) Acquisition-related transaction costs	139	-	540	-
(c) Loss (gain) on sale of assets	51	110	51	(2,938)
(d) Legal settlements	-	-	-	(500)
Other	74	(103)	120	124
	264	7	2,006	(2,887)

(a) Severance and other rationalization costs

For the three quarters ended September 29, 2012, the Company recorded employee severance and other costs in connection with the rationalization of a number of operations and functions in an effort to streamline operations. The Company incurred severance costs of $500 in total as a result of a reduction in its salaried workforce of approximately 6%. In addition, for the quarter ended June 30, 2012, the Company accrued $795 of severance payable to a former executive officer over a period of 15 months.

For the three quarters ended October 1, 2011, severance costs were related to employee terminations in the former Fruit Group, as well as the International Foods Group and Corporate Services.

(b) Acquisition-related transaction costs

Represents transaction costs incurred by Opta Minerals in connection with the acquisitions of WGI and Babco (see note 2).

(c) Gain on sale of assets

In the second quarter of 2011, the Company completed the sale of land, buildings and processing equipment located in Mexico for proceeds of $5,650. The gain on sale, after deducting the carrying value of the assets sold and related transaction costs, was $2,938.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

(d) Legal settlement

In the second quarter of 2011, the Company recorded a recovery of $500 in connection with the settlement of a class action lawsuit with a former employee. In fiscal 2009, the Company had accrued $1,200 related to the tentative settlement of this matter.

10. Earnings per share

Earnings (loss) per share were calculated as follows:

	Quarter ended		Three quarters ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Earnings from continuing operations attributable to SunOpta Inc.	$ 5,692	$ 3,728	$ 18,648	$ 14,834
Earnings (loss) from discontinued operations, net of income taxes	112	(362)	1,193	(1,986)
Earnings attributable to SunOpta Inc.	$ 5,804	$ 3,366	$ 19,841	$ 12,848
Basic weighted-average number of shares outstanding	65,949,415	65,599,998	65,871,213	65,606,481
Dilutive potential of the following:				
Employee/director stock options	571,131	603,756	525,840	771,796
Warrants	171,829	148,543	143,054	270,130
Diluted weighted-average number of shares outstanding	66,692,375	66,352,297	66,540,107	66,648,407
Earnings (loss) per share - basic:				
- from continuing operations	$ 0.09	$ 0.06	$ 0.28	$ 0.23
	-	(0.01)	0.02	(0.03)

- from discontinued operations								
	$	0.09	$	0.05	$	0.30	$	0.20
Earnings (loss) per share - diluted:								
- from continuing operations	$	0.09	$	0.06	$	0.28	$	0.22
- from discontinued operations		-		(0.01)		0.02		(0.03)
	$	0.09	$	0.05	$	0.30	$	0.19

For the quarter ended September 29, 2012, options to purchase 2,048,700 (October 1, 2011 - 1,334,700) common shares have been excluded from the calculation of diluted earnings per share due to their anti-dilutive effect. For the three quarters ended September 29, 2012, options to purchase 2,065,700 (October 1, 2011 1,061,600) common shares have been excluded from the calculation of diluted earnings per share due to their anti-dilutive effect.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

11. Supplemental cash flow information

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
Changes in non-cash working capital:				
Accounts receivable	(3,319)	1,821	(21,223)	(13,751)
Inventories	6,623	859	11,831	(3,323)
Income tax recoverable	1,682	(2,014)	3,179	(1,299)
Prepaid expenses and other current assets	(57)	87	2,837	8,629
Accounts payable and accrued liabilities	3,619	379	(1,191)	(21,237)
Customer and other deposits	(1,086)	(142)	2,646	(922)
	7,462	990	(1,921)	(31,903)

As at September 29, 2012, cash and cash equivalents included $2,092 (December 31, 2011 - $698) that was specific to Opta Minerals and cannot be utilized by the Company for general corporate purposes.

12. Commitments and contingencies

Colorado Sun Oil Processors, LLC dispute

Colorado Mills and SunOpta Grains and Foods Inc. (formally Sunrich LLC, herein Grains and Foods), a wholly owned subsidiary of the Company, organized a joint venture through CSOP. The purpose of the joint venture was to construct and operate a vegetable oil refinery adjacent to Colorado Mills sunflower seed crush plant located in Lamar, Colorado. During the relationship, disputes arose between the parties concerning management of the joint venture, record-keeping practices, certain unauthorized expenses incurred on behalf of the joint venture by Colorado Mills, procurement of crude oil by Sunrich from Colorado Mills for processing at the joint venture refinery, and the contract price of crude oil offered for sale under an output term of the joint venture agreement.

The parties initiated a dispute resolution process as set forth in the joint venture agreement, which Colorado Mills aborted prematurely through the initiation of suit in Prowers County District Court, Colorado on March 16, 2010. Subsequent to the filing of that suit, Colorado Mills acted with an outside creditor of the joint venture to involuntarily place the joint venture into bankruptcy. In August 2011, as part of the bankruptcy proceeding initiated in June 2010 in the U.S. Bankruptcy Court, District of Colorado, Colorado Mills purchased substantially all of the assets of the joint venture.

A separate arbitration proceeding occurred between Grains and Foods and Colorado Mills to resolve direct claims each party asserted against the other. The case was arbitrated during the week of August 8, 2011 and proposed findings were filed on September 13, 2011. On January 4, 2012 the arbitrator entered an award denying Grains and Foods claims and awarding Colorado Mills $4,816 for its breach of contract claim and $430 for accrued interest. The

Company subsequently filed a motion to vacate the arbitration award on March 30, 2012 in Prowers County District Court. Colorado Mills filed a response on April 20, 2012. The Company filed a reply on April 27, 2012. The Prowers County District Court denied the Company s motion and entered judgment on the arbitration award on July 6, 2012 in the amount of $4,816. On July 13, 2012, the Company bonded the judgment in the amount of $6,875, or approximately 125% of the judgment amount, to stay execution of the judgment pending the Company s filing of an appeal to the Colorado Court of Appeals. Although management believes the claims asserted by Colorado Mills are baseless, that the arbitrator committed prejudicial error, and that vacatur of the award is warranted, management cannot predict whether the prospect of an unfavorable outcome in this matter is probable. As of December 31, 2011, the Company accrued the full value of the award, pending the outcome of post-arbitration judicial proceedings.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)
Other claims

Various additional 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 first quarter of 2012, the Company implemented changes to its organizational structure to align the operations of SunOpta Foods according to the type of customers and markets served, rather than by product groupings. Consequently, the Company has realigned its reportable operating segments to reflect the resulting changes in management reporting and accountability to the Company s Chief Executive Officer. With this realignment, SunOpta Foods now consists of the following four operating segments: Grains and Foods Group, Ingredients Group, Consumer Products Group and International Foods Group. This new structure is more closely aligned with the Company s integrated business models that specialize in the sourcing, processing and packaging of natural, organic and specialty food products.

As a result of this realignment, the former Fruit Group was eliminated and the new Consumer Products Group was created to focus on non-grains based consumer packaged goods and is comprised of the Frozen Foods and Healthy Snacks operations which were part of the former Fruit Group, and the Food Solutions operations which were formerly part of the International Foods Group. The Fruit Ingredient operation of the former Fruit Group was merged with the existing Ingredients Group. The Grains and Foods Group remained unchanged.

Effective with the realignment, the Company operates in two industries divided into six operating segments as follows:

(a) ***SunOpta Foods*** sources, processes, packages and markets a wide range of natural, organic and specialty food products and ingredients with a focus on soy, corn, sunflower, fruit, fiber and other natural and organic food products. There are four operating segments within SunOpta Foods:

   i. ***Grains and Foods Group*** is focused on vertically integrated sourcing, processing, packaging and marketing of grains, grain-based ingredients and packaged products;

   ii. ***Ingredients Group*** is focused primarily on insoluble oat and soy fiber products, and specialty fruit ingredients, and works closely with its customers to identify product formulation, cost and productivity opportunities aimed at transforming raw materials into value-added food ingredient solutions;

   iii. ***Consumer Products Group*** provides natural and organic consumer packaged food products to major global food manufacturers, distributors and supermarket chains with a variety of branded and private label non-grains based products; and

   iv. ***International Foods Group*** includes European and North American based operations that source and supply raw material ingredients and trade organic commodities.

(b) ***Opta Minerals*** processes, distributes and recycles silica-free loose abrasives, roofing granules, industrial minerals and specialty sands for the foundry, steel, and bridge and ship-cleaning industries.

(c) ***Corporate Services*** provide a variety of management, financial, information technology, treasury and administration services to the operating segments from the head office in Brampton, Ontario, and information technology and shared services from its office in Edina, Minnesota.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

The following segmented information for the quarter and three quarters ended September 29, 2012 and October 1, 2011 is provided on the basis of the Company s new operating segments alignment and the divestiture of Purity (see note 3):

				Quarter ended September 29, 2012
	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consolidated $
External revenues by market:				
U.S.	201,878	20,003	-	221,881
Canada	6,294	7,999	-	14,293
Europe and other	38,187	4,978	-	43,165
Total revenues from external customers	246,359	32,980	-	279,339
Segment operating income (loss)	10,835	3,280	(1,424)	12,691
Other expense, net				264
Interest expense, net				2,339
Provision for income taxes				3,947
Earnings from continuing operations				6,141

					Quarter ended September 29, 2012
	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $
External revenues by market:					
U.S.	123,661	18,268	41,310	18,639	201,878
Canada	2,997	1,149	195	1,953	6,294
Europe and other	13,259	856	131	23,941	38,187
Total revenues from external customers	139,917	20,273	41,636	44,533	246,359
Segment operating income (loss)	8,780	878	(544)	1,721	10,835

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

				Quarter ended October 1, 2011
	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consolidated $
External revenues by market:				
U.S.	171,864	16,360	-	188,224
Canada	9,331	3,940	-	13,271
Europe and other	51,714	3,802	-	55,516
Total revenues from external customers	232,909	24,102	-	257,011
Segment operating income (loss)	8,563	1,606	(2,806)	7,363
Other expense, net				7
Interest expense, net				2,033
Provision for income taxes				1,451
Earnings from continuing operations				3,872

					Quarter ended October 1, 2011
	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $
External revenues by market:					
U.S.	95,960	19,524	40,873	15,507	171,864
Canada	3,559	1,723	1,064	2,985	9,331
Europe and other	22,077	719	129	28,789	51,714
Total revenues from external customers	121,596	21,966	42,066	47,281	232,909
Segment operating income	4,394	2,065	205	1,899	8,563

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

				Three quarters ended September 29, 2012
	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consolidated $
External revenues by market:				
U.S.	585,642	56,637	-	642,279
Canada	24,393	22,764	-	47,157
Europe and other	118,414	13,125	-	131,539
Total revenues from external customers	728,449	92,526	-	820,975
Segment operating income (loss)	36,423	8,178	(4,781)	39,820
Other expense, net				2,006
Interest expense, net				7,480
Provision for income taxes				10,302
Earnings from continuing operations				20,032

					Three quarters ended September 29, 2012
	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $
External revenues by market:					
U.S.	346,507	55,804	133,246	50,085	585,642
Canada	12,238	4,049	1,311	6,795	24,393
Europe and other	38,351	2,555	1,322	76,186	118,414
Total revenues from external customers	397,096	62,408	135,879	133,066	728,449
Segment operating income (loss)	27,662	2,946	(549)	6,364	36,423

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

				Three quarters ended October 1, 2011
	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consolidated $
External revenues by market:				
U.S.	534,600	47,613	-	582,213
Canada	24,613	11,348	-	35,961
Europe and other	147,841	11,534	-	159,375
Total revenues from external customers	707,054	70,495	-	777,549
Segment operating income (loss)	29,835	6,216	(7,169)	28,882
Other income, net				(2,887)
Interest expense, net				6,537
Provision for income taxes				8,875
Earnings from continuing operations				16,357

					Three quarters ended October 1, 2011
	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $
External revenues by market:					
U.S.	296,168	63,207	122,605	52,620	534,600
Canada	10,140	5,768	2,482	6,223	24,613
Europe and other	55,663	2,627	670	88,881	147,841
Total revenues from external customers	361,971	71,602	125,757	147,724	707,054
Segment operating income (loss)	15,962	6,692	(151)	7,332	29,835

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 September 29, 2012 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 Current Report on Form 8-K that we filed on June 25, 2012.

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 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 under Item 1A of Part II of this Form 10-Q and under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 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 current date. 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.

Unless otherwise indicated herein, the discussion and analysis contained in this MD&A includes information available to November 7, 2012. All dollar amounts in this MD&A are expressed in thousands of U.S. dollars, except per share amounts, unless otherwise noted.

Commodity Prices

Commodity prices for corn and soybeans have risen significantly over the course of this year as a consequence of supply shortfalls due to crop failures following the worst drought conditions experienced in North America in many years. Although the overall 2012 crop is expected to be of fair to average yield and quality, we anticipate that we will be able to maintain adequate supply for our value-added consumer packaged and ingredients businesses, as we source primarily from northern growing regions that were not as severely impacted by the extreme heat and lack of rain experienced in the southern regions of the U.S. In addition, through our global sourcing platform we expect to minimize any shortfalls in supply for our lower-margin commodity grain and feed sales. With respect to pricing, our contractual relationships with customers for consumer packaged and ingredients products, as well as commodity grain and feed sales, typically allow us to increase our prices to recover increased costs of supply. As a result, we do not anticipate that weather-related supply shortfalls and commodity price inflation will have a material negative impact to our results of operations for the fourth quarter of 2012 through 2013.

Segment Realignment and Rationalization Efforts

In February 2012, we announced that a process to streamline the operations and organizational structure of SunOpta Foods had been undertaken in order to drive efficiencies and better align product innovation and commercial activities. During the first quarter of 2012, operating segments within SunOpta Foods were re-aligned according to the type of customers and markets served, rather than by product groupings. As a result, the former Fruit Group was eliminated and a new Consumer Products Group was created to focus on non-grains based consumer packaged goods. The Consumer Products Group is comprised of the Frozen Foods and Healthy Snacks operations which were part of the former Fruit Group, and the Food Solutions operations which were formerly part of the International Foods Group. The Fruit Ingredient operation of the former Fruit Group was merged with the existing Ingredients Group. Following this realignment and the divestiture of Purity Life Natural Health Products (Purity) (as described below under Business Developments), the International Foods Group comprises solely our international sourcing and supply operations (Tradin Organic). The Grains and Foods Group remained unchanged. With this realignment, SunOpta Foods now consists of four operating segments: Grains and Foods Group, Ingredients Group, Consumer Products Group and International Foods Group. The segmented operations information provided in this MD&A for the current and comparative periods reflects these new operating segments. In addition, on June 25, 2012, we filed a Current Report on Form 8-K in order to update the historical financial statements and MD&A for all periods presented in the 2011 Form 10-K to reflect the realignment of the operating segments within SunOpta Foods implemented during the first quarter of 2012.

In hand with these efforts, we also announced the rationalization of a number of operations and functions which resulted in a reduction of approximately 6% of our salaried workforce. Once fully implemented, and after approximately $500 in severance charges, this rationalization is expected to reduce annual costs by approximately $3,000 before tax. In addition, we have recently taken steps towards the closure of the Chelmsford, Massachusetts office of the Ingredients Group which would involve the relocation of certain back office functions to our U.S. corporate office located in Edina, Minnesota. We expect that this office closure will result in annualized savings of approximately $1,200 once fully implemented. The costs associated with the closure and relocation are expected to be incurred during the fourth quarter of 2012 and first quarter of 2013; however, these costs are not expected to be material.

Business Developments

WGI Heavy Minerals, Incorporated

On August 29, 2012, Opta Minerals Inc. (Opta Minerals) paid $14,098 in cash to acquire approximately 94% of the outstanding common shares of WGI Heavy Metals, Incorporated (WGI), pursuant to an offer by Opta Minerals to acquire all of the outstanding common shares of WGI for Cdn $0.60 cash per share. Opta Minerals commenced a compulsory acquisition of the outstanding common shares of WGI not tendered to the offer, which is expected to be completed on or about November 8, 2012, following which Opta Minerals will own 100% of WGI. WGI s principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure water jet cutting machine replacement parts and components. This acquisition complements Opta Minerals existing product portfolio and expands product line offerings to new and existing customers.

Purity Life Natural Health Products

On June 5, 2012, we completed the sale of Purity, our Canadian natural health products distribution business, for consideration of $13,443 (Cdn $14,000) in cash at closing, plus up to approximately $672 (Cdn $700) if Purity achieves certain earnings targets during the one-year period following the closing date. We will not recognize the contingent consideration until realized. The divestiture of Purity is consistent with our strategy to focus on our core natural and organic foods sourcing and processing business. The operating results of Purity for the quarter and three quarters ended September 29, 2012 and October 1, 2011 have been reclassified to discontinued operations. Purity was formerly part of the International Foods Group.

Babco Industrial Corp.

In February 2012, Opta Minerals acquired all of the outstanding common shares of Babco Industrial Corp. (Babco) located in Regina, Saskatchewan for cash at closing of $17,530 plus contingent consideration of up to $1,300 based on the achievement of certain earnings targets over the next five years. Babco is an industrial processor of petroleum coke. This acquisition complements Opta Minerals existing product portfolio and provides for additional product line offerings to new and existing customers in the region.

Inland RC, LLC

In November 2011, Opta Minerals acquired the members interest in Inland RC, LLC, (Inland) a manufacturer of pre-cast refractory shapes, injection lances and electric furnace deltas for cash consideration of $658 plus contingent consideration based on the achievement of certain future targets. Inland s business is complementary with current Opta Minerals product offerings and has capacity for growth and significant synergy opportunities.

Lorton s Fresh Squeezed Juices, Inc.

In August 2011, we completed the acquisition of the assets and business of Lorton s Fresh Squeezed Juices, Inc. (Lorton s) for cash consideration and amounts payable for additional working capital of $2,602, plus potential additional consideration pursuant to an earn-out based on pre-determined earnings targets over a four-year period. Lorton s is a vertically integrated producer of a variety of citrus based products in both industrial and packaged formats. This acquisition expanded our vertically integrated operations into the extracting, processing and packaging of citrus-based ingredients through consumer packaged products, and provides increased capacity for future growth and expansion. Lorton s operations are included in the Consumer Products Group.

Colorado Sun Oil Processing LLC

In August 2011, we disposed of our interest in the Colorado Sun Oil Processing LLC (CSOP) joint venture, pursuant to bankruptcy proceedings. As a result, the operating results of CSOP (including legal fees and interest costs incurred in connection with arbitration proceedings underway in respect of the related joint venture agreement see note 12 to the interim consolidated financial statements) for the quarter and three quarters ended September 29, 2012 and October 1, 2011 have been included in discontinued operations. CSOP was part of the Grains and Foods Group.

Consolidated Results of Operations

For the quarter ended	**September 29, 2012**	**October 1, 2011**	**Change**	**Change**
	$	$	$	%
Revenue				
SunOpta Foods	246,359	232,909	13,450	5.8%
Opta Minerals	32,980	24,102	8,878	36.8%
Total Revenue	279,339	257,011	22,328	8.7%
Gross Profit				
SunOpta Foods	26,205	24,797	1,408	5.7%
Opta Minerals	6,976	5,224	1,752	33.5%
Total Gross Profit	33,181	30,021	3,160	10.5%
Segment Operating Income (Loss)(1)				
SunOpta Foods	10,835	8,563	2,272	26.5%
Opta Minerals	3,280	1,606	1,674	104.2%
Corporate Services	(1,424)	(2,806)	1,382	49.3%
Total Segment Operating Income	12,691	7,363	5,328	72.4%
Other expense , net	264	7	257	3671.4%
Earnings from continuing operations before the following	12,427	7,356	5,071	68.9%
Interest expense, net	2,339	2,033	306	15.1%
Provision for income taxes	3,947	1,451	2,496	172.0%
Earnings from continuing operations	6,141	3,872	2,269	58.6%
Earnings attributable to non-controlling interests	449	144	305	211.8%
Earnings (loss) from discontinued operations, net of taxes	112	(433)	545	n/m
Gain on sale of discontinued operations, net of taxes	-	71	(71)	n/m
Earnings attributable to SunOpta Inc.	5,804	3,366	2,438	72.4%

(1) When assessing the financial performance of our operating segments, we use an internal measure of operating income that excludes other income/expense items determined in accordance with U.S. generally accepted accounting principles (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 (loss) from continuing operations before the following , which we consider to be the most directly comparable U.S. GAAP financial measure.

For the quarter ended	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consol-idated $
September 29, 2012								
Segment operating income (loss)	8,780	878	(544)	1,721	10,835	3,280	(1,424)	12,691
Other income (expense), net	6	-	(46)	-	(40)	(208)	(16)	(264)
Earnings (loss) from continuing operations before the following	8,786	878	(590)	1,721	10,795	3,072	(1,440)	12,427
October 1, 2011								
Segment operating income (loss)	4,394	2,065	205	1,899	8,563	1,606	(2,806)	7,363
Other income (expense), net	202	-	(109)	-	93	-		