SunOpta Inc.
Form 10-Q
November 06, 2013

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 28, 2013**

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 1, 2013 was 66,475,106.

SUNOPTA INC.
FORM 10-Q

For the quarterly period ended September 28, 2013

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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 toge

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 September 28, 2013, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euros, were $1.00 = Cdn $1.0303 and $1.00 = €0.7395. 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 , projec potential , continue , believe , expect , could , would , should , might , plan , will , may , predict , t 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.

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 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;
- 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;
- value of our ownership position in Opta Minerals Inc.;

- 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 29, 2012 (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.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

SunOpta Inc.
Consolidated Statements of Operations
For the quarter and three quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

	Quarter ended		Three quarters ended	
	September 28, 2013 $	September 29, 2012 $	September 28, 2013 $	September 29, 2012 $
Revenues	302,723	279,339	896,718	820,975
Cost of goods sold	271,240	246,158	794,002	716,220
Gross profit	31,483	33,181	102,716	104,755
Selling, general and administrative expenses	20,678	19,395	66,428	61,911
Intangible asset amortization	1,180	1,225	3,628	3,653
Other expense, net (note 10)	787	264	1,799	2,006
Goodwill impairment (note 7)	3,552	-	3,552	-
Foreign exchange gain	(211)	(130)	(1,152)	(629)
Earnings from continuing operations before the following	5,497	12,427	28,461	37,814
Interest expense, net	1,957	2,339	5,885	7,480
Impairment loss on investment (note 6)	-	-	21,495	-
Earnings from continuing operations before income taxes	3,540	10,088	1,081	30,334
Provision for income taxes	1,343	3,947	8,576	10,302
Earnings (loss) from continuing operations	2,197	6,141	(7,495)	20,032
Discontinued operations				
Earnings (loss) from discontinued operations, net of income taxes	-	112	(360)	517
Gain on sale of discontinued operations, net of income taxes	-	-	-	676

Earnings (loss) from discontinued operations, net of income taxes (note 3)	-	112	(360)	1,193
Earnings (loss)	2,197	6,253	(7,855)	21,225
Earnings (loss) attributable to non-controlling interests	(716)	449	(612)	1,384
Earnings (loss) attributable to SunOpta Inc.	2,913	5,804	(7,243)	19,841
Earnings (loss) per share basic (note 11)				
- from continuing operations	0.04	0.09	(0.10)	0.28
- from discontinued operations	-	-	(0.01)	0.02
	0.04	0.09	(0.11)	0.30
Earnings (loss) per share diluted (note 11)				
- from continuing operations	0.04	0.09	(0.10)	0.28
- from discontinued operations	-	-	(0.01)	0.02
	0.04	0.09	(0.11)	0.30

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Comprehensive Earnings
For the quarter and three quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Quarter ended		Three quarters ended	
	September 28, 2013 $	September 29, 2012 $	September 28, 2013 $	September 29, 2012 $
Earnings (loss) from continuing operations	2,197	6,141	(7,495)	20,032
Earnings (loss) from discontinued operations, net of income taxes	-	112	(360)	1,193
Earnings (loss)	2,197	6,253	(7,855)	21,225
Currency translation adjustment	1,616	590	1,108	(238)
Change in fair value of interest rate swap, net of taxes (note 4)	(66)	(7)	154	(162)
Other comprehensive earnings (loss), net of income taxes	1,550	583	1,262	(400)
Comprehensive earnings (loss)	3,747	6,836	(6,593)	20,825
Comprehensive earnings (loss) attributable to non-controlling interests	(637)	433	(341)	1,212
Comprehensive earnings (loss) attributable to SunOpta Inc.	4,384	6,403	(6,252)	19,613

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Balance Sheets
As at September 28, 2013 and December 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars)

	September 28, 2013 $	December 29, 2012 $
ASSETS		
Current assets		
Cash and cash equivalents (note 12)	6,819	6,840
Restricted cash (note 8)	-	6,595
Accounts receivable	120,630	113,314
Inventories (note 5)	248,887	255,738
Prepaid expenses and other current assets	16,075	20,538
Current income taxes recoverable	676	1,814
Deferred income taxes	2,377	2,653
	395,464	407,492
Investment (note 6)	12,350	33,845
Property, plant and equipment	161,919	140,579
Goodwill (note 7)	54,184	57,414
Intangible assets	49,139	52,885
Deferred income taxes	14,408	12,879
Other assets	1,616	2,216
	689,080	707,310
LIABILITIES		
Current liabilities		
Bank indebtedness (note 8)	139,371	131,061
Accounts payable and accrued liabilities	110,138	128,544
Customer and other deposits	5,856	4,734
Income taxes payable	4,300	4,125
Other current liabilities	3,028	2,660
Current portion of long-term debt (note 8)	46,466	6,925
Current portion of long-term liabilities	609	1,471
	309,768	279,520
Long-term debt (note 8)	5,565	51,273
Long-term liabilities	4,109	5,544
Deferred income taxes	28,239	27,438
	347,681	363,775
EQUITY		
SunOpta Inc. shareholders equity		
Common shares, no par value, unlimited shares authorized, 66,460,206 shares issued (December 29, 2012 - 66,007,236)	185,901	183,027

Additional paid-in capital	18,438	16,855
Retained earnings	117,489	124,732
Accumulated other comprehensive income	2,528	1,537
	324,356	326,151
Non-controlling interests	17,043	17,384
Total equity	341,399	343,535
	689,080	707,310

Commitments and contingencies (note 13)

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Shareholders Equity
As at and for the three quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Common shares 000s	Common shares $	Additional paid-in capital $	Retained earnings $	Accumulated other comprehensive income $	Non-controlling interests $	Total $
Balance at December 29, 2012	66,007	183,027	16,855	124,732	1,537	17,384	343,535
Employee share purchase plan	64	419	-	-	-	-	419
Exercise of options	389	2,455	(839)	-	-	-	1,616
Stock-based compensation	-	-	2,422	-	-	-	2,422
Loss from continuing operations	-	-	-	(6,883)	-	(612)	(7,495)
Loss from discontinued operations, net of income taxes	-	-	-	(360)	-	-	(360)
Currency translation adjustment	-	-	-	-	889	219	1,108
Change in fair value of interest rate swap, net of income taxes (note 4)	-	-	-	-	102	52	154
Balance at September 28, 2013	66,460	185,901	18,438	117,489	2,528	17,043	341,399

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

Balance at December 31, 2011	65,796	182,108	14,134	100,508	2,382	15,816	314,948
Employee share purchase plan	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 (note 4)	-	-	-	-	(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

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Cash Flows
For the quarter and three quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Quarter ended		Three quarters ended	
	September 28, 2013 $	September 29, 2012 $	September 28, 2013 $	September 29, 2012 $
CASH PROVIDED BY (USED IN)				
Operating activities				
Earnings (loss)	2,197	6,253	(7,855)	21,225
Earnings (loss) from discontinued operations	-	112	(360)	1,193
Earnings (loss) from continuing operations	2,197	6,141	(7,495)	20,032
Items not affecting cash:				
Depreciation and amortization	5,494	5,155	16,343	14,946
Deferred income taxes	(1,747)	(639)	(242)	3,077
Stock-based compensation	881	713	2,422	2,041
Goodwill impairment (note 7)	3,552	-	3,552	-
Impairment of long-lived assets (note 10)	310	-	310	-
Unrealized loss (gain) on derivative instruments (note 4)	1,950	(3,075)	2,892	(1,178)
Impairment loss on investment (note 6)	-	-	21,495	-
Other	(766)	432	(663)	1,048
Changes in non-cash working capital, net of businesses acquired (note 12)	(1,862)	7,462	(6,847)	(1,921)
Net cash flows from operations - continuing operations	10,009	16,189	31,767	38,045
Net cash flows from operations - discontinued operations	-	313	(4,608)	(3)
	10,009	16,502	27,159	38,042
Investing activities				
Acquisitions of businesses, net of cash acquired (note 2)	-	(11,644)	(3,828)	(29,174)
Purchases of property, plant and equipment	(10,797)	(5,709)	(32,773)	(17,623)
Decrease in restricted cash (note 8)	6,495	-	6,495	-
	-	(61)	(1,074)	(388)

Payment of contingent consideration				
Other	342	66	(496)	(165)
Net cash flows from investing activities - continuing operations	(3,960)	(17,348)	(31,676)	(47,350)
Net cash flows from investing activities - discontinued operations	-	-	-	12,134
	(3,960)	(17,348)	(31,676)	(35,216)
Financing activities				
Increase (decrease) under line of credit facilities (note 8)	(4,928)	11,664	7,854	1,138
Borrowings under long-term debt (note 8)	142	15,234	486	34,607
Repayment of long-term debt (note 8)	(1,677)	(24,136)	(5,697)	(34,959)
Financing costs	(5)	(1,315)	(28)	(2,490)
Proceeds from the issuance of common shares	804	257	2,035	680
Other	(72)	53	(97)	24
Net cash flows from financing activities - continuing operations	(5,736)	1,757	4,553	(1,000)
Foreign exchange gain (loss) on cash held in a foreign currency	46	29	(57)	(17)
Increase (decrease) in cash and cash equivalents in the period	359	940	(21)	1,809
Cash and cash equivalents - beginning of the period	6,460	3,247	6,840	2,378
Cash and cash equivalents - end of the period	6,819	4,187	6,819	4,187
Supplemental cash flow information (note 12)				

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 28, 2013 and September 29, 2012
(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 business segments, the largest being SunOpta Foods, which consists of four operating segments that operate in the natural, organic and specialty food 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 66.1% of Opta Minerals Inc. (Opta Minerals) as at September 28, 2013 and December 29, 2012. 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 September 28, 2013 and December 29, 2012, the Company also held an 18.7% equity 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 28, 2013 are not necessarily indicative of the results that may be expected for the full year ending December 28, 2013 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 29, 2012. 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 29, 2012.

Recent Accounting Pronouncement

In July 2013, the Financial Accounting Standards Board issued guidance requiring a liability related to an unrecognized tax benefit to be offset against a deferred tax asset for a net operating loss carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The Company will apply the new guidance prospectively effective December 28, 2013. The Company does not expect that the application of this guidance will have a material effect on its financial statements.

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 the International Foods Group.

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 total consideration transferred to effect the acquisition of OLC as of the acquisition date.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

	$
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(1)	(465)
Total cash consideration	3,898

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

The revenue and earnings of OLC from the date of acquisition to September 28, 2013 were not material to the Company s consolidated results of operations. In addition, assuming the acquisition had occurred as of January 1, 2012, the results of operations of OLC would not have had a material pro forma effect on the Company s revenues, earnings and earnings per share for the quarter and three quarters ended September 29, 2012.

3. Discontinued Operations

Purity Life Natural Health Products

On June 5, 2012, the Company completed the sale of Purity Life Natural Health Products (Purity), its Canadian natural health products distribution business, for cash consideration of $13,443 (Cdn $14,000) at closing, plus up to $672 (Cdn $700) of contingent consideration if Purity achieved certain earnings targets during the one-year period following the closing date. The earnings targets were not met and, therefore, no contingent consideration was recognized. The divestiture of Purity completed the Company s exit from all non-core distribution businesses. Purity was formerly part of the Company s International Foods Group operating segment.

Colorado Sun Oil Processing LLC

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. CSOP was formerly part of the Grains and Foods Group operating segment.

On June 18, 2013, the Company and Colorado Mills reached an agreement to settle a separate arbitration proceeding related to the joint venture agreement (see note 13). In connection with the settlement, the Company paid Colorado Mills $5,884, consisting of cash and equipment in use at the CSOP refinery. An accrual for the settlement, including accrued interest costs, was included in accounts payable and accrued liabilities on the consolidated balance sheet as at December 29, 2012. The expenses of CSOP included in discontinued operations for the three quarters ended September 28, 2013 and for the quarter and three quarters ended September 29, 2012, related to legal fees and period interest costs incurred by the Company in connection with the arbitration proceeding.

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

Operating Results Reported in Discontinued Operations

The following table presents the aggregate operating results of Purity and CSOP reported in earnings (loss) from discontinued operations:

	Quarter ended		Three quarters ended	
	September 28, 2013 $	September 29, 2012 $	September 28, 2013 $	September 29, 2012 $
Revenues	-	-	-	26,914
Earnings (loss) before income taxes	-	188	(570)	678
Recovery of (provision for) income taxes	-	(76)	210	(161)
Earnings (loss) from discontinued operations, net of income taxes	-	112	(360)	517

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 28, 2013 and December 29, 2012:

	September 28, 2013			
	Fair value asset (liability) $	Level 1 $	Level 2 $	Level 3 $
(a) Commodity futures and forward contracts[1]				
Unrealized short-term derivative asset	2,077	270	1,807	-
Unrealized long-term derivative asset	12	-	12	-
Unrealized short-term derivative liability	(3,209)	-	(3,209)	-
Unrealized long-term derivative liability	(161)	-	(161)	-
(b) Inventories carried at market[2]	11,521	-	11,521	-
(c) Interest rate swaps[3]	(188)	-	(188)	-
(d) Forward foreign currency contracts[4]	(365)	-	(365)	-
(e) Contingent consideration[5]	(3,161)	-	-	(3,161)

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

		December 29, 2012			
		Fair value asset (liability)	Level 1	Level 2	Level 3
		$	$	$	$
(a)	Commodity futures and forward contracts[1]				
	Unrealized short-term derivative asset	3,184	690	2,494	-
	Unrealized long-term derivative asset	93	-	93	-
	Unrealized short-term derivative liability	(1,623)	-	(1,623)	-
	Unrealized long-term derivative liability	(43)	-	(43)	-
(b)	Inventories carried at market[2]	15,426	-	15,426	-
(c)	Interest rate swaps[3]	(396)	-	(396)	-
(d)	Forward foreign currency contracts[4]	(327)	-	(327)	-
(e)	Contingent consideration[5]	(4,398)	-	-	(4,398)

(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.

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 price of cocoa. These derivative instruments are not designated as hedges for accounting purposes. Gains and losses on changes in the fair value of these derivative instruments are included in cost of goods sold on the consolidated statement of operations. For the quarter ended September 28, 2013, the Company recognized a loss of $1,950 (September 29, 2012 gain of $3,075) and for the three quarters ended September 28, 2013, the Company recognized a loss of $2,892 (September 29, 2012 gain of $1,178).

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 28, 2013 and September 29, 2012
(Unaudited)
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As at September 28, 2013, 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	684	479
Forward commodity sale contracts	(689)	(1,347)
Commodity futures contracts	(95)	330

In addition, as at September 28, 2013, the Company also had open forward contracts to sell 215 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 goods sold on the consolidated statements of operations. As at September 28, 2013, the Company had 81,180 bushels of commodity corn and 529,338 bushels of commodity soybeans in inventories carried at market.

(c) Interest rate swaps

As at September 28, 2013, Opta Minerals held interest rate swaps with a notional value of Cdn $43,150 in the aggregate 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 8).

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 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 September 28, 2013, the Company recognized a loss of $90 (September 29, 2012 loss of $51), net of income tax benefit of $24 (September 29, 2012 income tax benefit of $44), and for the three quarters ended September 28, 2013, the Company recognized a gain of $208 (September 29, 2012 loss of $241), net of income tax of $54 (September 29, 2012 income tax benefit of $79).

(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 28, 2013, the Company had open forward foreign exchange contracts with a notional value of 13,061 ($17,324). Gains and losses on changes in the fair value of these derivative instruments are included in foreign

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exchange loss (gain) on the consolidated statements of operations. For the quarter ended September 28, 2013, the Company recognized a loss of $429 (September 29, 2012   loss of $16), and for the three quarters ended September 28, 2013, the Company recognized a loss of $38 (September 29, 2012   gain of $453).

(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 quarter and three quarters ended September 28, 2013, the change in the fair value of the contingent consideration liability reflected related payments of $1,074 in the aggregate, as well as (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 individually or in the aggregate.

5. Inventories

	September 28, 2013	December 29, 2012
	$	$
Raw materials and work-in-process	153,347	169,269
Finished goods	79,080	63,621
Company-owned grain	20,703	27,335
Inventory reserves	(4,243)	(4,487)
	248,887	255,738

6. Investments

On August 31, 2010, the Company sold 100% of its ownership interest in SunOpta BioProcess Inc. to Mascoma in exchange for an equity ownership position in Mascoma, consisting of preferred stock, common stock and warrants to purchase common stock of Mascoma. The Company accounts 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.

In evaluating whether its investment in Mascoma is recoverable each reporting period, the Company considers information relevant to the estimation of Mascoma s enterprise value and stock price, including external factors such as the stock prices of comparable publicly-traded renewable energy companies. The Company also considers the commercial viability and future earnings prospects of Mascoma s products and technologies, as well as Mascoma s ability to raise additional capital to fund its operational requirements.

As at June 29, 2013, the Company concluded that the $33,845 carrying value of its investment in Mascoma was impaired and that the impairment was other-than-temporary, based on information provided by Mascoma and consideration of external factors. The Company completed a valuation analysis based on available information and determined that the estimated fair value of its investment in Mascoma was $12,350 at June 29, 2013. As a result, the Company recorded an other-than-temporary impairment loss of $21,495 on the consolidated statement of operations for the quarter ended June 29, 2013.

As at September 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 a significant adverse effect on the Company s ability to recover the new cost base of its investment.

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7. Goodwill

Opta Minerals performed its annual impairment test for goodwill as at September 30, 2013, and recognized a non-cash goodwill impairment loss of $3,552 related to one of its reporting units in the third quarter of 2013. Due to increased competition and reduced demand for industrial minerals in markets along the U.S. east coast, the operating profits and cash flows of the reporting unit were lower than expected in the fourth quarter of 2012 and first three quarters of 2013, reflecting reduced sales volumes, price concessions causing lower gross margins, and lower utilization of plant capacity. The fair value of the reporting unit was estimated based on the expected present value of future cash flows using unobservable (level 3) inputs, which included the following assumptions: (i) an estimated cumulative average operating income growth rate from 2014 to 2017 of 25.7%; (ii) a projected long-term annual operating income growth rate of 2.5%; and (iii) a risk-adjusted discount rate of 14.0% . The goodwill associated with the reporting unit was fully deductible for tax purposes. There was no indication of goodwill impairment related to the other reporting units of Opta Minerals based on the testing done as at September 30, 2013.

8. Bank Indebtedness and Long-Term Debt

	September 28, 2013 $	December 29, 2012 $
Bank indebtedness:		
North American credit facilities(1)	69,131	75,700
European credit facilities(2)	54,734	44,611
Opta Minerals revolving term credit facility(3)	15,506	10,750
	139,371	131,061
Long-term debt:		
Opta Minerals non-revolving term credit facility(3)	44,982	50,315
Lease obligations(4)	6,651	7,219
Other	398	664
	52,031	58,198
Less: current portion	46,466	6,925
	5,565	51,273

(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 September 28, 2013, the weighted-average interest rate on the facilities was 2.18% .

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

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(2) European credit facilities
The European credit facilities support the global sourcing, supply and processing capabilities of the 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. As of September 28, 2013 and December 29, 2012, €39,700 ($53,683) and €30,262 ($39,995), 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, 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 cost of funds as set by the lenders was 0.13% at September 28, 2013.

On March 26, 2012, TOC entered into a €4,990 credit facility to pre-finance the construction of equipment for a cocoa processing facility located in Middenmeer, the Netherlands. As at July 18, 2013 and December 29, 2012, €4,990 ($6,495) and €3,493 ($4,616), respectively, of this facility had been utilized to fund the construction in process. Interest on borrowings under this facility accrued at 3.8% . On July 18, 2013, this facility was repaid through borrowings under a long-term lease facility (as described below under (4)).

On May 22, 2013, a subsidiary of TOC entered into a revolving credit facility agreement 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, 2014. As of September 28, 2013, €777 ($1,051) was borrowed under this facility.

(3) 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 $15,000 revolving term credit facility and a Cdn $52,500 non-revolving term credit facility. The revolving term credit facility matures on August 14, 2014, 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 (see below). 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 3.50% 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 September 28, 2013, the weighted-average interest rate on the credit facilities was 5.36%, 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.

On April 30, 2013, Opta Minerals amended its credit agreement with its lenders to increase the revolving term credit facility to Cdn $20,000. On the same date, certain financial covenants under the credit agreement were amended for the

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periods ending June 30, 2013 and September 30, 2013. On June 28, 2013, the credit agreement was further amended in respect of certain financial covenants for the periods ended June 30, 2013, September 30, 2013 and December 31, 2013. As at June 30, 2013, Opta Minerals was in compliance with these financial covenants; however, Opta Minerals was not able to achieve the covenant requirements for the quarter ended September 30, 2013, which constitutes an event of default under the credit agreement. On October 31, 2013, Opta Minerals obtained a waiver from its lenders in respect of these financial covenants. On the same date, the credit agreement was amended to increase the applicable margin on borrowings up to 5.00% based on certain financial ratios of Opta Minerals. As it is not considered probable that Opta Minerals will meet the existing financial covenant requirements under the credit agreement as at the next compliance date of December 31, 2013, the non-revolving term credit facility has been classified as current on the consolidated balance sheet as at September 28, 2013.

(4) Lease obligations
On October 1, 2012, TOC entered into a €4,990 lease facility to provide for long-term financing on equipment for the cocoa processing facility in the Netherlands. Interest on this facility accrues at an effective rate of 5.9% and the facility matures on October 1, 2019. Principal and accrued interest is repayable in equal monthly installments of €73. As at September 28, 2013 and December 29, 2012, €4,396 ($5,944) and €4,845 ($6,403), respectively, remained outstanding under this facility. On July 18, 2013, borrowings under this facility were applied to the repayment of the credit facility used to pre-finance the construction of the cocoa processing equipment (as described above under (2)). These borrowings had been previously recorded as restricted cash on the consolidated balance sheet as at December 29, 2012.

9. Stock-Based Compensation

For the three quarters ended September 28, 2013, the Company granted 1,054,000 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 $4.44 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	$	7.45
Dividend yield		0%
Expected volatility		63.1%
Risk-free interest rate		1.3%
Expected life of options (in years)		6.5

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10. Other Expense, Net

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

			Quarter ended		Three quarters ended
		September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
		$	$	$	$
(a)	Severance and other rationalization costs	522	-	1,390	1,295
(b)	Long-lived asset impairment charge	310	-	310	-
(c)	Acquisition-related transaction costs	-	139	127	540
	Other	(45)	125	(28)	171
		787	264	1,799	2,006

(a) Severance and other rationalization costs

For the quarter and three quarters ended September 28, 2013, Opta Minerals incurred severance and other costs in connection with the rationalization and integration of WGI Heavy Metals, Incorporated (WGI), which was acquired in August 2012. In addition, the Company recorded employee severance and other costs in connection with the closure of the Chelmsford, Massachusetts administrative office of the Ingredients Group and the idling of the Fargo, North Dakota grains processing facility of the Grains and Foods Group.

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 within SunOpta Foods in an effort to streamline operations, which included a reduction in its salaried workforce of approximately 6%, as well as severance payable to a former executive officer.

(b) Long-lived asset impairment charge

For the three quarters ended September 28, 2013, Opta Minerals determined that the carrying amounts of certain intangible assets related to long-term licensing agreements were not recoverable, due to a decline in the cash flows generated under these arrangements. As a result, Opta Minerals recorded an impairment charge of $310 to write down these intangible assets to their estimated fair value.

(c) Acquisition-related transaction costs

For the three quarters ended September 28, 2013, the Company incurred transaction costs in connection with the acquisition of OLC (see note 2). For the quarter and three quarters ended September 29, 2012, Opta Minerals incurred transaction costs related to the acquisitions of WGI and Babco Industrial Corp., which was acquired in February 2012.

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11. Earnings (Loss) Per Share

Earnings (loss) per share are calculated as follows:

	Quarter ended		Three quarters ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Earnings (loss) from continuing operations attributable to SunOpta Inc.	$ 2,913	$ 5,692	$ (6,883)	$ 18,648
Earnings (loss) from discontinued operations, net of income taxes	-	112	(360)	1,193
Earnings (loss) attributable to SunOpta Inc.	$ 2,913	$ 5,804	$ (7,243)	$ 19,841
Basic weighted-average number of shares outstanding	66,369,141	65,949,415	66,221,286	65,871,213
Dilutive potential of the following:				
Employee/director stock options	1,389,346	571,131	1,017,574	525,840
Warrants	411,705	171,829	349,820	143,054
Diluted weighted-average number of shares outstanding	68,170,192	66,692,375	67,588,680	66,540,107
Earnings (loss) per share - basic:				
- from continuing operations	$ 0.04	$ 0.09	$ (0.10)	$ 0.28
- from discontinued operations	-	-	(0.01)	0.02
	$ 0.04	$ 0.09	$ (0.11)	$ 0.30
Earnings (loss) per share - diluted:				
- from continuing operations	$ 0.04	$ 0.09	$ (0.10)	$ 0.28
- from discontinued operations	-	-	(0.01)	0.02
	$ 0.04	$ 0.09	$ (0.11)	$ 0.30

For the quarter ended September 28, 2013, options to purchase 24,000 (September 29, 2012 - 2,048,700) common shares have been excluded from the calculation of potential dilutive common shares due to their anti-dilutive effect. For the three quarters ended September 28, 2013, options to purchase 144,000 (September 29, 2012 - 2,065,700) common shares have been excluded from the calculation of potential dilutive common shares due to their anti-dilutive effect.

For the three quarters ended September 28, 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.

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12. Supplemental Cash Flow Information

	Quarter ended		Three quarters ended	
	September 28, 2013 $	September 29, 2012 $	September 28, 2013 $	September 29, 2012 $
Changes in non-cash working capital, net of businesses acquired:				
Accounts receivable	572	(3,319)	(6,869)	(21,223)
Inventories	1,847	6,623	7,351	11,831
Income tax recoverable	942	1,682	1,313	3,179
Prepaid expenses and other current assets	1,649	(57)	3,415	2,837
Accounts payable and accrued liabilities	(3,605)	3,619	(13,183)	(1,191)
Customer and other deposits	(3,267)	(1,086)	1,126	2,646
	(1,862)	7,462	(6,847)	(1,921)

As at September 28, 2013, cash and cash equivalents included $3,226 (December 29, 2012 - $3,966) that was specific to Opta Minerals and cannot be utilized by the Company for general corporate purposes.

13. Commitments and Contingencies

(a) Colorado Sun Oil Processing 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

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Colorado Court of Appeals. On August 20, 2012, the Company appealed from the judgment to the Colorado Court of Appeals.

The Colorado Court of Appeals affirmed the judgment, and the Company petitioned for re-hearing. While the petition for re-hearing was pending, the parties settled the matter on June 18, 2013 (see note 3). The settlement was on a full and final basis, it formally concluded all extant business dealings between the parties, and ended all open litigation matters. As a result, all disputes between the parties have now been resolved.

(b) 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.

14. Segmented Information

The Company operates in the following business segments:

(a) ***SunOpta Foods*** sources, processes, packages and markets a wide range of natural, organic and specialty raw materials, ingredients and packaged food products, 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 foo