

SunOpta Inc.
Form 10-Q
August 13, 2014

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

FORM 10-Q

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

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

OR

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

For the transition period from _____ to _____.

Commission file number: 001-34198

SUNOPTA INC.

(Exact name of registrant as specified in its charter)

CANADA

(State or other jurisdiction of incorporation or
organization)

Not Applicable

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

2838 Bovaird Drive West

Brampton, Ontario L7A 0H2, Canada

(Address of principal executive offices)

(905) 455-1990

(Registrant's telephone number, including area code)

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

Yes No

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

Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes

No

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

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

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

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

Forward-Looking Statements

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

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

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

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

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

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

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

Consolidated Statements of Operations

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

(Unaudited)

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

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

Earnings (loss) attributable to non-controlling interests				
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Earnings (loss) attributable to SunOpta Inc.	8,708	(15,281)	15,348	(10,156)
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Earnings (loss) per share basic (note 10)				
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- from continuing operations	0.13	(0.23)	0.23	(0.15)
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- from discontinued operations	-	-	-	(0.01)
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	0.13	(0.23)	0.23	(0.15)
--	------	--------	------	--------

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

- from continuing operations	0.13	(0.23)	0.23	(0.15)
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- from discontinued operations	-	-	-	(0.01)
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	0.13	(0.23)	0.23	(0.15)
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(See accompanying notes to consolidated financial statements)

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SunOpta Inc.

Consolidated Statements of Comprehensive Earnings

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

(Unaudited)

(Expressed in thousands of U.S. dollars)

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

(See accompanying notes to consolidated financial statements)

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SunOpta Inc.

Consolidated Balance Sheets

As at July 5, 2014 and December 28, 2013

(Unaudited)

(Expressed in thousands of U.S. dollars)

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

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Retained earnings	131,556	116,208
Accumulated other comprehensive income	2,812	3,397
	344,119	325,304
Non-controlling interests	17,656	17,308
Total equity	361,775	342,612
	702,994	705,935
Commitments and contingencies (note 12)		

(See accompanying notes to consolidated financial statements)

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SunOpta Inc.

Consolidated Statements of Shareholders' Equity

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

(Unaudited)

(Expressed in thousands of U.S. dollars)

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

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

(See accompanying notes to consolidated financial statements)

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SunOpta Inc.

Consolidated Statements of Cash Flows

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

(Unaudited)

(Expressed in thousands of U.S. dollars)

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

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

(See accompanying notes to consolidated financial statements)

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Notes to Consolidated Financial Statements

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

(Unaudited)

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

1. Description of Business and Significant Accounting Policies

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

Basis of Presentation

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

Recent Accounting Pronouncements

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

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

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

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Notes to Consolidated Financial Statements

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

(Unaudited)

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

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

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

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

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

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

3. Discontinued Operations

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

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Notes to Consolidated Financial Statements

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

(Unaudited)

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

4. Derivative Financial Instruments and Fair Value Measurements

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

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

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

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

(a) Commodity futures and forward contracts

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

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Notes to Consolidated Financial Statements

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

(Unaudited)

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

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

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

Number of bushels purchased (sold)	
Corn	&