

SunOpta Inc.  
Form 10-Q  
August 12, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 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 3, 2010**

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 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):

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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 shares of the registrant's common stock outstanding as of August 3, 2010 was 65,228,631.

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**SUNOPTA INC.**  
**FORM 10-Q**  
**For the quarterly period ended July 3, 2010**  
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All financial information is expressed in United States Dollars. The closing rate of exchange on August 3, 2010 was CDN \$1 = U.S. \$0.9767.

## **Forward-Looking Statements**

This quarterly report of SunOpta Inc. (the Company) for the quarterly period ended July 3, 2010 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, could, would, should, might, plan, will, may, the negatives of such terms, and words and phrases of similar meaning, but are not limited to references to proposed operational consolidation, reduction of non-core assets and operations, business strategies, plant and production capacities, revenue generation potential and anticipated construction costs, competitive strengths, goals, capital expenditure plans, business and operational growth and expansion plans, anticipated operating margins and operating income increases, 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:

- the recent disruption in the overall economy and financial markets;
- restrictions in our credit agreement about how we may operate our business;
- our ability or inability to refinance our term debt when it becomes due;
- we may require additional capital to maintain current growth rates, which may not be available on favourable terms or at all;
- consumer preferences for natural and organic food products are difficult to predict and may change;
- we operate in a highly competitive industry;
- an interruption at one of our manufacturing facilities;
- the loss of service of our key management;
- the management of our supply chain;
- volatility in the prices of raw materials and energy;
- climate change legislation;
- 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 that may be brought against our Company;
- the commercial scale viability of SunOpta BioProcess team explosion technology;
- construction or operational delays within SunOpta BioProcess;
- the repeal or modification of government statutes and programs that could affect the sales and profitability of SunOpta BioProcess;
- failure of future growth in ethanol demand;
- financial exposure related to bonding and guarantees to which we are subject;
- loss of a key customer;
- fluctuations in exchange rates, interest rates and certain commodities;
- our ability to effectively manage our growth and integrate acquired companies;
- adverse weather conditions;

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- the volatility of our operating results and share price;
- the achievement of business forecasts;
- construction or installation delays of new equipment; and
- labour issues.

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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, 2009. For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

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**PART I - FINANCIAL INFORMATION**

**Item 1 Financial Statements**

**Consolidated Financial Statements**

**SunOpta Inc.**

**For the quarter and two quarters ended July 3, 2010 and June 30, 2009**

**(Unaudited)**

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**SunOpta Inc.**

Consolidated Statements of Operations

For the quarter ended July 3, 2010 and June 30, 2009

Unaudited

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

	Quarter ended July 3, 2010 \$	Quarter ended June 30, 2009 \$
<b>Revenues</b>	<b>235,939</b>	216,099
<b>Cost of goods sold</b>	<b>197,351</b>	187,748
<b>Gross profit</b>	<b>38,588</b>	28,351
Warehousing and distribution expenses	1,122	974
Selling, general and administrative expenses	24,764	22,364
Intangible asset amortization	1,144	1,085
Other (income) expense, net (note 11)	(65)	116
Foreign exchange gain	(193)	(672)
<b>Earnings from continuing operations before the following</b>	<b>11,816</b>	4,484
Interest expense, net	2,618	3,470
<b>Earnings from continuing operations before income taxes</b>	<b>9,198</b>	1,014
<b>Provision for income taxes</b>	<b>1,895</b>	388
<b>Earnings from continuing operations for the period</b>	<b>7,303</b>	626
<b>Discontinued operations (note 2)</b>		
(Loss) earnings from discontinued operations, net of taxes	(460)	920
Gain on sale of discontinued operations, net of taxes	13,809	-
<b>Earnings from discontinued operations</b>	<b>13,349</b>	920
<b>Earnings for period</b>	<b>20,652</b>	1,546
Earnings (loss) for the period attributable to non-controlling interests	186	(234)
<b>Earnings for the period attributable to SunOpta Inc.</b>	<b>20,466</b>	1,780
<b>Earnings per share for the period basic (note 5)</b>		
-from continuing operations	0.11	0.01
-from discontinued operations	0.21	0.02
	<b>0.32</b>	0.03



**Earnings per share for the period diluted** (note 5)

<b>-from continuing operations</b>	<b>0.11</b>	0.01
<b>-from discontinued operations</b>	<b>0.20</b>	0.02
	<b>0.31</b>	0.03

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

Consolidated Statements of Operations

For the two quarters ended July 3, 2010 and June 30, 2009

Unaudited

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

	<b>Two quarters ended July 3, 2010</b>	Two quarters ended June 30, 2009
	\$	\$
<b>Revenues</b>	<b>453,310</b>	407,416
<b>Cost of goods sold</b>	<b>377,953</b>	354,892
<b>Gross profit</b>	<b>75,357</b>	52,524
Warehousing and distribution expenses	2,192	1,998
Selling, general and administrative expenses	51,556	44,744
Intangible asset amortization	2,319	2,283
Other expense (income), net (note 11)	250	(72)
Foreign exchange (gain) loss	(1,499)	501
<b>Earnings from continuing operations before the following</b>	<b>20,539</b>	3,070
Interest expense, net	5,739	6,341
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>14,800</b>	(3,271)
<b>Provision for (recovery of) income taxes</b>	<b>3,930</b>	(1,061)
<b>Earnings (loss) from continuing operations for the period</b>	<b>10,870</b>	(2,210)
<b>Discontinued operations (note 2)</b>		
<b>Earnings from discontinued operations, net of taxes</b>	<b>614</b>	1,777
<b>Gain on sale of discontinued operations, net of taxes</b>	<b>13,809</b>	-
<b>Earnings from discontinued operations</b>	<b>14,423</b>	1,777
<b>Earnings (loss) for the period</b>	<b>25,293</b>	(433)
Earnings (loss) for the period attributable to non-controlling interests	214	(556)
<b>Earnings for the period attributable to SunOpta Inc.</b>	<b>25,079</b>	123
<b>Earnings (loss) per share for the period</b> basic (note 5)		
<b>-from continuing operations</b>	<b>0.16</b>	(0.03)
<b>-from discontinued operations</b>	<b>0.22</b>	0.03
	<b>0.38</b>	0.00

<b>Earnings (loss) per share for the period</b>	<b>diluted</b>		(note 5)
<b>-from continuing operations</b>	<b>0.16</b>		(0.03)
<b>-from discontinued operations</b>	<b>0.22</b>		0.03
	<b>0.38</b>		0.00

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

Consolidated Statements of Comprehensive Earnings (Loss)

For the quarter ended July 3, 2010 and June 30, 2009

Unaudited

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

	<b>Quarter ended July 3, 2010</b>	Quarter ended June 30, 2009
	\$	\$
<b>Earnings from continuing operations for the period</b>	<b>7,303</b>	626
<b>Earnings from discontinued operations, net of taxes</b>	<b>13,349</b>	920
	<b>20,652</b>	1,546
Currency translation adjustment	<b>(4,855)</b>	6,946
Change in fair value of interest rate swap, net of tax	<b>20</b>	271
<b>Other comprehensive (loss) earnings for the period, net of tax</b>	<b>(4,835)</b>	7,217
<b>Comprehensive earnings for the period</b>	<b>15,817</b>	8,763
Comprehensive earnings (loss) for the period attributable to non-controlling interests	<b>(258)</b>	51
<b>Comprehensive earnings for the period attributable to SunOpta Inc.</b>	<b>16,075</b>	8,712
(See accompanying notes to consolidated financial statements)		

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**SunOpta Inc.**

Consolidated Statements of Comprehensive Earnings (Loss)

For the two quarters ended July 3, 2010 and June 30, 2009

Unaudited

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

	<b>Two quarters ended July 3, 2010</b>	Two quarters ended June 30, 2009
	\$	\$
<b>Earnings (loss) from continuing operations for the period</b>	<b>10,870</b>	(2,210)
<b>Earnings from the discontinued operations, net of taxes</b>	<b>14,423</b>	1,777
	<b>25,293</b>	(433)
Currency translation adjustment	(4,165)	2,410
Change in fair value of interest rate swap, net of tax	140	320
<b>Other comprehensive (loss) earnings for the period, net of taxes</b>	<b>(4,025)</b>	2,730
<b>Comprehensive earnings for the period</b>	<b>21,268</b>	2,297
Comprehensive loss for the period attributable to non-controlling interests	(457)	(570)
<b>Comprehensive earnings for the period attributable to SunOpta Inc.</b>	<b>21,725</b>	2,867
(See accompanying notes to consolidated financial statements)		

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**SunOpta Inc.**

Consolidated Balance Sheets

As at July 3, 2010 and December 31, 2009

Unaudited

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

	<b>July 3, 2010</b>	December 31, 2009
	\$	\$
		(see note 2)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (note 12)	38,355	20,706
Accounts receivable	99,684	78,790
Inventories (note 3)	146,599	157,547
Prepaid expenses and other current assets	9,079	10,100
Current income taxes recoverable	-	442
Deferred income taxes	5,172	5,457
Current assets held for sale (note 2)	-	36,774
	<b>298,889</b>	<b>309,816</b>
<b>Property, plant and equipment</b>	<b>106,379</b>	<b>106,066</b>
<b>Goodwill</b>	<b>30,491</b>	<b>31,431</b>
<b>Intangible assets</b>	<b>50,718</b>	<b>55,541</b>
<b>Deferred income taxes</b>	<b>10,758</b>	<b>14,734</b>
<b>Other assets</b>	<b>3,539</b>	<b>2,876</b>
<b>Non-current assets held for sale (note 2)</b>	<b>-</b>	<b>30,826</b>
	<b>500,774</b>	<b>551,290</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 6)	26,085	63,481
Accounts payable and accrued liabilities	80,938	88,401
Customer and other deposits	1,215	1,413
Incomes taxes payable	1,079	-
Other current liabilities	1,914	1,566
Current portion of long-term debt (note 7)	63,723	52,455
Current portion of long-term liabilities	-	683
Current liabilities held for sale (note 2)	-	17,904
	<b>174,954</b>	<b>225,903</b>
<b>Long-term debt (note 7)</b>	<b>17,908</b>	<b>34,734</b>
<b>Long-term liabilities</b>	<b>2,611</b>	<b>2,760</b>
<b>Deferred income taxes</b>	<b>13,010</b>	<b>12,708</b>
<b>Non-current liabilities held for sale (note 2)</b>	<b>-</b>	<b>487</b>
	<b>208,483</b>	<b>276,592</b>
<b>Preferred shares of a subsidiary company</b>	<b>28,387</b>	<b>28,187</b>

**Equity**

SunOpta Inc. shareholders' equity

<b>Capital stock</b> (note 4)	<b>179,218</b>	178,694
65,170,331 common shares (December 31, 2009 64,982,968)		
<b>Additional paid in capital</b> (note 4)	<b>11,064</b>	7,934
<b>Retained earnings</b>	<b>59,225</b>	34,146
<b>Accumulated other comprehensive income</b>	<b>953</b>	12,079
	<b>250,460</b>	232,853
<b>Non-controlling interest</b>	<b>13,444</b>	13,658
<b>Total equity</b>	<b>263,904</b>	246,511

	<b>500,774</b>	551,290
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**Commitments and contingencies** (note 9)

(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 3, 2010 and June 30, 2009

Unaudited

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

	Capital stock \$	Additional paid in capital \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Non- controlling interest \$	Total \$
<b>Balance at December 31, 2009</b>	<b>178,694</b>	<b>7,934</b>	<b>34,146</b>	<b>12,079</b>	<b>13,658</b>	<b>246,511</b>
Employee share purchase plan and compensation grants	427	-	-	-	-	427
Exercise of options	97	(12)	-	-	-	85
Issuance of warrants (note 4)	-	2,163	-	-	-	2,163
Stock based compensation	-	979	-	-	-	979
Earnings from continuing operations for the period	-	-	10,656	-	214	10,870
Earnings from discontinued operations, net of income taxes, for the period	-	-	14,423	(7,772)	-	6,651
Currency translation adjustment	-	-	-	(3,447)	(718)	(4,165)
Non-controlling interest contributions	-	-	-	-	243	243
Change in fair value of interest rate swap, net of tax	-	-	-	93	47	140
<b>Balance at July 3, 2010</b>	<b>179,218</b>	<b>11,064</b>	<b>59,225</b>	<b>953</b>	<b>13,444</b>	<b>263,904</b>
	Capital stock \$	Additional paid in capital \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Non- controlling interest \$	Total \$
<b>Balance at December 31, 2008</b>	<b>177,858</b>	<b>6,778</b>	<b>40,909</b>	<b>1,266</b>	<b>15,102</b>	<b>241,913</b>
Employee share purchase	412	-	-	-	-	412



plan and compensation grants						
Stock based compensation	-	685	-	-	-	685
Earnings (loss) from continuing operations for the period	-	-	(1,654)	-	(556)	(2,210)
Earnings from discontinued operations, net of income tax, for the period	-	-	1,777	-	-	1,777
Non-controlling interest contributions	-	-	-	-	96	96
Currency translation adjustment	-	-	-	2,531	(121)	2,410
Change in fair value of interest rate swap, net of tax	-	-	-	213	107	320
<b>Balance at June 30, 2009</b>	178,270	7,463	41,032	4,010	14,628	245,403

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

Consolidated Statements of Cash Flow

For the quarter ended July 3, 2010 and June 30, 2009

Unaudited

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

	Quarter ended July 3, 2010 \$	Quarter ended June 30, 2009 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Earnings for the period attributable to SunOpta Inc.	20,652	1,546
Earnings from discontinued operations	13,349	920
Earnings from continuing operations	7,303	626
Items not affecting cash		
Amortization	4,003	4,390
Unrealized (gain) loss on foreign exchange	(326)	291
Deferred income taxes	-	2,378
Other	909	165
Changes in non-cash working capital (note 8)	4,728	3,107
Net cash flows from operating activities continuing operations	16,617	10,957
Net cash flows from operating activities discontinued operations	(607)	518
	<b>16,010</b>	<b>11,475</b>
<b>Investing activities</b>		
Increase in short-term investments	-	15,000
Purchases of property, plant and equipment, net	(3,266)	(4,103)
Payment of deferred purchase consideration	(221)	(1,000)
Purchase of patents, trademarks and other intangible assets	(585)	(138)
Other	(131)	(2,282)
Net cash flows from investing activities continuing operations	(4,203)	7,477
Net cash flows from investing activities discontinued operations	65,794	(152)
	<b>61,591</b>	<b>7,325</b>
<b>Financing activities</b>		
Decrease in line of credit facilities	(58,182)	(2,756)
Borrowings under long-term debt	247	-
Proceeds from the issuance of common shares	305	214
Repayment of long-term debt	(3,067)	(2,510)
Other	(55)	(8)
Net cash flows from financing activities continuing operations	(60,752)	(5,060)
Net cash flows from financing activities discontinued operations	-	-
	<b>(60,752)</b>	<b>(5,060)</b>
<b>Foreign exchange (loss) gain on cash held in a foreign currency</b>	<b>(834)</b>	<b>447</b>

<b>Increase in cash and cash equivalents during the period</b>	<b>16,015</b>	14,187
<b>Discontinued operations cash activity included above:</b>		
<b>Add: Balance included at beginning of period</b>	-	(169)
<b>Less: Balance included at end of period</b>	-	(197)
<b>Cash and cash equivalents beginning of the period</b>	<b>22,340</b>	7,574
<b>Cash and cash equivalents end of the period</b>	<b>38,355</b>	21,395
Supplemental cash flow information (notes 8 and 12)		

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

Condensed Consolidated Statements of Cash Flow

For the two quarters ended July 3, 2010 and June 30, 2009

Unaudited

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

	<b>Two quarters ended July 3, 2010</b>	Two quarters ended June 30, 2009
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Earnings (loss) for the period	25,293	(433)
Earnings from discontinued operations	14,423	1,777
Earnings (loss) from continuing operations	10,870	(2,210)
Items not affecting cash		
Amortization	8,418	8,689
Unrealized gain on foreign exchange	(1,418)	(234)
Deferred income taxes	1,125	485
Other	660	(1,020)
Changes in non-cash working capital (note 8)	(18,033)	1,623
Net cash flows from operating activities continuing operations	1,622	7,333
Net cash flows from operating activities discontinued operations	53	(378)
	<b>1,675</b>	<b>6,955</b>
<b>Investing activities</b>		
Increase in short-term investments	-	(1,500)
Purchases of property, plant and equipment, net	(9,417)	(8,618)
Payment of deferred purchase consideration	(721)	(1,500)
Purchase of patents, trademarks and other intangible assets	(627)	(202)
Other	165	(2,232)
Net cash flows from investing activities continuing operations	(10,600)	(14,052)
Net cash flows from investing activities discontinued operations	65,633	(225)
	<b>55,033</b>	<b>(14,277)</b>
<b>Financing activities</b>		
(Decrease) increase in line of credit facilities	(34,796)	9,246
Borrowings under long-term debt	247	716
Proceeds from the issuance of common shares	512	412
Repayment of long-term debt	(4,169)	(6,529)
Other	(243)	61
Net cash flows from financing activities continuing operations	(38,449)	3,906
Net cash flows from financing activities discontinued operations	-	-
	<b>(38,449)</b>	<b>3,906</b>
<b>Foreign exchange (loss) gain on cash held in a foreign currency</b>	<b>(627)</b>	<b>253</b>

<b>Increase (decrease) in cash and cash equivalents during the period</b>	<b>17,632</b>	<b>(3,163)</b>
<b>Discontinued operations cash activity included above:</b>		
<b>Add: Balance included at beginning of period</b>	<b>17</b>	<b>800</b>
<b>Less: Balance included at end of period</b>	<b>-</b>	<b>(197)</b>
<b>Cash and cash equivalents beginning of the period</b>	<b>20,706</b>	<b>23,955</b>
<b>Cash and cash equivalents end of the period</b>	<b>38,355</b>	<b>21,395</b>
Supplemental cash flow information (notes 8 and 12)		

(See accompanying notes to consolidated financial statements)

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July 3, 2010 10-Q

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## SunOpta Inc.

Notes to Consolidated Financial Statements

For the quarter and two quarters ended July 3, 2010 and June 30, 2009

Unaudited

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

### 1. Basis of presentation, fiscal year-end and new accounting pronouncements

#### *Basis of presentation*

The interim consolidated financial statements of SunOpta Inc. (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 accounting principles generally accepted in the United States of America. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles 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 3, 2010 are not necessarily indicative of the results that may be expected for the full year ending January 1, 2011 or for any other period. For further information, see the Company's consolidated financial statements, and notes thereto, included in the Annual Report on Form 10-K for the year ended December 31, 2009.

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the financial statements for the year ended December 31, 2009, except for the effects of the sale of the Canadian Food Distribution business, as outlined in note 2. Intercompany accounts and transactions have been eliminated on consolidation.

#### *Fiscal year-end*

On March 9, 2010, the Board of Directors of the Company approved a change to the Company's fiscal year period from a fiscal year ending on December 31 to a floating year-end on the Saturday closest to December 31, based on a 52 week calendar, wherein every fiscal quarter is comprised of 13 weeks or 91 days. This change is effective for fiscal 2010, resulting in a year-end of January 1, 2011 and the quarterly periods for fiscal 2010 ending on April 3, July 3 and October 2. The fiscal year of Opta Minerals Inc. (Opta Minerals), which is 66.4% owned by the Company, ends on December 31, 2010, and its quarterly periods for fiscal 2010 end on March 31, June 30 and September 30. The consolidated statements of operations, cash flows and balance sheets for the Company in the quarter and the two quarters ended July 3 2010 include the results of Opta Minerals through June 30, 2010.

#### *New accounting pronouncements*

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Topic 810 (formerly Statement of Financial Accounting Standard (SFAS) No. 167, Amendments to FASB Interpretation No. 46(R)). This accounting standard is a revision to a previous FASB Interpretation and changes how a reporting entity evaluates whether an entity is a variable interest entity (VIE) and which entity is considered the primary beneficiary of a VIE and is therefore required to consolidate the VIE. This accounting standard will also require continuous reassessments of which party within the VIE is considered the primary beneficiary. ASC 810 became effective January 1, 2010. As a result of adopting this standard, the Company reassessed its investments and did not change its position as the primary beneficiary of its VIE's.

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about

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Fair Value Measurements, which amends ASC Topic 820, Fair Value Measures and Disclosures. ASU No. 2010-06 amends the ASC to require disclosure of transfers into and out of Level 1 and Level 2 fair value measurements, and also requires more detailed disclosure about the activity within Level 3 fair value measurements. The Company adopted the guidance in ASU No. 2010-06 on January 1, 2010, except for the requirements related to Level 3 disclosures, which will be effective for annual and interim reporting periods beginning after December 15, 2010 (January 1, 2011 for the Company). This guidance requires expanded disclosures only, and did not have any impact on the Company's consolidated financial statements.

**SUNOPTA INC.**

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarter and two quarters ended July 3, 2010 and June 30, 2009

Unaudited

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

**2. Divestiture of Canadian food distribution business**

On May 10, 2010, the Company entered into an agreement to sell its Canadian Food Distribution assets to UNFI Canada Inc., a wholly-owned subsidiary of United Natural Foods Inc. The transaction closed on June 11, 2010 for cash consideration of Cdn \$68,000 (U.S. - \$65,809). The net proceeds are subject to post closing adjustments, in accordance with the asset purchase agreement, which are expected to be finalized within the next 12 months. The assets and liabilities of the Canadian Food Distribution business have been reclassified as assets and liabilities held for sale on the Company's consolidated balance sheet as at December 31, 2009.

The following is a summary of the transaction:

Cash consideration	\$65,809
Transaction and related costs	(4,937)
Net proceeds	60,872
Net assets sold	(51,655)
Accumulated other comprehensive income related to assets sold	7,772
Pre-tax gain on sale	16,989
Provision for income taxes	(3,180)
Gain on sale of discontinued operations	\$13,809

The gain on sale of discontinued operations has been recorded in discontinued operations on the consolidated statements of operations.

The operating results of the Canadian Food Distribution business are included within earnings (loss) from discontinued operations, net of income tax, on the consolidated statements of operations. The summary comparative financial results of discontinued operations were as follows:

	<b>July 3, 2010</b>	Quarter ended	<b>July 3, 2010</b>	Two quarters ended
	\$	June 30, 2009	\$	June 30, 2009
		\$		\$
Revenues	<b>34,130</b>	41,626	<b>82,859</b>	82,383
Earnings before taxes from discontinued operations up to the date of sale	<b>631</b>	1,349	<b>2,168</b>	2,605
Costs allocated to discontinued operations as a result of sale	<b>(1,289)</b>	-	<b>(1,289)</b>	-
(Loss) earnings from operations of discontinued operations before taxes	<b>(658)</b>	1,349	<b>879</b>	2,605
(Recovery of) provision for income taxes	<b>(198)</b>	429	<b>265</b>	828
	<b>(460)</b>	920	<b>614</b>	1,777





**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarter and two quarters ended July 3, 2010 and June 30, 2009

Unaudited

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

**2. Divestiture of Canadian food distribution business, continued**

The assets and liabilities classified as held for sale were as follows:

	December 31, 2009
	\$
Cash and cash equivalents	17
Accounts receivable	15,451
Inventories	20,593
Prepaid expenses and other current assets	713
Current assets held for sale	36,774
Property, plant and equipment	7,196
Goodwill	18,286
Intangible assets	5,344
Non-current assets held for sale	30,826
Accounts payable and accrued liabilities	17,852
Customer and other deposits	23
Current portion of long-term liabilities	29
Current liabilities held for sale	17,904
Long-term liabilities	487
Non-current liabilities held for sale	487

The assets sold were part of the former Distribution Group segment (see note 10).

**3. Inventories**

	July 3, 2010	December 31, 2009
	\$	\$
Raw materials and work-in-process	62,639	66,058
Finished goods	78,043	87,497
Company-owned grain	11,202	13,791
Inventory reserve	(5,285)	(9,799)
	<b>146,599</b>	<b>157,547</b>

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarter and two quarters ended July 3, 2010 and June 30, 2009

Unaudited

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

**4. Capital stock****(a) Capital Stock**

Transactions involving capital stock in the quarter ended July 3, 2010 and June 30, 2009 and the two quarters ended July 3, 2010 and June 30, 2009, were as follows:

	<b>Quarter ended July 3, 2010</b>		<b>Quarter ended June 30, 2009</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
Balance, beginning of period	<b>65,065,907</b>	<b>178,901</b>	64,692,661	178,056
Common shares exercised by employees and directors	<b>49,480</b>	<b>97</b>	-	-
Common shares issued as part of the Company's employee stock purchase plan	<b>54,944</b>	<b>220</b>	153,899	214
Balance, end of period	<b>65,170,331</b>	<b>179,218</b>	64,846,560	