

SunOpta Inc.  
Form 10-Q  
August 09, 2012

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**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 **June 30, 2012**

OR

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

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

**Commission file number: 001-34198**

**SUNOPTA INC.**

*(Exact name of registrant as specified in its charter)*

**CANADA**

*(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 the registrant's common shares outstanding as of August 3, 2012 was 65,940,351.

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**FORM 10-Q**  
**For the quarterly period ended June 30, 2012**  
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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 preceded by the symbol Cdn \$ and amounts expressed in euros are preceded by the symbol € . As at June 30, 2012, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euro, were \$1.00 = Cdn \$1.0181 and \$1.00 = €0.7901. These rates are provided solely for convenience and do not necessarily reflect the rates used by us in the preparation of our financial statements.

### **Forward-Looking Statements**

This Form 10-Q contains forward looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as anticipate , estimate , intend , project , potential , could , believe , expect , could , would , should , might , plan , will , may , the negatives of such terms, and words 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

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

- the volatility of our operating results and share price.

Consequently all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that our actual results or the developments we anticipate will be realized. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (“Form 10-K”). For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors under Item 1A of Part II of this Form 10-Q and under Item 1A, Risk Factors, of the Form 10-K.

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

## Consolidated Statements of Operations

For the quarter and two quarters ended June 30, 2012 and July 2, 2011

(Unaudited)

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

|  | <b>Quarter ended</b> |                     | <b>Two quarters ended</b> |                     |
|--|----------------------|---------------------|---------------------------|---------------------|
|  | <b>June 30, 2012</b> | <b>July 2, 2011</b> | <b>June 30, 2012</b>      | <b>July 2, 2011</b> |
|  | \$                   | \$                  | \$                        | \$                  |
| <b>Revenues</b>  | <b>282,308</b>       | 275,188             | <b>541,636</b>            | 520,538             |
| <b>Cost of goods sold</b>  | <b>245,220</b>       | 243,209             | <b>470,062</b>            | 455,926             |
| <b>Gross profit</b>  | <b>37,088</b>        | 31,979              | <b>71,574</b>             | 64,612              |
| Selling, general and administrative expenses                             | <b>22,086</b>        | 21,163              | <b>42,516</b>             | 40,906              |
| Intangible asset amortization  | <b>1,235</b>         | 1,017               | <b>2,428</b>              | 2,033               |
| Other expense (income), net (note 9)                                     | <b>1,378</b>         | (3,256)             | <b>1,742</b>              | (2,894)             |
| Foreign exchange (gain) loss   | <b>(581)</b>         | 19                  | <b>(499)</b>              | 154                 |
| <b>Earnings from continuing operations before the following</b>          | <b>12,970</b>        | 13,036              | <b>25,387</b>             | 24,413              |
| Interest expense, net  | <b>2,558</b>         | 2,520               | <b>5,141</b>              | 4,504               |
| <b>Earnings from continuing operations before income taxes</b>           | <b>10,412</b>        | 10,516              | <b>20,246</b>             | 19,909              |
| Provision for income taxes   | <b>2,769</b>         | 4,170               | <b>6,355</b>              | 7,423               |
| <b>Earnings from continuing operations</b>                               | <b>7,643</b>         | 6,346               | <b>13,891</b>             | 12,486              |
| <b>Discontinued operations (note 3)</b>                                  |                      |                     |                           |                     |
| Earnings (loss) from discontinued operations, net of income taxes        | <b>214</b>           | (1,233)             | <b>405</b>                | (1,625)             |
| Gain on sale of discontinued operations, net of income taxes             | <b>676</b>           | -                   | <b>676</b>                | -                   |
| <b>Earnings (loss) from discontinued operations, net of income taxes</b> | <b>890</b>           | (1,233)             | <b>1,081</b>              | (1,625)             |
| <b>Earnings</b>  | <b>8,533</b>         | 5,113               | <b>14,972</b>             | 10,861              |
| Earnings attributable to non-controlling interests                       | <b>388</b>           | 712                 | <b>935</b>                | 1,379               |
| <b>Earnings attributable to SunOpta Inc.</b>                             | <b>8,145</b>         | 4,401               | <b>14,037</b>             | 9,482               |
| <b>Earnings (loss) per share basic (note 10)</b>                         |                      |                     |                           |                     |
| - from continuing operations   | <b>0.11</b>          | 0.09                | <b>0.20</b>               | 0.17                |
| - from discontinued operations   | <b>0.01</b>          | (0.02)              | <b>0.02</b>               | (0.02)              |
|  | <b>0.12</b>          | 0.07                | <b>0.21</b>               | 0.14                |
| <b>Earnings (loss) per share diluted (note 10)</b>                       |                      |                     |                           |                     |
| - from continuing operations   | <b>0.11</b>          | 0.08                | <b>0.19</b>               | 0.17                |
| - from discontinued operations   | <b>0.01</b>          | (0.02)              | <b>0.02</b>               | (0.02)              |
|  | <b>0.12</b>          | 0.07                | <b>0.21</b>               | 0.14                |

(See accompanying notes to consolidated financial statements)

**SunOpta Inc.**

## Consolidated Statements of Comprehensive Earnings

For the quarter and two quarters ended June 30, 2012 and July 2, 2011

(Unaudited)

(Expressed in thousands of U.S. dollars)

|   | <b>June 30, 2012</b> | <b>Quarter ended</b><br>July 2, 2011 | <b>Two quarters ended</b><br><b>June 30, 2012</b> | <b>July 2, 2011</b> |
|---|----------------------|--------------------------------------|---|---------------------|
|   | \$                   | \$                                   | \$  | \$                  |
| Earnings from continuing operations                               | <b>7,643</b>         | 6,346                                | <b>13,891</b>                                     | 12,486              |
| Earnings (loss) from discontinued operations, net of income taxes | <b>890</b>           | (1,233)                              | <b>1,081</b>                                      | (1,625)             |
| <b>Earnings</b>   | <b>8,533</b>         | 5,113                                | <b>14,972</b>                                     | 10,861              |
| Currency translation adjustment                                   | <b>(1,927)</b>       | 1,439                                | <b>(828)</b>                                      | 3,497               |
| Change in fair value of interest rate swap, net of taxes          | <b>(115)</b>         | 103                                  | <b>(155)</b>                                      | 213                 |
| <b>Other comprehensive earnings, net of income taxes</b>          | <b>(2,042)</b>       | 1,542                                | <b>(983)</b>                                      | 3,710               |
| <b>Comprehensive earnings</b>                                     | <b>6,491</b>         | 6,655                                | <b>13,989</b>                                     | 14,571              |
| Comprehensive earnings attributable to non-controlling interests  | <b>167</b>           | 665                                  | <b>779</b>  | 1,461               |
| <b>Comprehensive earnings attributable to SunOpta Inc.</b>        | <b>6,324</b>         | 5,990                                | <b>13,210</b>                                     | 13,110              |

(See accompanying notes to consolidated financial statements)

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## Consolidated Balance Sheets

As at June 30, 2012 and December 31, 2011

(Unaudited)

(Expressed in thousands of U.S. dollars)

|   | June 30, 2012  | December 31, 2011 |
|---|----------------|-------------------|
|   | \$             | \$                |
| <b>ASSETS</b>   |                |                   |
| <b>Current assets</b>   |                |                   |
| Cash and cash equivalents (note 11)   | 3,247          | 2,378             |
| Accounts receivable   | 107,080        | 88,898            |
| Inventories (note 5)  | 222,712        | 228,455           |
| Prepaid expenses and other current assets   | 18,654         | 21,378            |
| Current income taxes recoverable  | 1,083          | 1,503             |
| Deferred income taxes   | 4,779          | 4,773             |
| Current assets held for sale (note 3)   | -              | 17,923            |
|   | <b>357,555</b> | <b>365,308</b>    |
| Investments (note 6)  | 33,845         | 33,845            |
| <b>Property, plant and equipment</b>  | <b>128,256</b> | <b>120,584</b>    |
| <b>Goodwill</b>   | <b>56,642</b>  | <b>49,387</b>     |
| <b>Intangible assets</b>  | <b>54,255</b>  | <b>48,035</b>     |
| <b>Deferred income taxes</b>  | <b>11,631</b>  | <b>11,751</b>     |
| <b>Other assets</b>   | <b>1,328</b>   | <b>1,854</b>      |
| <b>Non-current assets held for sale (note 3)</b>  | <b>-</b>       | <b>739</b>        |
|   | <b>643,512</b> | <b>631,503</b>    |
| <b>LIABILITIES</b>  |                |                   |
| <b>Current liabilities</b>  |                |                   |
| Bank indebtedness (note 7)  | 97,826         | 109,718           |
| Accounts payable and accrued liabilities  | 107,555        | 114,308           |
| Customer and other deposits   | 4,581          | 843               |
| Income taxes payable  | 1,412          | 1,229             |
| Other current liabilities   | 3,504          | 1,419             |
| Current portion of long-term debt (note 7)  | 27,406         | 35,198            |
| Current portion of long-term liabilities  | 621            | 995               |
| Current liabilities held for sale (note 3)  | -              | 5,920             |
|   | <b>242,905</b> | <b>269,630</b>    |
| <b>Long-term debt (note 7)</b>  | <b>33,905</b>  | <b>17,066</b>     |
| <b>Long-term liabilities</b>  | <b>6,712</b>   | <b>5,586</b>      |
| <b>Deferred income taxes</b>  | <b>30,676</b>  | <b>24,273</b>     |
|   | <b>314,198</b> | <b>316,555</b>    |
| <b>EQUITY</b>   |                |                   |
| <b>SunOpta Inc. shareholders equity</b>   |                |                   |
| Common shares, no par value, unlimited shares authorized, 65,914,891 shares issued (December 31, 2011 - 65,796,398) | <b>182,604</b> | 182,108           |

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|  |                |         |
|--|----------------|---------|
| Additional paid-in capital (note 8)    | <b>15,489</b>  | 14,134  |
| Retained earnings                      | <b>114,545</b> | 100,508 |
| Accumulated other comprehensive income | <b>196</b>     | 2,382   |
|  | <b>312,834</b> | 299,132 |
| <b>Non-controlling interests</b>       | <b>16,480</b>  | 15,816  |
| <b>Total equity</b>                    | <b>329,314</b> | 314,948 |
|  | <b>643,512</b> | 631,503 |

**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 June 30, 2012 and July 2, 2011

(Unaudited)

(Expressed in thousands of U.S. dollars)

|   | Common shares |                | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income | Non-controlling interests | Total          |
|---|---------------|----------------|----------------------------|-------------------|--|---------------------------|----------------|
|   | 000s          | \$             | \$                         | \$                | \$                                     | \$                        | \$             |
| Balance at December 31, 2011                                    | 65,796        | 182,108        | 14,134                     | 100,508           | 2,382                                  | 15,816                    | 314,948        |
| Employee share purchase plan and compensation grants            | 61            | 286            | -                          | -                 | -                                      | -                         | 286            |
| Exercise of options   | 58            | 210            | (73)                       | -                 | -                                      | -                         | 137            |
| Stock-based compensation  | -             | -              | 1,428                      | -                 | -                                      | -                         | 1,428          |
| Earnings from continuing operations                             | -             | -              | -                          | 12,956            | -                                      | 935                       | 13,891         |
| Earnings from discontinued operations, net of income taxes      | -             | -              | -                          | 1,081             | (1,359)                                | -                         | (278)          |
| Currency translation adjustment                                 | -             | -              | -                          | -                 | (724)                                  | (104)                     | (828)          |
| Change in fair value of interest rate swap, net of income taxes | -             | -              | -                          | -                 | (103)                                  | (52)                      | (155)          |
| Payment to non-controlling interests                            | -             | -              | -                          | -                 | -                                      | (115)                     | (115)          |
| <b>Balance at June 30, 2012</b>                                 | <b>65,915</b> | <b>182,604</b> | <b>15,489</b>              | <b>114,545</b>    | <b>196</b>                             | <b>16,480</b>             | <b>329,314</b> |

|   | Common shares |                | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income | Non-controlling interests | Total          |
|---|---------------|----------------|----------------------------|-------------------|--|---------------------------|----------------|
|   | 000s          | \$             | \$                         | \$                | \$                                     | \$                        | \$             |
| Balance at January 1, 2011                                      | 65,500        | 180,661        | 12,336                     | 95,212            | 2,833                                  | 14,085                    | 305,127        |
| Employee share purchase plan and compensation grants            | 129           | 339            | -                          | -                 | -                                      | -                         | 339            |
| Exercise of options   | 55            | 489            | (81)                       | -                 | -                                      | -                         | 408            |
| Stock-based compensation  | -             | -              | 981                        | -                 | -                                      | -                         | 981            |
| Earnings from continuing operations                             | -             | -              | -                          | 11,107            | -                                      | 1,379                     | 12,486         |
| Loss from discontinued operations, net of income taxes          | -             | -              | -                          | (1,625)           | -                                      | (155)                     | (1,780)        |
| Currency translation adjustment                                 | -             | -              | -                          | -                 | 3,332                                  | 165                       | 3,497          |
| Change in fair value of interest rate swap, net of income taxes | -             | -              | -                          | -                 | 141                                    | 72                        | 213            |
| <b>Balance at July 2, 2011</b>                                  | <b>65,684</b> | <b>181,489</b> | <b>13,236</b>              | <b>104,694</b>    | <b>6,306</b>                           | <b>15,546</b>             | <b>321,271</b> |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the quarter and two quarters ended June 30, 2012 and July 2, 2011

(Unaudited)

(Expressed in thousands of U.S. dollars)

|   | <b>Quarter ended</b> |                     | <b>Two quarters ended</b> |                     |
|---|----------------------|---------------------|---------------------------|---------------------|
|   | <b>June 30, 2012</b> | <b>July 2, 2011</b> | <b>June 30, 2012</b>      | <b>July 2, 2011</b> |
|   | \$                   | \$                  | \$                        | \$                  |
| <b>Cash provided by (used in)</b>                                       |                      |                     |                           |                     |
| <b>Operating activities</b>   |                      |                     |                           |                     |
| Earnings  | 8,533                | 5,113               | 14,972                    | 10,113              |
| Earnings (loss) from discontinued operations                            | 890                  | (1,233)             | 1,081                     | (1,233)             |
| Earnings from continuing operations                                     | 7,643                | 6,346               | 13,891                    | 12,880              |
| Items not affecting cash:   |                      |                     |                           |                     |
| Depreciation and amortization   | 5,018                | 4,439               | 9,791                     | 8,439               |
| Unrealized (gain) loss on foreign exchange                              | (195)                | 246                 | (93)                      | (93)                |
| Deferred income taxes   | 1,630                | 3,216               | 3,716                     | 4,439               |
| Stock-based compensation  | 740                  | 552                 | 1,328                     | 1,328               |
| Gain on sale of property, plant and equipment                           | -                    | (3,824)             | -                         | (3,824)             |
| Unrealized loss (gain) on derivative instruments                        | 1,215                | (233)               | 1,897                     | (3,824)             |
| Other   | 368                  | 322                 | 709                       | 709                 |
| Changes in non-cash working capital, net of business acquired (note 11) | 12,547               | 9,720               | (9,383)                   | (32,000)            |
| Net cash flows from operations - continuing operations                  | 28,966               | 20,784              | 21,856                    | (12,880)            |
| Net cash flows from operations - discontinued operations                | (168)                | (303)               | (316)                     | (316)               |
|   | 28,798               | 20,481              | 21,540                    | (13,196)            |
| <b>Investing activities</b>   |                      |                     |                           |                     |
| Acquisition of business (note 2)  | -                    | -                   | (17,530)                  | -                   |
| Purchases of property, plant and equipment                              | (6,995)              | (5,297)             | (11,914)                  | (9,720)             |
| Proceeds from sale of property, plant and equipment                     | -                    | 2,773               | -                         | 2,773               |
| Payment of contingent consideration                                     | (327)                | -                   | (327)                     | -                   |
| Purchases of intangible assets  | -                    | (8)                 | (25)                      | (25)                |
| Other   | (129)                | (441)               | (206)                     | (441)               |
| Net cash flows from investing activities - continuing operations        | (7,451)              | (2,973)             | (30,002)                  | (6,995)             |
| Net cash flows from investing activities - discontinued operations      | 12,147               | (16)                | 12,134                    | -                   |
|   | 4,696                | (2,989)             | (17,868)                  | (6,995)             |
| <b>Financing activities</b>   |                      |                     |                           |                     |
| Increase (decrease) under line of credit facilities (note 7)            | (29,534)             | (14,124)            | (10,526)                  | 28,966              |
| Borrowings under long-term debt (note 7)                                | 285                  | -                   | 19,373                    | -                   |
| Proceeds from the issuance of common shares                             | 266                  | 534                 | 423                       | -                   |
| Repayment of long-term debt (note 7)                                    | (3,793)              | (4,722)             | (10,823)                  | (6,995)             |
| Financing costs   | (1,084)              | (161)               | (1,175)                   | -                   |
| Other   | (26)                 | 793                 | (29)                      | -                   |
| Net cash flows from financing activities - continuing operations        | (33,886)             | (17,680)            | (2,757)                   | 23,971              |
| Foreign exchange (loss) gain on cash held in a foreign currency         | (90)                 | 41                  | (46)                      | -                   |

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|  |              |       |              |    |
|--|--------------|-------|--------------|----|
| (Decrease) increase in cash and cash equivalents in the period | <b>(482)</b> | (147) | <b>869</b>   | 2, |
| Discontinued operations cash activity included above:          |              |       |              |    |
| Add: Balance included at beginning of period                   | -            | 212   | -            |    |
| Less: Balance included at end of period                        | -            | (212) | -            | (  |
| Cash and cash equivalents - beginning of the period            | <b>3,729</b> | 5,508 | <b>2,378</b> | 2, |
| Cash and cash equivalents - end of the period                  | <b>3,247</b> | 5,361 | <b>3,247</b> | 5, |

Supplemental cash flow information (note 11)

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

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(Unaudited)

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

**1. Description of business and significant accounting policies**

SunOpta Inc. (the “Company” or “SunOpta”) was incorporated under the laws of Canada on November 13, 1973. The Company operates businesses focused on a healthy products portfolio that promotes sustainable well-being. The Company has two industry groups, the largest being SunOpta Foods, which consists of four operating segments that operate in the natural, organic and specialty foods sectors and utilizes a number of integrated business models to bring cost-effective and quality products to market. In addition to SunOpta Foods, the Company owned approximately 66.2% of Opta Minerals Inc. (“Opta Minerals”) as at June 30, 2012. Opta Minerals is a vertically integrated provider of custom process solutions and industrial minerals products for use primarily in the steel, foundry, loose abrasive cleaning, construction and marine/bridge cleaning industries. The Company also has an ownership position in Mascoma Corporation (“Mascoma”), an innovative biofuels company (see note 6).

***Basis of presentation***

The interim consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, and in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information. Accordingly, these condensed interim consolidated financial statements do not include all of the disclosures required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the quarter and two quarters ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 29, 2012 or for any other period. The interim consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the annual consolidated financial statements for the year ended December 31, 2011 (except as described below under “Comparative balances” and “Adoption of new accounting standards”). For further information, see the consolidated financial statements, and notes thereto, included in the Company’s Current Report on Form 8-K filed on June 25, 2012.

***Comparative balances***

As a result of the divestiture of the Company’s interest in Purity Life Natural Health Products (“Purity”) on June 5, 2012 (see note 3), the operating results and cash flows of Purity for the quarter and two quarters ended July 2, 2011 have been reclassified to discontinued operations. In addition, the net assets of Purity have been reclassified and reported as held for sale on the consolidated balance sheet as at December 31, 2011. Similarly, as a result of the disposal of the Company’s interest in the Colorado Sun Oil Processing LLC (“CSOP”) joint venture in August 2011 (see note 3), the operating results and cash flows of CSOP for the quarter and two quarters ended July 2, 2011 have been reclassified to discontinued operations.

As more fully described in note 13, segmented information for the quarter and two quarters ended July 2, 2011 has been restated to reflect the realignment of the Company’s operating segments within SunOpta Foods implemented during the first quarter of 2012, and the divestitures of Purity and CSOP (as noted above). The realignment of the Company’s operating segments did not change the Company’s previously reported consolidated results of operations, financial position or cash flows.

*Adoption of new accounting standards*

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

- Amendments to fair value measurement and disclosure requirements.
- Guidance related to the presentation of net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements. The amendments did not change the components of other comprehensive income as reported in the Company's separate statement of comprehensive earnings.

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- Guidance on the accounting for goodwill that permits a qualitative approach to determining the likelihood of a goodwill impairment charge.

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

**2. Business acquisition*****Babco Industrial Corp.***

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

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

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

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

(2)

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

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- (3) Intangible assets consist of acquired customer relationships, which are being amortized over their estimated useful lives of approximately 15 years.
- (4) In conjunction with the acquisition, Opta Minerals fully repaid Babco's existing banking facilities.
- (5) Represents the fair value of contingent consideration payments of up to approximately \$1,300 if Babco achieves certain EBITDA targets over the next five years. The fair value of the contingent consideration was measured using a discounted cash flow analysis based on level 3 inputs, which included a forecasted EBITDA growth rate of 2.5% and a risk-adjusted discount rate of 18.0%.

In addition to the recognition of the fair values of the assets acquired and liabilities assumed at the acquisition date, Opta Minerals determined that in connection with its subsequent amalgamation with Babco during the quarter ended June 30, 2012, it was more likely than not that the combined company would be able to realize a portion of Opta Minerals' pre-existing non-capital loss carryforwards. As a result, Opta Minerals released \$990 of a valuation allowance against its deferred tax assets, resulting in a corresponding deferred tax benefit (before non-controlling interest) recognized in the provision for income taxes for the quarter ended June 30, 2012.

The acquired assets (including goodwill), assumed liabilities and results of operations of Babco have been included in the Opta Minerals operating segment since the date of acquisition. The revenues and earnings of Babco attributable to SunOpta Inc. that are included in the consolidated statement of operations for the period from the acquisition date to June 30, 2012 were \$5,420 and \$943, respectively.

***Pro forma consolidated results of operations (unaudited)***

The following table presents unaudited pro forma consolidated results of operations for the quarter and two quarters ended June 30, 2012 and July 2, 2011, as if the Babco acquisition had occurred as of January 2, 2011.

|   | June 30, 2012 | Quarter ended<br>July 2, 2011 | Two quarters ended<br>June 30, 2012 | Two quarters ended<br>July 2, 2011 |
|---|---------------|-------------------------------|-------------------------------------|------------------------------------|
|   | \$            | \$                            | \$                                  | \$                                 |
| Pro forma revenues                              | 282,308       | 278,701                       | 543,127                             | 527,310                            |
| Pro forma earnings attributable to SunOpta Inc. | 8,154         | 4,562                         | 14,329                              | 10,159                             |
| Pro forma earnings per share                    |               |                               |                                     |                                    |
| Basic   | 0.12          | 0.07                          | 0.22                                | 0.15                               |
| Diluted   | 0.12          | 0.07                          | 0.22                                | 0.15                               |

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

- incremental amortization expense related to the fair value of the identifiable intangible assets acquired;
- additional depreciation expense related to the fair value adjustment to property, plant and equipment acquired;
- additional interest costs associated with an increase in borrowings under Opta Minerals' non-revolving term credit facility, which were used to finance the acquisition; and

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- the exclusion of acquisition-related transaction costs incurred by Opta Minerals from pro forma earnings for the quarter and two quarters ended June 30, 2012, and the inclusion of those costs in pro forma earnings for the quarter and two quarters ended July 2, 2011.

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

**3. Divestitures*****Purity Life Natural Health Products***

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

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

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

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

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

|   | June 30, 2012 | Quarter ended<br>July 2, 2011 | June 30, 2012 | Two quarters ended<br>July 2, 2011 |
|---|---------------|-------------------------------|---------------|------------------------------------|
|   | \$            | \$                            | \$            | \$                                 |
| Revenues  | 11,700        | 15,365                        | 26,914        | 30,604                             |
| Earnings (loss) before income taxes                               | 393           | (1,185)                       | 1,054         | (1,318)                            |
| Provision for (recovery of) income taxes                          | 64            | (273)                         | 305           | (298)                              |
| Earnings (loss) from discontinued operations, net of income taxes | 329           | (912)                         | 749           | (1,020)                            |

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***Colorado Sun Oil Processing LLC***

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

|  | June 30, 2012 | Quarter ended<br>July 2, 2011 | June 30, 2012 | Two quarters ended<br>July 2, 2011 |
|--|---------------|-------------------------------|---------------|------------------------------------|
|  | \$            | \$                            | \$            | \$                                 |
| Revenues   | -             | 204                           | -             | 538                                |
| Loss before income taxes                               | (205)         | (626)                         | (564)         | (1,207)                            |
| Recovery of income taxes                               | 90            | 230                           | 220           | 447                                |
| Loss allocated to non-controlling interests            | -             | 75                            | -             | 155                                |
| Loss from discontinued operations, net of income taxes | (115)         | (321)                         | (344)         | (605)                              |

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**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 June 30, 2012 and December 31, 2011:

|     |  |                   |         |         | June 30, 2012 |
|-----|--|-------------------|---------|---------|---------------|
|     |  | Fair value        |         |         |               |
|     |  | asset (liability) | Level 1 | Level 2 | Level 3       |
|     |  | \$                | \$      | \$      | \$            |
| (a) | Commodity futures and forward contracts <sup>(1)</sup> |                   |         |         |               |
|     | Unrealized short-term derivative gain                  | 2,430             | -       | 2,430   | -             |
|     | Unrealized long-term derivative gain                   | 272               | -       | 272     | -             |
|     | Unrealized short-term derivative loss                  | (3,449)           | (983)   | (2,466) | -             |
|     | Unrealized long-term derivative loss                   | (234)             | -       | (234)   | -             |
| (b) | Inventories carried at market <sup>(2)</sup>           | 19,490            | -       | 19,490  | -             |
| (c) | Interest rate swaps <sup>(3)</sup>                     | (446)             | -       | (446)   | -             |
| (d) | Forward foreign currency contracts <sup>(4)</sup>      | 320               | -       | 320     | -             |
| (e) | Contingent consideration <sup>(5)</sup>                | (4,744)           | -       | -       | (4,744)       |

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

(1) Unrealized short-term derivative gain is included in prepaid expenses and other current assets, unrealized long-term derivative gain is included in other assets, unrealized short-term derivative loss is included in other current liabilities and unrealized long-term derivative loss is included in long-term liabilities on the consolidated balance sheets.

(2) Inventories carried at market are included in inventories on the consolidated balance sheets.

- (3) The interest rate swaps are included in long-term liabilities on the consolidated balance sheets.
- (4) The forward foreign currency contracts are included in accounts receivable on the consolidated balance sheets.
- (5) Contingent consideration obligations are included in long-term liabilities (including the current portion thereof) on the consolidated balance sheets.
- (a) Commodity futures and forward contracts

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

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These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company's risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains. These derivative instruments are not designated as hedging instruments. For the quarter and two quarters ended June 30, 2012, a loss of \$1,215 and a loss of \$1,897, respectively, were recorded in cost of goods sold on the consolidated statement of operations related to changes in the fair value of these derivatives, compared with gains of \$323 and \$3,309 recorded in the corresponding periods of 2011.

At June 30, 2012, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

|                                      | Number of bushels |                             |
|--------------------------------------|-------------------|-----------------------------|
|                                      | Corn              | purchase (sale)<br>Soybeans |
| Forward commodity purchase contracts | 1,259             | 1,000                       |
| Forward commodity sale contracts     | (2,273)           | (894)                       |
| Commodity futures contracts          | 161               | (749)                       |

In addition, as at June 30, 2012, the Company also had open forward contracts to sell 139 lots of cocoa.

## (b) Inventories carried at market

Grains inventory carried at fair value is determined using quoted market prices from the Chicago Board of Trade (CBoT). Estimated fair market values for grains inventory quantities at period end are valued using the quoted price on the CBoT adjusted for differences in local markets, and broker or dealer quotes. These assets are placed in level 2 of the fair value hierarchy, as there are observable quoted prices for similar assets in active markets. Gains and losses on commodity grains inventory are included in cost of sales on the consolidated statements of operations. As at June 30, 2012, the Company had 1,099,424 bushels of commodity corn and 685,661 bushels of commodity soybeans in inventories carried at market.

## (c) Interest rate swaps

Opta Minerals utilizes interest rate swaps to minimize its exposure to interest rate risk. In 2007, Opta Minerals entered into a five-year Cdn \$17,200 (\$16,894) interest rate swap contract to pay a fixed rate of 5.25%, plus a margin of 2.0% to 3.5% based on certain financial ratios of Opta Minerals, and receive a variable rate based on various reference rates including prime, bankers' acceptances or LIBOR, plus the same margin. In February 2012, Opta Minerals entered into a five-year Cdn \$15,000 (\$14,733) interest rate swap contract to pay a fixed rate of 1.85%, plus a margin of 2.0% to 3.5% based on certain financial ratios of Opta Minerals, and receive a variable rate based on various reference rates including prime, bankers' acceptances or LIBOR, plus the same margin. This contract commences in August 2012, the date of expiry of the 2007 contract. Also in February 2012, in connection with an increase in borrowings under its non-revolving term credit facility (see note 7), which were used to finance the acquisition of Babco (see note 2), Opta Minerals entered into a five-year Cdn \$19,000 (\$18,662) interest rate swap to pay a fixed rate of 1.85%, plus a margin of 2.0% to 3.5% based on certain financial ratios of Opta Minerals, and receive a variable rate based on various reference rates including

prime, bankers' acceptances or LIBOR, plus the same margin. The net notional value of this contract decreases in accordance with the quarterly principal repayments on the non-revolving term credit facility.

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

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## (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 June 30, 2012, the Company had open forward foreign exchange contracts with a notional value of Cdn \$1,250, €1,630 and \$8,165. For the quarter and two quarters ended June 30, 2012, the Company recognized an unrealized loss of \$11 and an unrealized gain of \$320, respectively, related to changes in the fair value of these derivatives, which was included in foreign exchange loss on the consolidated statements of operations, compared with an unrealized gain of \$381 and an unrealized loss of \$195 in corresponding periods of 2011.

## (e) Contingent consideration

The fair value measurement of contingent consideration arising from business acquisitions is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows. For the two quarters ended June 30, 2012, the change in the fair value of the contingent consideration liability reflected the addition of the acquisition-date fair value of the contingent consideration arising from the acquisition of Babco of \$617 (see note 2) and the payment of \$327 to the former owners of Edner of Nevada, Inc. Adjustments to the fair value of the contingent consideration liability related to (i) changes in the probability of achievement of the factors on which the contingencies are based, (ii) the accretion of interest expense, and (iii) changes in foreign currency exchange rates were not material for the quarter and two quarters ended June 30, 2012.

**5. Inventories**

|                                   | June 30, 2012 | December 31, 2011 |
|-----------------------------------|---------------|-------------------|
|                                   | \$            | \$                |
| Raw materials and work-in-process | 136,741       | 147,051           |
| Finished goods                    | 66,575        | 70,358            |
| Company-owned grain               | 25,516        | 17,351            |
| Inventory reserves                | (6,120)       | (6,305)           |
|                                   | 222,712       | 228,455           |

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**6. Investments*****Mascoma Corporation***

As at June 30, 2012, the Company held an 18.65% equity ownership position in Mascoma. Mascoma is a privately-held renewable fuels company headquartered in the U.S. that has developed innovative technology for the low-cost conversion of abundant biomass. On August 31, 2010, the Company sold 100% of its ownership interest in SunOpta Bioprocess Inc. to Mascoma in exchange for its equity ownership position in Mascoma. The Company is accounting for its investment in Mascoma using the cost method, as the Company does not have the ability to exercise significant influence over the operating and financial policies of Mascoma.

Although Mascoma has a history of recurring operating losses and negative cash flows, the Company considers the value of its investment to be predicated on the future prospects for Mascoma's products and technologies. Mascoma's ability to continue as a going concern is dependent on a number of factors, including its ability to raise additional capital to fund its operational, capital expenditure and debt service requirements, as well as to support its product-development activities. Each reporting period, the Company evaluates whether events or changes in circumstances have occurred that may have a significant adverse effect on its ability to recover the carrying value of its investment. The Company considers the pricing of recent arms-length private offerings of Mascoma's equity securities, as well as other available information relating to Mascoma to assess the commercial viability and future earnings potential of its products and technologies, as well as its ability to secure additional funding as required. On the basis of its overall assessment, the Company determined that the carrying value of its investment in Mascoma was recoverable as at June 30, 2012.

**7. Bank indebtedness and long-term debt**

|  | June 30, 2012 | December 31, 2011 |
|--|---------------|-------------------|
|  | \$            | \$                |
| <b>Bank indebtedness</b>   |               |                   |
| Canadian line of credit facility <sup>(1)</sup>                    | -             | 26                |
| U.S. line of credit facility <sup>(1)</sup>                        | 30,598        | 51,617            |
| Opta Minerals revolving term credit facility <sup>(2)</sup>        | 10,565        | -                 |
| Opta Minerals Canadian line of credit facility <sup>(2)</sup>      | -             | 7,765             |
| TOC line of credit facilities <sup>(3)</sup>                       | 56,663        | 50,310            |
|  | 97,826        | 109,718           |
| <b>Long-term debt</b>  |               |                   |
| Non-revolving real estate term facility <sup>(1)</sup>             | 11,699        | 12,133            |
| Non-revolving machinery and equipment term facility <sup>(1)</sup> | 9,378         | 11,078            |
| Opta Minerals non-revolving term credit facility <sup>(2)</sup>    | 36,583        | -                 |
| Opta Minerals term loan facility <sup>(2)</sup>                    | -             | 6,392             |
| Opta Minerals revolving acquisition facility <sup>(2)</sup>        | -             | 12,420            |
| Promissory notes   | 2,105         | 8,744             |
| Other  | 1,546         | 1,497             |

|                       |        |        |
|-----------------------|--------|--------|
|                       | 61,311 | 52,264 |
| Less: current portion | 27,406 | 35,198 |
|                       | 33,905 | 17,066 |

## (1) Syndicated credit facilities

In January 2012, the Company completed amendments to its syndicated credit facilities, which included a Cdn \$5,000 increase in the Canadian line of credit facility to Cdn \$10,000 and a \$15,000 increase in the U.S. revolving line of credit facility to \$115,000, with a corresponding decrease from \$30,000 to \$10,000 in the amount of availability under the facilities' accordion feature. There were no other material changes made to the facilities' terms and conditions. The maturity date of the facilities remained October 30, 2012. The facilities were collateralized by a first priority security interest against substantially all of the Company's assets in Canada and the U.S., excluding the assets of Opta Minerals and The Organic Corporation ( "TOC" ), a wholly-owned subsidiary of the Company.

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

On July 27, 2012, the Company amended and restated its syndicated credit facilities to, among other things, provide for a maturity date of July 27, 2016 (see note 14).

**8. Stock-based compensation**

For the two quarters ended June 30, 2012, the Company granted 1,105,000 options to employees that vest ratably on each of the first through fifth anniversary of the grant date and expire on the tenth anniversary of the grant date. These options had a weighted-average grant-date fair value of \$3.49 per option. The following table summarizes the weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the options granted:

|                                     |    |       |
|-------------------------------------|----|-------|
| Exercise price                      | \$ | 5.67  |
| Dividend yield                      |    | 0%    |
| Expected volatility                 |    | 66.4% |
| Risk-free interest rate             |    | 1.2%  |
| Expected life of options (in years) |    | 6.5   |

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For the quarters ended June 30, 2012 and July 2, 2011

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**9. Other expense (income), net**

|   | June 30, 2012 | Quarter ended<br>July 2, 2011 | June 30, 2012 | Two quarters ended<br>July 2, 2011 |
|---|---------------|-------------------------------|---------------|------------------------------------|
|   | \$            | \$                            | \$            | \$                                 |
| (a) Severance and other rationalization costs | 978           | -                             | 1,295         | 427                                |
| (b) Acquisition-related transaction costs     | 200           | -                             | 401           | -                                  |
| (c) Gain on sale of assets                    | -             | (3,048)                       | -             | (3,048)                            |
| (d) Legal settlements                         |               | (500)                         |               | (500)                              |
| Other   | 200           | 292                           | 46            | 227                                |
|   | 1,378         | (3,256)                       | 1,742         | (2,894)                            |

**(a) Severance and other rationalization costs**

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

For the quarter and two quarters ended July 2, 2011, severance costs were related to employee terminations in the former Fruit Group, as well as the International Foods Group and Corporate Services.

**(b) Acquisition-related transaction costs**

Represents transaction costs incurred by Opta Minerals in connection with the acquisition of Babco (see note 2) and the proposed acquisition of WGI (see note 14).

**(c) Gain on sale of assets**

In the second quarter of 2011, the Company completed the sale of land, buildings and processing equipment located in Mexico for proceeds of \$5,650. The gain on sale, after deducting the carrying value of the assets sold and related transaction costs, was \$3,048.

**(d) Legal settlement**

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

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

**10. Earnings per share**

Earnings (loss) per share were calculated as follows:

|  | June 30, 2012 | Quarter ended<br>July 2, 2011 | June 30, 2012 | Two quarters ended<br>July 2, 2011 |
|--|---------------|-------------------------------|---------------|------------------------------------|
| Earnings from continuing operations attributable to SunOpta Inc. | \$ 7,255      | \$ 5,634                      | \$ 12,956     | \$ 11,107                          |
| Loss from discontinued operations, net of income taxes           | 890           | (1,233)                       | 1,081         | (1,625)                            |
| Earnings attributable to SunOpta Inc.                            | \$ 8,145      | \$ 4,401                      | \$ 14,037     | \$ 9,482                           |
| Basic weighted-average number of shares outstanding              | 65,854,718    | 65,574,269                    | 65,832,112    | 65,556,686                         |
| Dilutive potential of the following:                             |               |                               |               |                                    |
| Employee/director stock options                                  | 566,949       | 935,016                       | 511,094       | 931,972                            |
| Warrants   | 172,598       | 316,775                       | 127,488       | 316,378                            |
| Diluted weighted-average number of shares outstanding            | 66,594,265    | 66,826,060                    | 66,470,694    | 66,805,036                         |
| Earnings (loss) per share - basic:                               |               |                               |               |                                    |
| - from continuing operations                                     | \$ 0.11       | \$ 0.09                       | \$ 0.20       | \$ 0.17                            |
| - from discontinued operations                                   | 0.01          | (0.02)                        | 0.02          | (0.02)                             |
|  | \$ 0.12       | \$ 0.07                       | \$ 0.21       | \$ 0.14                            |
| Earnings (loss) per share - diluted:                             |               |                               |               |                                    |
| - from continuing operations                                     | \$ 0.11       | \$ 0.08                       | \$ 0.19       | \$ 0.17                            |
| - from discontinued operations                                   | 0.01          | (0.02)                        | 0.02          | (0.02)                             |
|  | \$ 0.12       | \$ 0.07                       | \$ 0.21       | \$ 0.14                            |

For the quarter ended June 30, 2012, options to purchase 2,103,700 (July 2, 2011 - 1,193,600) common shares have been excluded from the calculation of diluted earnings per share due to their anti-dilutive effect. For the two quarters ended June 30, 2012, options to purchase 2,086,700 (July 2, 2011 - 1,193,600) common shares have been excluded from the calculation of diluted earnings per share due to their anti-dilutive effect.

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**11. Supplemental cash flow information**

|   | June 30, 2012 | Quarter ended<br>July 2, 2011 | June 30, 2012 | Two quarters ended<br>July 2, 2011 |
|---|---------------|-------------------------------|---------------|------------------------------------|
|   | \$            | \$                            | \$            | \$                                 |
| <b>Changes in non-cash working capital:</b> |               |                               |               |                                    |
| Accounts receivable                         | 694           | (3,088)                       | (17,904)      | (15,572)                           |
| Inventories                                 | 1,946         | 19,556                        | 5,208         | (4,182)                            |
| Income tax recoverable                      | 655           | 939                           | 1,497         | 715                                |
| Prepaid expenses and other current assets   | 2,663         | 9,089                         | 2,894         | 8,542                              |
| Accounts payable and accrued liabilities    | 8,250         | (15,213)                      | (4,810)       | (21,616)                           |
| Customer and other deposits                 | (1,661)       | (1,563)                       | 3,732         | (780)                              |
|   | 12,547        | 9,720                         | (9,383)       | (32,893)                           |

As at June 30, 2012, cash and cash equivalents included \$233 (December 31, 2011 - \$698) that was specific to Opta Minerals and cannot be utilized by the Company for general corporate purposes.

**12. Commitments and contingencies*****Colorado Sun Oil Processors, LLC dispute***

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

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

A separate arbitration proceeding occurred between Grains and Foods and Colorado Mills to resolve direct claims each party asserted against the other. The case was arbitrated during the week of August 8, 2011 and proposed findings were filed on September 13, 2011. On January 4, 2012 the arbitrator entered an award denying Grains and Foods claims and awarding Colorado Mills \$4,816 for its breach of contract claim and \$430 for accrued interest. The Company subsequently filed a motion to vacate the arbitration award on March 30, 2012 in Prowers County District Court. Colorado Mills filed a response on April 20, 2012. The Company filed a reply on April 27, 2012. The Prowers County District Court denied the Company's motion and entered judgment on the arbitration award on July 6, 2012 in the amount of \$4,816. On July 13, 2012, the Company bonded the judgment in the amount of \$6,875, or approximately 125% of the judgment amount, to stay execution of the judgment pending the Company's filing of an

appeal to the Colorado Court of Appeals. Although management believes the claims asserted by Colorado Mills are baseless, that the arbitrator committed prejudicial error, that vacatur of the award is warranted, and that the Company's appeal will be successful, management cannot predict whether the prospect of an

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unfavorable outcome in this matter is probable. As of December 31, 2011, the Company accrued the full value of the award, pending the outcome of post-arbitration judicial proceedings.

### *Other claims*

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

### **13. Segmented information**

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

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

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

- (a) ***SunOpta Foods*** sources, processes, packages and markets a wide range of natural, organic and specialty food products and ingredients with a focus on soy, corn, sunflower, fruit, fiber and other natural and organic food products. There are four operating segments within SunOpta Foods:
  - i. ***Grains and Foods Group*** is focused on vertically integrated sourcing, processing, packaging and marketing of grains, grain-based ingredients and packaged products;
  - ii. ***Ingredients Group*** is focused primarily on insoluble oat and soy fiber products, and specialty fruit ingredients, and works closely with its customers to identify product formulation, cost and productivity opportunities aimed at transforming raw materials into value-added food ingredient solutions;
  - iii. ***Consumer Products Group*** provides natural and organic consumer packaged food products to major global food manufacturers, distributors and supermarket chains with a variety of branded and private label non-grains based products; and

- iv. ***International Foods Group*** includes European and North American based operations that source raw material ingredients and trade organic commodities.
- (b) ***Opta Minerals*** processes, distributes and recycles silica-free loose abrasives, roofing granules, industrial minerals and specialty sands for the foundry, steel, and bridge and ship-cleaning industries.
- (c) ***Corporate Services*** provide a variety of management, financial, information technology, treasury and administration services to the operating segments from the head office in Brampton, Ontario, and information technology and shared services in Minnesota.

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The following segmented information for the quarter and two quarters ended June 30, 2012 and July 2, 2011 is provided on the basis of the Company's new operating segments alignment and the divestitures of Purity and CSOP (see note 3):

|   | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | Quarter ended<br>June 30, 2012<br>Consolidated<br>\$ |
|---|------------------------|------------------------|-----------------------------|--|
| <b>External revenues by market:</b>           |                        |                        |                             |  |
| U.S.  | 201,279                | 18,593                 | -                           | 219,872  |
| Canada  | 8,479                  | 8,492                  | -                           | 16,971   |
| Europe and other                              | 41,336                 | 4,129                  | -                           | 45,465   |
| <b>Total revenues from external customers</b> | <b>251,094</b>         | <b>31,214</b>          | <b>-</b>                    | <b>282,308</b>                                       |
| Segment operating income (loss)               | 14,035                 | 1,817                  | (1,504)                     | 14,348   |
| Other expense, net                            |                        |                        |                             | 1,378  |
| Interest expense, net                         |                        |                        |                             | 2,558  |
| Provision for income taxes                    |                        |                        |                             | 2,769  |
| Earnings from continuing operations           |                        |                        |                             | 7,643  |

  

|   | Grains and<br>Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | Quarter ended<br>June 30, 2012<br>SunOpta<br>Foods<br>\$ |
|---|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|--|
| <b>External revenues by market:</b>           |                                    |                            |                                     |                                       |  |
| U.S.  | 118,398                            | 18,233                     | 48,017                              | 16,631                                | 201,279  |
| Canada  | 4,776                              | 732                        | 438                                 | 2,533                                 | 8,479  |
| Europe and other                              | 12,830                             | 1,521                      | 636                                 | 26,349                                | 41,336   |
| <b>Total revenues from external customers</b> | <b>136,004</b>                     | <b>20,486</b>              | <b>49,091</b>                       | <b>45,513</b>                         | <b>251,094</b>   |
| Segment operating income                      | 10,496                             | 839                        | 170                                 | 2,530                                 | 14,035   |

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|   | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | Quarter ended<br>July 2, 2011<br>Consolidated<br>\$ |
|---|------------------------|------------------------|-----------------------------|---|
| <b>External revenues by market:</b>           |                        |                        |                             |   |
| U.S.  | 193,310                | 16,523                 | -                           | 209,833   |
| Canada  | 7,522                  | 4,134                  | -                           | 11,656  |
| Europe and other                              | 49,569                 | 4,130                  | -                           | 53,699  |
| <b>Total revenues from external customers</b> | <b>250,401</b>         | <b>24,787</b>          | <b>-</b>                    | <b>275,188</b>                                      |
| Segment operating income (loss)               | 9,848                  | 2,159                  | (2,227)                     | 9,780   |
| Other income, net                             |                        |                        |                             | (3,256)   |
| Interest expense, net                         |                        |                        |                             | 2,520   |
| Provision for income taxes                    |                        |                        |                             | 4,170   |
| Earnings from continuing operations           |                        |                        |                             | 6,346   |

|   | Grains and<br>Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | Quarter ended<br>July 2, 2011<br>SunOpta<br>Foods<br>\$ |
|---|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|---|
| <b>External revenues by market:</b>           |                                    |                            |                                     |                                       |   |
| U.S.  | 103,248                            | 20,826                     | 46,724                              | 22,512                                | 193,310   |
| Canada  | 3,814                              | 1,591                      | 684                                 | 1,433                                 | 7,522   |
| Europe and other                              | 18,046                             | 1,283                      | 339                                 | 29,901                                | 49,569  |
| <b>Total revenues from external customers</b> | <b>125,108</b>                     | <b>23,700</b>              | <b>47,747</b>                       | <b>53,846</b>                         | <b>250,401</b>  |
| Segment operating income                      | 5,280                              | 1,661                      | 122                                 | 2,785                                 | 9,848   |

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|   | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | Two quarters ended<br>June 30, 2012<br>Consolidated<br>\$ |
|---|------------------------|------------------------|-----------------------------|---|
| <b>External revenues by market:</b>           |                        |                        |                             |   |
| U.S.  | 383,764                | 36,635                 | -                           | 420,399   |
| Canada  | 18,393                 | 14,764                 | -                           | 33,157  |
| Europe and other                              | 79,933                 | 8,147                  | -                           | 88,080  |
| <b>Total revenues from external customers</b> | <b>482,090</b>         | <b>59,546</b>          | <b>-</b>                    | <b>541,636</b>  |
| Segment operating income (loss)               | 25,588                 | 4,898                  | (3,357)                     | 27,129  |
| Other expense, net                            |                        |                        |                             | 1,742   |
| Interest expense, net                         |                        |                        |                             | 5,141   |
| Provision for income taxes                    |                        |                        |                             | 6,355   |
| Earnings from continuing operations           |                        |                        |                             | 13,891  |

|   | Grains and<br>Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | Two quarters ended<br>June 30, 2012<br>SunOpta<br>Foods<br>\$ |
|---|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|---|
| <b>External revenues by market:</b>           |                                    |                            |                                     |                                       |   |
| U.S.  | 222,846                            | 37,536                     | 91,936                              | 31,446                                | 383,764   |
| Canada  | 9,241                              | 3,193                      | 1,116                               | 4,843                                 | 18,393  |
| Europe and other                              | 25,092                             | 1,406                      | 1,191                               | 52,244                                | 79,933  |
| <b>Total revenues from external customers</b> | <b>257,179</b>                     | <b>42,135</b>              | <b>94,243</b>                       | <b>88,533</b>                         | <b>482,090</b>  |
| Segment operating income (loss)               | 18,882                             | 2,068                      | (5)                                 | 4,643                                 | 25,588  |

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|   | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | Two quarters ended<br>July 2, 2011<br>Consolidated<br>\$ |
|---|------------------------|------------------------|-----------------------------|--|
| <b>External revenues by market:</b>           |                        |                        |                             |  |
| U.S.  | 362,736                | 31,256                 | -                           | 393,992  |
| Canada  | 15,282                 | 7,405                  | -                           | 22,687   |
| Europe and other                              | 96,127                 | 7,732                  | -                           | 103,859  |
| <b>Total revenues from external customers</b> | <b>474,145</b>         | <b>46,393</b>          | <b>-</b>                    | <b>520,538</b>   |
| Segment operating income (loss)               | 21,272                 | 4,610                  | (4,363)                     | 21,519   |
| Other income, net                             |                        |                        |                             | (2,894)  |
| Interest expense, net                         |                        |                        |                             | 4,504  |
| Provision for income taxes                    |                        |                        |                             | 7,423  |
| Earnings from continuing operations           |                        |                        |                             | 12,486   |

|   | Grains and<br>Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | Two quarters ended<br>July 2, 2011<br>SunOpta<br>Foods<br>\$ |
|---|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|--|
| <b>External revenues by market:</b>           |                                    |                            |                                     |                                       |  |
| U.S.  | 200,208                            | 43,683                     | 81,732                              | 37,113                                | 362,736  |
| Canada  | 6,581                              | 4,045                      | 1,418                               | 3,238                                 | 15,282   |
| Europe and other                              | 33,586                             | 1,908                      | 541                                 | 60,092                                | 96,127   |
| <b>Total revenues from external customers</b> | <b>240,375</b>                     | <b>49,636</b>              | <b>83,691</b>                       | <b>100,443</b>                        | <b>474,145</b>   |
| Segment operating income (loss)               | 11,568                             | 4,627                      | (356)                               | 5,433                                 | 21,272   |

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**14. Subsequent events**

*Syndicated credit facilities*

On July 27, 2012, the Company entered into an amended and restated credit agreement with a syndicate of lenders. The amended agreement provides secured revolving credit facilities of Cdn \$10,000 (or the equivalent U.S. dollar amount) and \$165,000, as well as an additional \$50,000 in availability upon the exercise of an uncommitted accordion feature. These facilities mature on July 27, 2016, with the outstanding principal amount repayable in full on the maturity date. The facilities replace the Company's previous line of credit facilities of Cdn \$10,000 and \$115,000, and refinance non-revolving term facilities totalling \$21,077 as at June 30, 2012, which were due to mature on October 30, 2012 (see note 7).

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.

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

*Opta Minerals credit facility*

On July 24, 2012, Opta Minerals amended its credit agreement dated May 18, 2012 (see note 7) to increase the revolving term credit facility to Cdn \$20,000 until December 31, 2012 (reducing to Cdn \$15,000 on January 1, 2013) and reduce the second tranche of the non-revolving term credit facility to an amount of Cdn \$15,000, which can only be used to fund the proposed acquisition of WGI (as described below), with the principal repayable in equal quarterly installments of Cdn \$375 after the completion of the acquisition. The second tranche will be cancelled if not drawn by Opta Minerals before October 31, 2012.

*WGI Heavy Minerals, Incorporated*

On July 13, 2012, Opta Minerals entered into an agreement with WGI to commence an offer to acquire all of the outstanding common shares of WGI for Cdn \$0.60 in cash per share, which values WGI at approximately Cdn \$15,450 on a fully-diluted basis. The offer is open for acceptance until August 29, 2012, unless extended or withdrawn. WGI is a publicly-traded company, whose principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure water jet cutting machine replacement parts and components.

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

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the interim consolidated financial statements, and notes thereto, for the quarter ended June 30, 2012 contained under Item 1 of this Quarterly Report on Form 10-Q ("Form 10-Q") and in conjunction with the annual consolidated financial statements, and notes thereto, contained in the Current Report on Form 8-K that we filed on June 25, 2012.

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

Forward-looking statements contained in this MD&A are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While we consider these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking statements are also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors are more fully described under Item 1A of Part II of this Form 10-Q and under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 ("2011 Form 10-K").

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

Unless otherwise indicated herein, the discussion and analysis contained in this MD&A includes information available to August 9, 2012. All dollar amounts in this MD&A are expressed in thousands of U.S. dollars, except per share amounts, unless otherwise noted.

### **Segment Realignment and Rationalization Efforts**

In February 2012, we announced that a process to streamline the operations and organizational structure of SunOpta Foods had been undertaken in order to drive efficiencies and better align product innovation and commercial activities. During the first quarter of 2012, operating segments within SunOpta Foods were re-aligned according to the type of customers and markets served, rather than by product groupings. As a result, the former Fruit Group was eliminated and a new Consumer Products Group was created to focus on non-grains based consumer packaged goods. The Consumer Products Group is comprised of the Frozen Foods and Healthy Snacks operations which were part of the former Fruit Group, and the Food Solutions operations which were formerly part of the International Foods Group. The Fruit Ingredient operation of the former Fruit Group was merged with the existing Ingredients Group. Following this realignment and the divestiture of Purity Life Natural Health Products ("Purity") (as described below under "Business Developments"), the International Foods Group comprises solely our international sourcing and supply operations (Tradin Organic). The Grains and Foods Group remained unchanged. With this realignment, SunOpta

Foods now consists of four operating segments: Grains and Foods Group, Ingredients Group, Consumer Products Group and International Foods Group. The segmented operations information provided in this MD&A for the current and comparative periods reflects these new operating segments. In addition, on June 25, 2012, we filed a Current Report on Form 8-K in order to update the historical financial statements and MD&A for all periods presented in the 2011 Form 10-K to reflect the realignment of the operating segments within SunOpta Foods implemented during the first quarter of 2012.

In hand with these efforts, we also announced the rationalization of a number of operations and functions which resulted in a reduction of approximately 6% of our salaried workforce. Once fully implemented, and after approximately \$500 in severance charges, this rationalization is expected to reduce annual costs by approximately \$3,000 before tax.

## **Business Developments**

### ***WGI Heavy Minerals, Incorporated***

On July 13, 2012, Opta Minerals entered into an agreement with WGI Heavy Minerals, Incorporated (“WGI”) to commence an offer to acquire all of the outstanding common shares of WGI for Cdn \$0.60 in cash per share, which values WGI at approximately Cdn \$15,450 on a fully-diluted basis. The offer is open for acceptance until August 29, 2012, unless extended or withdrawn. WGI is a publicly-traded company, whose principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure water jet cutting machine replacement parts and components.

### ***Purity Life Natural Health Products***

On June 5, 2012, we completed the sale of Purity, our Canadian natural health products distribution business, for consideration of \$13,443 (Cdn \$14,000) in cash at closing, plus up to approximately \$672 (Cdn \$700) if Purity achieves certain earnings targets during the one-year period following the closing date. We will not recognize the contingent consideration until realized. The divestiture of Purity is consistent with our strategy to focus on our core natural and organic foods sourcing and processing business. The operating results of Purity for the quarter and two quarters ended June 30, 2012 and July 2, 2011 have been reclassified to discontinued operations. Purity was formerly part of the International Foods Group.

### ***Babco Industrial Corp.***

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

### ***Inland RC, LLC***

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

### ***Lorton’s Fresh Squeezed Juices, Inc.***

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

*Colorado Sun Oil Processing LLC*

In August 2011, we disposed of our interest in the Colorado Sun Oil Processing LLC (“CSOP”) joint venture, pursuant to bankruptcy proceedings. As a result, the operating results of CSOP (including legal fees and interest costs incurred in connection with arbitration proceedings underway in respect of the related joint venture agreement – see note 12 to the interim consolidated financial statements) for the quarter and two quarters ended June 30, 2012 and July 2, 2011 have been reclassified to discontinued operations. CSOP was part of the Grains and Foods Group.

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## Consolidated Results of Operations

| For the quarter ended   | June 30, 2012  | July 2, 2011   | Change       | Change       |
|---|----------------|----------------|--------------|--------------|
|   | \$             | \$             | \$           | %            |
| <b>Revenue</b>  |                |                |              |              |
| SunOpta Foods   | 251,094        | 250,401        | 693          | 0.3%         |
| Opta Minerals   | 31,214         | 24,787         | 6,427        | 25.9%        |
| <b>Total Revenue</b>  | <b>282,308</b> | <b>275,188</b> | <b>7,120</b> | <b>2.6%</b>  |
| <b>Gross Profit</b>   |                |                |              |              |
| SunOpta Foods   | 30,237         | 26,521         | 3,716        | 14.0%        |
| Opta Minerals   | 6,851          | 5,458          | 1,393        | 25.5%        |
| <b>Total Gross Profit</b>                                       | <b>37,088</b>  | <b>31,979</b>  | <b>5,109</b> | <b>16.0%</b> |
| <b>Segment Operating Income (Loss)<sup>(1)</sup></b>            |                |                |              |              |
| SunOpta Foods   | 14,035         | 9,848          | 4,187        | 42.5%        |
| Opta Minerals   | 1,817          | 2,159          | (342)        | -15.8%       |
| Corporate Services  | (1,504)        | (2,227)        | 723          | 32.5%        |
| <b>Total Segment Operating Income</b>                           | <b>14,348</b>  | <b>9,780</b>   | <b>4,568</b> | <b>46.7%</b> |
| Other (income) expense, net                                     | 1,378          | (3,256)        | 4,634        | 142.3%       |
| <b>Earnings from continuing operations before the following</b> | <b>12,970</b>  | <b>13,036</b>  | <b>(66)</b>  | <b>-0.5%</b> |
| Interest expense, net   | 2,558          | 2,520          | 38           | 1.5%         |
| Provision for income taxes                                      | 2,769          | 4,170          | (1,401)      | -33.6%       |
| Earnings from continuing operations                             | 7,643          | 6,346          | 1,297        | 20.4%        |
| Earnings attributable to non-controlling interests              | 388            | 712            | (324)        | -45.5%       |
| Loss from discontinued operations, net of taxes                 | 214            | (1,233)        | 1,447        | n/m          |
| Gain on sale of discontinued operations, net of taxes           | 676            | -              | 676          | n/m          |
| <b>Earnings attributable to SunOpta Inc.</b>                    | <b>8,145</b>   | <b>4,401</b>   | <b>3,744</b> | <b>85.1%</b> |

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

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|   | Grains<br>and Foods<br>Group | Ingredients<br>Group | Consumer<br>Products<br>Group | International<br>Foods<br>Group | SunOpta<br>Foods | Opta<br>Minerals | Corporate<br>Services | Consol-<br>idated |
|---|------------------------------|----------------------|-------------------------------|---------------------------------|------------------|------------------|-----------------------|-------------------|
| <b>For the quarter ended</b>                                    | \$                           | \$                   | \$                            | \$                              | \$               | \$               | \$                    | \$                |
| <b>June 30, 2012</b>  |                              |                      |                               |                                 |                  |                  |                       |                   |
| Segment operating income (loss)                                 | 10,496                       | 839                  | 170                           | 2,530                           | 14,035           | 1,817            | (1,504)               | 14,348            |
| Other income (expense), net                                     | 2                            | (184)                | (74)                          | -                               | (256)            | (281)            | (841)                 | (1,378)           |
| Earnings (loss) from continuing operations before the following | 10,498                       | 655                  | 96                            | 2,530                           | 13,779           | 1,536            | (2,345)               | 12,970            |
| <b>July 2, 2011</b>   |                              |                      |                               |                                 |                  |                  |                       |                   |
| Segment operating income (loss)                                 | 5,280                        | 1,661                | 122                           | 2,785                           | 9,848            | 2,159            | (2,227)               | 9,780             |
| Other income (expense), net                                     | 17                           | (60)                 | 3,821                         | -                               | 3,778            | -                | (522)                 | 3,256             |
| Earnings (loss) from continuing operations before the following | 5,297                        | 1,601                | 3,943                         | 2,785                           | 13,626           | 2,159            | (2,749)               | 13,036            |

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

Revenues for the quarter ended June 30, 2012 increased by 2.6% to \$282,308 from \$275,188 for the quarter ended July 2, 2011. Revenues in SunOpta Foods increased by 0.3% to \$251,094 and revenues in Opta Minerals increased by 25.9% to \$31,214. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 5% on a consolidated basis, due primarily to higher sales volumes of value-added aseptic and other consumer packaged goods, and strong sales of organic feed products and sunflower seeds into the bird feed market, as well as higher volumes in the mill and foundry products segment at Opta Minerals. Those factors were partially offset by lower demand for organic commodities in Europe due to the economic uncertainty, as well as lower volumes and pricing for fiber and fruit ingredient products.

Gross profit increased \$5,109, or 16.0%, to \$37,088 for the quarter ended June 30, 2012, compared with \$31,979 for the quarter ended July 2, 2011. As a percentage of revenues, gross profit for the quarter ended June 30, 2012 was 13.1% compared to 11.6% for the quarter ended July 2, 2011, an increase of 1.5%. The increase in gross profit percentage reflected the strong growth in higher-margin aseptic and consumer packaged goods categories and reduced losses on export sales of sunflower kernel, as well as the positive impact of product rationalization efforts at our frozen foods operation. Negatively impacting gross profit percentage for the quarter ended June 30, 2012 were operating losses at our juice extraction and packaging operation, as well as reduced efficiencies in our fiber and fruit ingredients operations due to lower production volumes. In addition, we incurred pre-production costs of \$298 in the second quarter of 2012, related to the build-out of a facility on the U.S. east coast to house re-sealable pouch filling lines.

Segment operating income for the quarter ended June 30, 2012 increased by \$4,568, or 46.7%, to \$14,348, compared with \$9,780 for the quarter ended July 2, 2011. As a percentage of revenue, segment operating income was 5.1% for the quarter ended June 30, 2012, compared with 3.6% for the quarter ended July 2, 2011. Overall, the increase in segment operating income at SunOpta Foods reflected the strong performance of the aseptic and grains-based businesses, including sunflower, and gross margin and cost structure improvements at the frozen food operations, partially offset by a \$945 bad debt provision at Opta Minerals in the second quarter of 2012, due to the bankruptcy filing of a large steel products customer.

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

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Other expense for the quarter ended June 30, 2012 of \$1,378 included accrued severance of \$795 payable to a former executive officer and other employee severances of \$138 related to rationalization efforts undertaken to streamline operations and improve efficiencies within SunOpta Foods, as well as \$200 of transaction costs incurred by Opta Minerals in connection with the acquisition of Babco and proposed acquisition of WGI. Other income for the quarter ended July 2, 2011 included a \$3,048 gain on sale of frozen food assets located in Mexico.

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The increase in interest expense of \$38 to \$2,558 for the quarter ended June 30, 2012, compared with \$2,520 for the quarter ended July 2, 2011, reflected an increase in long-term debt at Opta Minerals in connection with the Babco acquisition, mostly offset by the repayment of borrowings under our line of credit facilities, primarily with cash generated from operations and the proceeds from the sale of Purity.

The provision for income tax for the quarter ended June 30, 2012 was \$2,769 compared to \$4,170 for the quarter ended July 2, 2011. The provision for income tax for the quarter ended June 30, 2012 includes a deferred tax benefit of \$990 (before non-controlling interest) related to the recognition of existing non-capital loss carryforwards at Opta Minerals in the second quarter of 2012, following the acquisition and amalgamation of Babco. Excluding this one-time benefit, the annual effective income tax rate for 2012 is expected to be between 36% and 39%.

Earnings from continuing operations for the quarter ended June 30, 2012 were \$7,643, as compared to \$6,346 for the quarter ended July 2, 2011, an increase of \$1,297 or 20.4% . Diluted earnings per share from continuing operations were \$0.11 for the quarter ended June 30, 2012, compared with \$0.08 for the quarter ended July 2, 2011.

Earnings attributable to non-controlling interests for the quarter ended June 30, 2012 were \$388, compared with earnings of \$712 for the quarter ended July 2, 2011. The \$324 decrease was due to lower net earnings in the speciality coffee operation of a less-than-wholly-owned subsidiary of The Organic Corporation (“TOC”).

Earnings from discontinued operations, net of taxes, of \$214 for the quarter ended June 30, 2012 and losses of \$1,233 for the quarter ended July 2, 2011, reflected the results of operations of Purity, as well as costs incurred relating to CSOP, including legal fees and interest costs in connection with arbitration proceedings related to the joint venture agreement.

In the second quarter of 2012, we recognized a gain on sale of discontinued operations, net of taxes, of \$676 related to the disposition of Purity.

On a consolidated basis, we realized earnings of \$8,145 (diluted earnings per share of \$0.12) for the quarter ended June 30, 2012, compared with earnings of \$4,401 (diluted earnings per share of \$0.07) for the quarter ended July 2, 2011.

**Segmented Operations Information****SunOpta Foods**

| For the quarter ended | June 30, 2012 | July 2, 2011 | Change   | % Change |
|-----------------------|---------------|--------------|----------|----------|
| Revenues              | \$ 251,094    | \$ 250,401   | \$ 693   | 0.3%     |
| Gross Margin          | 30,237        | 26,521       | 3,716    | 14.0%    |
| Gross Margin %        | 12.0%         | 10.6%        |          | 1.4%     |
| Operating Income      | \$ 14,035     | \$ 9,848     | \$ 4,187 | 42.5%    |
| Operating Income %    | 5.6%          | 3.9%         |          | 1.7%     |

SunOpta Foods contributed \$251,094 or 88.9% of consolidated revenue for the quarter ended June 30, 2012 compared to \$250,401 or 91.0% of consolidated revenues for the quarter ended July 2, 2011, an increase of \$693. Revenues in SunOpta Foods increased 0.3% compared to the quarter ended July 2, 2011. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 4% in SunOpta Foods, driven by strong growth in integrated packaged food product categories, offset by decreased fiber and fruit ingredients, and commodities volumes. The table below explains the increase in revenue by group for SunOpta Foods:

| <b>SunOpta Foods Revenue Changes</b>         |                  |
|--|------------------|
| Revenues for the quarter ended July 2, 2011  | \$250,401        |
| Increase in the Grains and Foods Group       | 10,896           |
| Decrease in the Ingredients Group            | (3,214)          |
| Increase in the Consumer Products Group      | 1,344            |
| Decrease in the International Foods Group    | (8,333)          |
| Revenues for the quarter ended June 30, 2012 | <b>\$251,094</b> |

Gross margin in SunOpta Foods increased by \$3,716 for the quarter ended June 30, 2012 to \$30,237, or 12.0% of revenues, compared to \$26,521, or 10.6% of revenues for the quarter ended July 2, 2011. The table below explains the increase in gross margin by group for SunOpta Foods:

| <b>SunOpta Foods Gross Margin Changes</b>        |                 |
|--|-----------------|
| Gross Margin for the quarter ended July 2, 2011  | \$26,521        |
| Increase in the Grains and Foods Group           | 5,478           |
| Decrease in the Ingredients Group                | (1,002)         |
| Increase in the Consumer Products Group          | 302             |
| Decrease in the International Foods Group        | (1,062)         |
| Gross Margin for the quarter ended June 30, 2012 | <b>\$30,237</b> |

Operating income in SunOpta Foods increased by \$4,187 for the quarter ended June 30, 2012 to \$14,035 or 5.6% of revenues, compared to \$9,848 or 3.9% of revenues for the quarter ended July 2, 2011. The table below explains the increase in operating income for SunOpta Foods:

| <b>SunOpta Foods Operating Income Changes</b>        |                 |
|--|-----------------|
| Operating Income for the quarter ended July 2, 2011  | \$9,848         |
| Increase in gross margin, as noted above             | 3,716           |
| Increase in foreign exchange gains                   | 412             |
| Decrease in SG&A costs                               | 59              |
| Operating Income for the quarter ended June 30, 2012 | <b>\$14,035</b> |

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

#### Grains and Foods Group

| For the quarter ended | June 30, 2012 | July 2, 2011 | Change    | % Change |
|-----------------------|---------------|--------------|-----------|----------|
| Revenues              | \$ 136,004    | \$ 125,108   | \$ 10,896 | 8.7%     |
| Gross Margin          | 16,406        | 10,928       | 5,478     | 50.1%    |
| Gross Margin %        | 12.1%         | 8.7%         |           | 3.4%     |
| Operating Income      | \$ 10,496     | \$ 5,280     | \$ 5,216  | 98.8%    |
| Operating Income %    | 7.7%          | 4.2%         |           | 3.5%     |

The Grains and Foods Group contributed \$136,004 in revenues for the quarter ended June 30, 2012, compared to \$125,108 for the quarter ended July 2, 2011, a \$10,896 or 8.7% increase. The table below explains the increase in revenue:

| <b>Grains and Foods Group Revenue Changes</b>  |                  |
|--|------------------|
| Revenues for the quarter ended July 2, 2011  | \$125,108        |
| Increased volume and higher pricing of aseptically packaged beverages  | 6,027            |
| Improved pricing on sunflower kernel products, partially offset by lower kernel volume   | 2,936            |
| Higher volume and price for organic grains, and increased price of commodity soy, partially offset by lower pricing from commodity corn and lower volume of commodity corn and soy                             | 2,470            |
| Transfer of dairy blended food ingredient business from Ingredients Group  | 1,155            |
| Higher customer demand for bird feed and other sunflower products, partially offset by reduced pricing and lower volume of in-shell sunflower products and sunflower planting seeds into international markets | 244              |
| Lower volume and reduced pricing for food ingredients  | (1,936)          |
| Revenues for the quarter ended June 30, 2012   | <b>\$136,004</b> |

Gross margin in the Grains and Foods Group increased by \$5,478 to \$16,406 for the quarter ended June 30, 2012 compared to \$10,928 for the quarter ended July 2, 2011, and the gross margin percentage increased by 3.4% to 12.1%. The increase in gross margin as a percentage of revenue was primarily due to higher volume and production efficiencies at our aseptic processing and packaging facilities, lower volume of expeller pressed oil that was sold at negative margins in the second quarter of 2011, lower export sunflower kernel sales that occurred at a loss in the second quarter of 2011, and improved pricing on planting seed sales into international markets. The table below explains the increase in gross margin:

| <b>Grains and Foods Group Gross Margin Changes</b>  |                 |
|---|-----------------|
| Gross Margin for the quarter ended July 2, 2011   | \$10,928        |
| Increase in volume of aseptically packaged beverages and improved production efficiencies, partially offset by increased material costs                             | 2,105           |
| Lower volume of export sunflower kernel products that were sold at a loss in the prior year, combined with increased plant efficiencies and by-product contribution | 1,304           |
| Improved pricing and higher volume of organic grains and higher margin from commodity corn, partially offset by higher cost and lower volume of commodity soy       | 1,138           |
| Increased pricing of sunflower planting seeds and improved roasting margins, partially offset by reduced in-shell sunflower volumes                                 | 524             |
| Improved margins on food ingredients, particularly specialty oils   | 407             |
| Gross Margin for the quarter ended June 30, 2012  | <b>\$16,406</b> |

Operating income in the Grains and Foods Group increased by \$5,216 or 98.8% to \$10,496 for the quarter ended June 30, 2012, compared to \$5,280 for the quarter ended July 2, 2011. The table below explains the increase in operating income:

| <b>Grains and Foods Group Operating Income Changes</b>   |                 |
|--|-----------------|
| Operating Income for the quarter ended July 2, 2011  | \$5,280         |
| Increase in gross margin, as explained above   | 5,478           |
| Decrease in foreign exchange gains   | (179)           |
| Increased compensation costs, bad debt expense and corporate cost allocations, offset by lower professional fees | (83)            |
| Operating Income for the quarter ended June 30, 2012   | <b>\$10,496</b> |

**Ingredients Group**

| <b>For the quarter ended</b> | <b>June 30, 2012</b> | <b>July 2, 2011</b> | <b>Change</b> | <b>% Change</b> |
|------------------------------|----------------------|---------------------|---------------|-----------------|
| Revenues                     | \$ 20,486            | \$ 23,700           | \$ (3,214)    | -13.6%          |
| Gross Margin                 | 3,341                | 4,343               | (1,002)       | -23.1%          |
| Gross Margin %               | 16.3%                | 18.3%               |               | -2.0%           |
| Operating Income             | \$ 839               | \$ 1,661            | \$ (822)      | -49.5%          |
| Operating Income %           | 4.1%                 | 7.0%                |               | -2.9%           |

The Ingredients Group contributed \$20,486 in revenues for the quarter ended June 30, 2012, compared to \$23,700 for the quarter ended July 2, 2011, a \$3,214 or 13.6% decrease. The table below explains the decrease in revenue:

| <b>Ingredients Group Revenue Changes</b>  |                 |
|---|-----------------|
| Revenues for the quarter ended July 2, 2011   | \$23,700        |
| Net effect of decrease in fruit ingredient volume, offset by improved pricing to the food service and industrial channels | (1,905)         |
| Transfer of non-dairy blended food ingredient business to the Grains and Foods Group                                      | (1,155)         |
| Decrease in volume of oat and soy fiber ingredients, as well as reduced pricing due to competitive pressures              | (894)           |
| Increase in customer demand for starches and other blended food ingredients   | 740             |
| Revenues for the quarter ended June 30, 2012  | <b>\$20,486</b> |

Gross margin in the Ingredients Group decreased by \$1,002 to \$3,341 for the quarter ended June 30, 2012 compared to \$4,343 for the quarter ended July 2, 2011, and the gross margin percentage decreased by 2.0% to 16.3%. Increasing raw material costs, such as organic sugar as well as oat and soy hulls, combined with lower demand for oat and soy fiber as well as industrial and food service fruit ingredients were the main causes of the decrease in gross margin rate. Positively impacting the gross margin rate were improved manufacturing efficiencies on higher production of oat and soy fiber, as well as stronger customer demand for starches and other blended food ingredients. The table below explains the decrease in gross margin:

| <b>Ingredients Group Gross Margin Changes</b>   |                |
|---|----------------|
| Gross Margin for the quarter ended July 2, 2011   | \$4,343        |
| Lower customer demand for fruit ingredient offerings combined with an increase in input costs including organic sugar                   | (847)          |
| Lower customer demand for oat and soy fiber combined with an increase in raw material and other input costs including oat and soy hulls | (306)          |
| Increased contribution from higher volumes of starches and other blended food ingredients   | 151            |
| Gross Margin for the quarter ended June 30, 2012  | <b>\$3,341</b> |

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Operating income in the Ingredients Group decreased by \$822, or 49.5%, to \$839 for the quarter ended June 30, 2012, compared to \$1,661 for the quarter ended July 2, 2011. The table below explains the decrease in operating income:

| <b>Ingredients Group Operating Income Changes</b>  |              |
|--|--------------|
| Operating Income for the quarter ended July 2, 2011  | \$1,661      |
| Decrease in gross margin, as explained above   | (1,002)      |
| Decrease in corporate cost allocations   | 70           |
| Decrease in compensation costs, primarily due to headcount rationalization that occurred in the first quarter of 2012, offset by increased spending on general office costs, including travel and consulting | 110          |
| Operating Income for the quarter ended June 30, 2012   | <b>\$839</b> |

**Consumer Products Group**

| For the quarter ended | June 30, 2012 | July 2, 2011 | Change   | % Change |
|-----------------------|---------------|--------------|----------|----------|
| Revenues              | \$ 49,091     | \$ 47,747    | \$ 1,344 | 2.8%     |
| Gross Margin          | 4,371         | 4,069        | 302      | 7.4%     |
| Gross Margin %        | 8.9%          | 8.5%         |          | 0.4%     |
| Operating Income      | \$ 170        | \$ 122       | \$ 48    | 39.3%    |
| Operating Income %    | 0.3%          | 0.3%         |          | 0.0%     |

The Consumer Products Group contributed \$49,091 in revenues for the quarter ended June 30, 2012, compared to \$47,747 for the quarter ended July 2, 2011, a \$1,344 or 2.8% increase. The table below explains the increase in revenue:

| <b>Consumer Products Group Revenue Changes</b>   |                 |
|--|-----------------|
| Revenues for the quarter ended July 2, 2011  | \$47,747        |
| Increased sales due to the launch of two flexible pouch filling lines on the U.S. west coast in the fourth quarter of 2011, and continued growth in our beverage categories offset by decreased brokerage revenues | 2,626           |
| Higher sales volume as a result of increased demand for our nutrition bar offerings  | 2,296           |
| Incremental revenue due to the acquisition of Lorton's on August 8, 2011   | 1,425           |
| Decreased volume as we wind down industrial and food service product lines in our Frozen Foods operations  | (5,003)         |
| Revenues for the quarter ended June 30, 2012   | <b>\$49,091</b> |

Gross margin in the Consumer Products Group increased by \$302 to \$4,371 for the quarter ended June 30, 2012 compared to \$4,069 for the quarter ended July 2, 2011, and the gross margin percentage increased by 0.4% to 8.9%. The increase in gross margin as a percentage of revenue is due to the wind down of industrial and food service frozen food sales which contributed to lower margins compared to the expanding retail frozen food offerings. This was partially offset by negative contributions from Lorton's, pre-production costs related to our U.S. east coast expansion project and higher production costs at our Healthy Snacks operation. The table below explains the increase in gross margin:

| <b>Consumer Products Group Gross Margin Changes</b>  |                |
|--|----------------|
| Gross Margin for the quarter ended July 2, 2011  | \$4,069        |
| Higher margins realized on retail format frozen food sales and decreased storage costs as a result of lower inventory levels | 2,044          |
| Incremental gross margin loss at Lorton's due to plant inefficiencies, transition costs, and a product withdrawal            | (946)          |
| Higher production and raw material costs at our Healthy Snacks operations  | (512)          |
| Facility start-up costs related to the expansion of consumer packaged processing capabilities on the U.S. east coast         | (206)          |
| Lower volumes in our brokerage operations  | (78)           |
| Gross Margin for the quarter ended June 30, 2012   | <b>\$4,371</b> |

Operating income in the Consumer Products Group increased by \$48, or 39.3%, to \$170 for the quarter ended June 30, 2012, compared to \$122 for the quarter ended July 2, 2011. The table below explains the increase in operating income:

| <b>Consumer Products Group Operating Income Changes</b>                       |              |
|---|--------------|
| Operating Income for the quarter ended July 2, 2011                           | \$122        |
| Increase in gross margin, as explained above                                  | 302          |
| SG&A savings primarily due to reduced headcount at our Frozen Foods operation | 151          |
| Incremental SG&A expenses from the acquisition of Lorton's                    | (260)        |
| Increase in corporate cost allocations  | (145)        |
| Operating Income for the quarter ended June 30, 2012                          | <b>\$170</b> |

**International Foods Group**

| <b>For the quarter ended</b> | <b>June 30, 2012</b> | <b>July 2, 2011</b> | <b>Change</b> | <b>% Change</b> |
|------------------------------|----------------------|---------------------|---------------|-----------------|
| Revenues                     | \$ 45,513            | \$ 53,846           | \$ (8,333)    | -15.5%          |
| Gross Margin                 | 6,119                | 7,181               | (1,062)       | -14.8%          |
| Gross Margin %               | 13.4%                | 13.3%               |               | 0.1%            |
| Operating Income             | \$ 2,530             | \$ 2,785            | \$ (255)      | -9.2%           |
| Operating Income %           | 5.6%                 | 5.2%                |               | 0.4%            |

The International Foods Group contributed \$45,513 in revenues for the quarter ended June 30, 2012, compared to \$53,846 for the quarter ended July 2, 2011, an \$8,333 or a 15.5% decrease. The table below explains the decrease in revenue:

| <b>International Foods Group Revenue Changes</b>  |                 |
|---|-----------------|
| Revenues for the quarter ended July 2, 2011   | \$53,846        |
| Unfavorable impact on translation of revenues due to the weaker euro relative to the U.S. dollar  | (5,595)         |
| Lower volumes of organic commodities driven by weak European economy including coffee beans, sweeteners and fruit concentrates, partially offset by higher volumes of nuts, cocoa, and sesame | (4,430)         |
| Increased commodity prices for organic commodities such as sweeteners, coffee beans and fruit concentrates  | 1,692           |
| Revenues for the quarter ended June 30, 2012  | <b>\$45,513</b> |

Gross margins in the International Foods Group decreased by \$1,062 to \$6,119 for the quarter ended June 30, 2012 compared to \$7,181 for the quarter ended July 2, 2011, and the gross margin percentage increased by 0.1% to 13.4%. The increase in margin rate was due primarily to improved commodity pricing for organic ingredients. The table below explains the decrease in gross margin:

| <b>International Foods Group Gross Margin Changes</b>  |                |
|--|----------------|
| Gross Margin for the quarter ended July 2, 2011  | \$7,181        |
| Unfavorable impact on translation of gross margin due to weaker euro relative to the U.S. dollar   | (777)          |
| Lower margins on reduced volumes of organic commodities such as frozen fruits and vegetables, orange juice, cocoa and coffee beans and decrease in bean prices | (588)          |
| Improved margins on sweeteners due to a carryover of 2011 inventory at favorable prices  | 303            |
| Gross Margin for the quarter ended June 30, 2012   | <b>\$6,119</b> |

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Operating income in the International Foods Group decreased by \$255, or 9.2%, to \$2,530 for the quarter ended June 30, 2012, compared to \$2,785 for the quarter ended July 2, 2011. The table below explains the decrease in operating income:

| <b>International Foods Group Operating Income Changes</b>                                       |                |
|---|----------------|
| Operating Income for the quarter ended July 2, 2011   | \$2,785        |
| Decrease in gross margin, as explained above  | (1,062)        |
| Increase in corporate allocations   | (113)          |
| Higher compensation in our European operations due to increased headcount and salaries          | (111)          |
| Favorable impact on euro borne SG&A spending due to the weaker euro relative to the U.S. dollar | 443            |
| Foreign exchange gains on forward foreign exchange contracts                                    | 588            |
| Operating Income for the quarter ended June 30, 2012  | <b>\$2,530</b> |

**Opta Minerals**

| For the quarter ended | June 30, 2012 | July 2, 2011 | Change   | % Change |
|-----------------------|---------------|--------------|----------|----------|
| Revenues              | \$ 31,214     | \$ 24,787    | \$ 6,427 | 25.9%    |
| Gross Margin          | 6,851         | 5,458        | 1,393    | 25.5%    |
| Gross Margin %        | 21.9%         | 22.0%        |          | -0.1%    |
| Operating Income      | \$ 1,817      | \$ 2,159     | \$ (342) | -15.8%   |
| Operating Income %    | 5.8%          | 8.7%         |          | -2.9%    |

Opta Minerals contributed \$31,214 in revenues for the quarter ended June 30, 2012, compared to \$24,787 for the quarter ended July 2, 2011, a \$6,427 or a 25.9% increase. The table below explains the increase in revenue:

| <b>Opta Minerals Revenue Changes</b>   |                 |
|--|-----------------|
| Revenues for the quarter ended July 2, 2011  | \$24,787        |
| Incremental revenue due to the acquisitions of Babco on February 10, 2012 and Inland on November 10, 2011              | 3,923           |
| Increased volumes of mill and foundry products as a result of increased demand for magnesium, chromite and lime blends | 3,463           |
| Decreased volumes of abrasive and other industrial mineral product and services  | (959)           |
| Revenues for the quarter ended June 30, 2012   | <b>\$31,214</b> |

Gross margin for Opta Minerals increased by \$1,393 to \$6,851 for the quarter ended June 30, 2012 compared to \$5,458 for the quarter ended July 2, 2011, and the gross margin percentage decreased by 0.1% to 21.9%. The decrease in gross margin as a percentage of revenue was due primarily to product mix and increased raw material and plant costs due to safety-related repairs and maintenance and higher labor costs. The table below explains the increase in gross margin:

| <b>Opta Minerals Gross Margin Changes</b>  |                |
|--|----------------|
| Gross Margin for the quarter ended July 2, 2011  | \$5,458        |
| Incremental gross margin due to the acquisitions of Babco and Inland                   | 1,245          |
| Impact of increased volume of mill and foundry products due to higher demand           | 166            |
| Margin impact of decreased abrasive and other industrial mineral products and services | (18)           |
| Gross Margin for the quarter ended June 30, 2012                                       | <b>\$6,851</b> |

Operating income for Opta Minerals decreased by \$342, or 15.8%, to \$1,817 for the quarter ended June 30, 2012, compared to \$2,159 for the quarter ended July 2, 2011. The table below explains the decrease in operating income:

| <b>Opta Minerals Operating Income Changes</b>                |                |
|--|----------------|
| Operating Income for the quarter ended July 2, 2011          | \$2,159        |
| Increase in gross margin, as explained above                 | 1,393          |
| Increased bad debt expense due to bankruptcy of customer     | (945)          |
| Decrease in foreign exchange gains                           | (609)          |
| Incremental SG&A due to the acquisitions of Babco and Inland | (208)          |
| Decrease in other SG&A, including stock compensation expense | 27             |
| Operating Income for the quarter ended June 30, 2012         | <b>\$1,817</b> |

**Corporate Services**

| For the quarter ended | June 30, 2012 | July 2, 2011 | Change | % Change |
|-----------------------|---------------|--------------|--------|----------|
|-----------------------|---------------|--------------|--------|----------|

|                |            |            |        |       |
|----------------|------------|------------|--------|-------|
| Operating Loss | \$ (1,504) | \$ (2,227) | \$ 723 | 32.5% |
|----------------|------------|------------|--------|-------|

Operating loss at Corporate Services decreased by \$723 to \$1,504 for the quarter ended June 30, 2012, from a loss of \$2,227 for the quarter ended July 2, 2011. The table below explains the decrease in operating loss:

| <b>Corporate Services Operating Income Changes</b>   |                  |
|--|------------------|
| Operating Loss for the quarter ended July 2, 2011  | (\$2,227)        |
| Increase in foreign exchange gains   | 797              |
| Increase in corporate management fees that are allocated to SunOpta operating groups   | 302              |
| Decrease in SG&A costs due to the weakened Canadian dollar causing Canadian borne expenses to be less costly when translated into U.S. dollars   | 166              |
| Higher compensation related costs due to increased short-term incentive and stock-based compensation expenses, partially offset by headcount rationalizations that occurred in the first quarter of 2012 | (482)            |
| Net effect of higher group health and benefits costs due to increased claims, offset by reduced corporate overhead including professional fees and other administrative costs                            | (60)             |
| Operating Loss for the quarter ended June 30, 2012   | <b>(\$1,504)</b> |

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

**Consolidated Results of Operations**

| For the two quarters ended                                      | June 30, 2012  | July 2, 2011   | Change        | Change       |
|---|----------------|----------------|---------------|--------------|
|   | \$             | \$             | \$            | %            |
| <b>Revenues</b>   |                |                |               |              |
| SunOpta Foods   | 482,090        | 474,145        | 7,945         | 1.7%         |
| Opta Minerals   | 59,546         | 46,393         | 13,153        | 28.4%        |
| <b>Total revenues</b>   | <b>541,636</b> | <b>520,538</b> | <b>21,098</b> | <b>4.1%</b>  |
| <b>Gross profit</b>   |                |                |               |              |
| SunOpta Foods   | 58,476         | 54,003         | 4,473         | 8.3%         |
| Opta Minerals   | 13,098         | 10,609         | 2,489         | 23.5%        |
| <b>Total gross profit</b>                                       | <b>71,574</b>  | <b>64,612</b>  | <b>6,962</b>  | <b>10.8%</b> |
| <b>Segment operating income (loss)<sup>(1)</sup></b>            |                |                |               |              |
| SunOpta Foods   | 25,588         | 21,272         | 4,316         | 20.3%        |
| Opta Minerals   | 4,898          | 4,610          | 288           | 6.2%         |
| Corporate Services  | (3,357)        | (4,363)        | 1,006         | 23.1%        |
| <b>Total segment operating income</b>                           | <b>27,129</b>  | <b>21,519</b>  | <b>5,610</b>  | <b>26.1%</b> |
| Other expense, net  | 1,742          | (2,894)        | 4,636         | 160.2%       |
| <b>Earnings from continuing operations before the following</b> | <b>25,387</b>  | <b>24,413</b>  | <b>974</b>    | <b>4.0%</b>  |
| Interest expense, net   | 5,141          | 4,504          | 637           | 14.1%        |
| Provision for income taxes                                      | 6,355          | 7,423          | (1,068)       | -14.4%       |
| Earnings from continuing operations                             | 13,891         | 12,486         | 1,405         | 11.3%        |
| Earnings attributable to non-controlling interests              | 935            | 1,379          | (444)         | -32.2%       |
| Loss from discontinued operations, net of taxes                 | 405            | (1,625)        | 2,030         | 124.9%       |
| Gain on sale of discontinued operations, net of taxes           | 676            | -              | 676           | n/m          |
| <b>Earnings attributable to SunOpta Inc.</b>                    | <b>14,037</b>  | <b>9,482</b>   | <b>4,555</b>  | <b>48.0%</b> |

(1) The following table presents a reconciliation of segment operating income (loss) to earnings (loss) from continuing operations before the following, which we consider to be the most directly comparable U.S. GAAP financial measure (refer to page 30, note (1) regarding the use of non-GAAP measures).

| For the two quarters ended                                      | Grains and Foods Group | Ingredients Group | Consumer Products Group | International Foods Group | SunOpta Foods | Opta Minerals | Corporate Services | Consolidated |
|---|------------------------|-------------------|-------------------------|---------------------------|---------------|---------------|--------------------|--------------|
|   | \$                     | \$                | \$                      | \$                        | \$            | \$            | \$                 | \$           |
| <b>June 30, 2012</b>  |                        |                   |                         |                           |               |               |                    |              |
| Segment operating income (loss)                                 | 18,882                 | 2,068             | (5)                     | 4,643                     | 25,588        | 4,898         | (3,357)            | 27,129       |
| Other income (expense), net                                     | 22                     | (224)             | (113)                   | -                         | (315)         | (439)         | (988)              | (1,742)      |
| Earnings (loss) from continuing operations before the following | 18,904                 | 1,844             | (118)                   | 4,643                     | 25,273        | 4,459         | (4,345)            | 25,387       |
| <b>July 2, 2011</b>   |                        |                   |                         |                           |               |               |                    |              |
| Segment operating income (loss)                                 | 11,568                 | 4,627             | (356)                   | 5,433                     | 21,272        | 4,610         | (4,363)            | 21,519       |
| Other income (expense), net                                     | 32                     | (59)              | 3,649                   | -                         | 3,622         | -             | (728)              | 2,894        |
| Earnings (loss) from continuing operations before the following | 11,600                 | 4,568             | 3,293                   | 5,433                     | 24,894        | 4,610         | (5,091)            | 24,413       |

Revenues for the two quarters ended June 30, 2012 increased by 4.1% to \$541,636 from \$520,538 for the two quarters ended July 2, 2011. Revenues in SunOpta Foods increased by 1.7% to \$482,090 and revenues in Opta Minerals increased by 28.4% to \$59,546. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 6% on a consolidated basis, due primarily to higher sales volumes of value-added aseptic and other consumer packaged goods, and strong sales of organic feed products and sunflower planting seeds into international markets, as well as higher volumes in the mill and foundry products segment at Opta Minerals. Those factors were partially offset by lower demand for organic commodities in Europe due to economic uncertainty, as well as lower volumes and pricing for fiber and fruit ingredient products.

Gross profit increased \$6,962, or 10.8%, to \$71,574 for the two quarters ended June 30, 2012, compared with \$64,612 for the two quarters ended July 2, 2011. As a percentage of revenues, gross profit for the two quarters ended June 30, 2012 was 13.2% compared to 12.4% for the two quarters ended July 2, 2011, an increase of 0.8% . The increase in gross profit percentage reflected the strong growth in higher-margin aseptic and consumer packaged goods categories and reduced losses on export sales of sunflower kernels, as well as the positive impact of product rationalization efforts at our frozen foods operation. Negatively impacting gross profit percentage for the quarter ended June 30, 2012 were operating losses at our juice extraction and packaging operation, as well as reduced efficiencies in our fiber and fruit ingredients operations due to lower production volumes. In addition, we incurred pre-production costs of \$467 in the first two quarters of 2012, related to the build-out of a facility on the U.S. east coast to house re-sealable pouch filling lines.

Segment operating income for the two quarters ended June 30, 2012 increased by \$5,610, or 26.1%, to \$27,129, compared with \$21,519 for the two quarters ended July 2, 2011. As a percentage of revenue, segment operating income was 5.0% for the two quarters ended June 30, 2012, compared with 4.1% for the two quarters ended July 2, 2011. Overall, the increase in segment operating income at SunOpta Foods reflected the strong performance of the aseptic and grains-based businesses including sunflower, and gross margin and cost structure improvements at the frozen food operations, partially offset by a \$945 bad debt provision at Opta Minerals in the second quarter of 2012, due to the bankruptcy filing of a large steel products customer.

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

Other expense for the two quarters ended June 30, 2012 of \$1,742 included accrued severance of \$795 payable to a former executive officer and other employee severances of \$500 related to rationalization efforts undertaken to streamline operations and improve efficiencies within SunOpta Foods, as well as \$401 of transaction costs incurred by Opta Minerals in connection with the acquisition of Babco and proposed acquisition of WGI. Other income for the two quarters ended July 2, 2011 included a \$3,048 gain on sale of frozen food assets located in Mexico.

The increase in interest expense of \$637 to \$5,141 for the two quarters ended June 30, 2012, compared with \$4,504 for the two quarters ended July 2, 2011, reflected an increase in long-term debt at Opta Minerals in connection with the Babco acquisition.

The provision for income tax for the two quarters ended June 30, 2012 was \$6,355 compared to \$7,423 for the two quarters ended July 2, 2011. The provision for income tax for the two quarters ended June 30, 2012 includes a deferred tax benefit of \$990 (before non-controlling interest) related to the recognition of existing non-capital loss carryforwards at Opta Minerals in the second quarter of 2012, following the acquisition and amalgamation of Babco. Excluding this one-time benefit, the annual effective income tax rate for 2012 is expected to be between 36% and 39%.

Earnings from continuing operations for the two quarters ended June 30, 2012 were \$13,891, as compared to \$12,486 for the two quarters ended July 2, 2011, an increase of \$1,405 or 11.3% . Diluted earnings per share from continuing

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operations were \$0.19 for the two quarters ended June 30, 2012, compared with \$0.17 for the two quarters ended July 2, 2011.

Earnings attributable to non-controlling interests for the two quarters ended June 30, 2012 were \$935, compared with earnings of \$1,379 for the two quarters ended July 2, 2011. The \$444 decrease was due to lower net earnings in the speciality coffee operation of a less-than-wholly-owned subsidiary of TOC.

Earnings from discontinued operations, net of taxes, of \$405 for the two quarters ended June 30, 2012 and losses of \$1,625 for the two quarters ended July 2, 2011, reflected the results of operations of Purity, as well as costs incurred relating to CSOP, including legal fees and interest costs in connection with arbitration proceedings related to the joint venture agreement.

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In the second quarter of 2012, we recognized a gain on sale of discontinued operations, net of taxes, of \$676 related to the disposition of Purity.

On a consolidated basis, we realized earnings of \$14,037 (diluted earnings per share of \$0.21) for the two quarters ended June 30, 2012, compared with earnings of \$9,482 (diluted earnings per share of \$0.14) for the two quarters ended July 2, 2011.

**Segmented Operations Information**

**SunOpta Foods**

**For the two quarters ended      June 30, 2012      July 2, 2011      Change      % Change**

|                |            |            |          |      |
|----------------|------------|------------|----------|------|
| Revenues       | \$ 482,090 | \$ 474,145 | \$ 7,945 | 1.7% |
| Gross margin   | 58,476     | 54,003     | 4,473    | 8.3% |
| Gross margin % | 12.1%      | 11.4%      |          | 0.7% |

|                    |           |           |          |       |
|--------------------|-----------|-----------|----------|-------|
| Operating income   | \$ 25,588 | \$ 21,272 | \$ 4,316 | 20.3% |
| Operating income % | 5.3%      | 4.5%      |          | 0.8%  |

SunOpta Foods contributed \$482,090 or 89.0% of consolidated revenue for the two quarters ended June 30, 2012, compared with \$474,145 or 91.1% of consolidated revenues for the two quarters ended July 2, 2011, an increase of \$7,945. Revenues in SunOpta Foods increased 1.7% compared to the two quarters ended July 2, 2011. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 5% in SunOpta Foods, driven by strong growth in integrated packaged food product categories, offset by decreased fiber and fruit ingredients, and lower European demand. The table below explains the increase in revenue by group for SunOpta Foods:

| <b>SunOpta Foods Revenue Changes</b>              |                  |
|---|------------------|
| Revenues for the two quarters ended July 2, 2011  | \$474,145        |
| Increase in the Grains and Foods Group            | 16,804           |
| Decrease in the Ingredients Group                 | (7,501)          |
| Increase in the Consumer Products Group           | 10,552           |
| Decrease in the International Foods Group         | (11,910)         |
| Revenues for the two quarters ended June 30, 2012 | <b>\$482,090</b> |

Gross margin in SunOpta Foods increased by \$4,473 for the two quarters ended June 30, 2012 to \$58,476, or 12.1% of revenues, compared with \$54,003, or 11.4% of revenues for the two quarters ended July 2, 2011. The table below explains the increase in gross margin by group for SunOpta Foods:

| <b>SunOpta Foods Gross Margin Changes</b>             |                 |
|---|-----------------|
| Gross margin for the two quarters ended July 2, 2011  | \$54,003        |
| Increase in the Grains and Foods Group                | 7,814           |
| Decrease in the Ingredients Group                     | (2,692)         |
| Increase in the Consumer Products Group               | 702             |
| Decrease in the International Foods Group             | (1,351)         |
| Gross margin for the two quarters ended June 30, 2012 | <b>\$58,476</b> |



Operating income in SunOpta Foods increased by \$4,316 for the two quarters ended June 30, 2012 to \$25,588 or 5.3% of revenues, compared with \$21,272 or 4.5% of revenues for the two quarters ended July 2, 2011. The table below explains the increase in operating income for SunOpta Foods:

| <b>SunOpta Foods Operating Income Changes</b>             |                 |
|---|-----------------|
| Operating income for the two quarters ended July 2, 2011  | \$21,272        |
| Increase in gross margin, as explained above              | 4,473           |
| Increase in SG&A costs                                    | (457)           |
| Increase in foreign exchange gains                        | 300             |
| Operating income for the two quarters ended June 30, 2012 | <b>\$25,588</b> |

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

### Grains and Foods Group

| For the two quarters ended | June 30, 2012 | July 2, 2011 | Change    | % Change |
|----------------------------|---------------|--------------|-----------|----------|
| Revenues                   | \$ 257,179    | \$ 240,375   | \$ 16,804 | 7.0%     |
| Gross margin               | 30,744        | 22,930       | 7,814     | 34.1%    |
| Gross margin %             | 12.0%         | 9.5%         |           | 2.5%     |
| Operating income           | \$ 18,882     | \$ 11,568    | \$ 7,314  | 63.2%    |
| Operating income %         | 7.3%          | 4.8%         |           | 2.5%     |

The Grains and Foods Group contributed \$257,179 in revenues for the two quarters ended June 30, 2012, compared to \$240,375 for the two quarters ended July 2, 2011, a \$16,804 or 7.0% increase. The table below explains the increase in revenue:

| <b>Grains and Foods Group Revenue Changes</b>  |                  |
|--|------------------|
| Revenues for the two quarters ended July 2, 2011   | \$240,375        |
| Increased volume and higher pricing of aseptically packaged beverages  | 11,815           |
| Higher pricing and increased volume of organic grains, as well as higher volume of commodity soy, partially offset by lower pricing for commodity corn | 4,399            |
| Improved pricing on sunflower kernel products  | 2,357            |
| Transfer of dairy blended food ingredient business from Ingredients Group  | 2,297            |
| Increased volume of sunflower planting seeds sold into international markets   | 2,122            |
| Lower volume and reduced pricing for food ingredients  | (3,533)          |
| Lower volume of in-shell sunflower products and volume from bird food streams, partially offset by improved in-shell pricing                           | (2,653)          |
| Revenues for the two quarters ended June 30, 2012  | <b>\$257,179</b> |

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Gross margin in the Grains and Foods Group increased by \$7,814 to \$30,744 for the two quarters ended June 30, 2012 compared to \$22,930 for the two quarters ended July 2, 2011, and the gross margin percentage increased by 2.5% to 12.0%. The increase in gross margin as a percentage of revenue was primarily due to increased sales and production efficiencies at our aseptic processing and packaging facilities, improved margins on expeller pressed oil contracts that negatively impacted margins in the first two quarters of 2011, reduced export sunflower kernel sales that occurred at negative margins in the first two quarters of 2011, improved pricing on organic grains, and higher margins from planting seed sales into international markets. The table below explains the increase in gross margin:

| <b>Grains and Foods Group Gross Margin Changes</b>   |                 |
|--|-----------------|
| Gross margin for the two quarters ended July 2, 2011   | \$22,930        |
| Lower volume of export sunflower kernel products that were sold at a loss in the prior year, partially offset by lower plant efficiencies and reduced by-product contribution due to lower volumes | 2,198           |
| Increased volume of aseptically packaged beverages and food ingredients, combined with improved plant efficiencies, partially offset by increased raw material costs                               | 2,178           |
| Improved pricing on organic grains and higher volume of commodity corn, partially offset by higher cost of commodity soy   | 1,553           |
| Increased pricing of sunflower planting seeds and improved roasting margins, partially offset by reduced in-shell volumes  | 954             |
| Improved margins on food ingredients, particularly specialty oils  | 931             |
| Gross margin for the two quarters ended June 30, 2012  | <b>\$30,744</b> |

Operating income in the Grains and Foods Group increased by \$7,314, or 63.2%, to \$18,882 for the two quarters ended June 30, 2012, compared to \$11,568 for the two quarters ended July 2, 2011. The table below explains the increase in operating income:

| <b>Grains and Foods Group Operating Income Changes</b>  |                 |
|---|-----------------|
| Operating income for the two quarters ended July 2, 2011  | \$11,568        |
| Increase in gross margin, as explained above  | 7,814           |
| Decrease in compensation costs, primarily due to headcount reduction that occurred in the first quarter of 2012 | 157             |
| Decrease in foreign exchange gains  | (421)           |
| Increase in corporate cost allocations  | (236)           |
| Operating income for the two quarters ended June 30, 2012   | <b>\$18,882</b> |

Looking forward, we believe the Grains and Foods business is well positioned in growing natural and organic foods categories. We expect the aseptic processing and packaging expansion at our U.S. west coast facility, which is underway, to continue to enhance our capacity to manufacture aseptic soy and alternative beverages. We also intend to focus our efforts on growing our identity preserved, non-genetically modified ("non-GMO") and organic grains business, expanding revenues from natural and organic grains based ingredients and continuing to focus on value-added ingredient and packaged product offerings. We intend to pursue internal growth and acquisition opportunities that are aligned with the Group's core vertically integrated grain business model. Additionally, the international expansion of our sales base via strategic relationships for procurement of product is expected to drive incremental sales volume. Our long-term target for the Grains and Foods Group is to achieve a segment operating margin of 6% to 8% which assumes we are able to secure a consistent quantity and quality of grains and sunflower stocks, improve product mix, and control costs. The statements in this paragraph are forward-looking statements. See

Forward-Looking Statements above. Increased supply pressure in the commodity-based markets in which we operate, increased competition, volume decreases or loss of customers, unexpected delays in our expansion plans, or our inability to secure quality inputs or achieve our product mix or cost reduction goals, along with the other factors described above under Forward-Looking Statements , could adversely impact our ability to meet these forward-looking expectations.

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**Ingredients Group**

**For the two quarters ended**      **June 30, 2012**      **July 2, 2011**      **Change**      **% Change**

|                |    |        |    |        |    |         |        |
|----------------|----|--------|----|--------|----|---------|--------|
| Revenues       | \$ | 42,135 | \$ | 49,636 | \$ | (7,501) | -15.1% |
| Gross margin   |    | 7,141  |    | 9,833  |    | (2,692) | -27.4% |
| Gross margin % |    | 16.9%  |    | 19.8%  |    |         | -2.9%  |

|                    |    |       |    |       |    |         |        |
|--------------------|----|-------|----|-------|----|---------|--------|
| Operating income   | \$ | 2,068 | \$ | 4,627 | \$ | (2,559) | -55.3% |
| Operating income % |    | 4.9%  |    | 9.3%  |    |         | -4.4%  |

The Ingredients Group contributed \$42,135 in revenues for the two quarters ended June 30, 2012, compared to \$49,636 for the two quarters ended July 2, 2011, a \$7,501 or 15.1% decrease. The table below explains the decrease in revenue:

| <b>Ingredients Group Revenue Changes</b>  |                 |
|---|-----------------|
| Revenues for the two quarters ended July 2, 2011  | \$49,636        |
| Net effect of decrease in fruit ingredient volume, offset by improved pricing to the food service and industrial channels | (2,639)         |
| Decrease in volume of oat and soy fiber ingredients, as well as reduced pricing due to competitive pressures              | (2,570))        |
| Transfer of non-dairy blended food ingredient business to the Grains and Foods Group                                      | (2,297)         |
| Decrease in fiber volumes due to a loss of a significant customer in the first quarter of 2011                            | (1,089)         |
| Increase in customer demand for starches and other blended food ingredients   | 1,094           |
| Revenues for the two quarters ended June 30, 2012   | <b>\$42,135</b> |

The Ingredients Group gross margin decreased by \$2,692 to \$7,141 for the two quarters ended June 30, 2012 compared to \$9,833 for the two quarters ended July 2, 2011, and the gross margin percentage decreased by 2.9% to 16.9%. Lower customer demand for fiber and fruit ingredients, as well as higher raw material input costs and pricing pressure in the fiber market were the main drivers behind the decrease in the gross margin rate. Partially offsetting these margin rate decreases were improved efficiencies on higher production of fiber, starches and other blended food ingredients, as certain facilities were idled in the prior year. The table below explains the decrease in gross margin:

| <b>Ingredients Group Gross Margin Changes</b>   |                |
|---|----------------|
| Gross margin for the two quarters ended July 2, 2011  | \$9,833        |
| Lower customer demand for fruit ingredient offerings combined with an increase in input costs including organic sugar                   | (1,504)        |
| Lower customer demand for oat and soy fiber combined with an increase in raw material and other input costs including oat and soy hulls | (1,392)        |
| Loss of a significant customer in the first quarter of 2011   | (351)          |
| Increased contribution from higher volumes of starches and other blended food ingredients   | 555            |
| Gross margin for the two quarters ended June 30, 2012   | <b>\$7,141</b> |



Operating income in the Ingredients Group decreased by \$2,559, or 55.3%, to \$2,068 for the two quarters ended June 30, 2012, compared to \$4,627 for the two quarters ended July 2, 2011. The table below explains the decrease in operating income:

| <b>Ingredients Group Operating Income Changes</b>   |                |
|---|----------------|
| Operating income for the two quarters ended July 2, 2011  | \$4,627        |
| Decrease in gross margin, as explained above  | (2,692)        |
| Increased spending on general office and related costs  | (196)          |
| Decrease in compensation costs, primarily due to headcount rationalization that occurred in the first quarter of 2012 | 189            |
| Decrease in corporate cost allocations  | 140            |
| Operating income for the two quarters ended June 30, 2012   | <b>\$2,068</b> |

Looking forward, we intend to continue to concentrate on growing the Ingredients Group's fiber, fruit and specialty ingredients portfolio and customer base through product and process innovation and diversification. We are focused on replacing fiber volume lost early in 2011 as a result of a significant customer changing to an alternative fiber product. We recently announced the introduction of two alternative fibers and an innovative new starch ingredient offering. We also expect our recently commissioned aseptic fruit ingredient line at our Southgate, California facility to increase capacity and drive incremental volumes and cost savings over the balance of 2012. The focus of the Ingredients Group continues to revolve around revenue expansion combined with a culture of continuous improvement to further increase capacity utilization, reduce costs, and sustain margins. Our long-term target for the Ingredients Group is to realize segment operating margins of 12% to 15%. The statements in this paragraph are forward-looking statements. See [Forward-Looking Statements](#) above. An unexpected increase in input costs, increased competition, loss of key customers, an inability to introduce new products to the market, or implement our strategies and goals relating to pricing, capacity utilization or cost reductions, along with the other factors described above under [Forward-Looking Statements](#), could adversely impact our ability to meet these forward-looking expectations.

**Consumer Products Group**  
**For the two quarters ended**

|                  | <b>June 30, 2012</b> | <b>July 2, 2011</b> | <b>Change</b> | <b>% Change</b> |
|------------------|----------------------|---------------------|---------------|-----------------|
| Revenues         | \$ 94,243            | \$ 83,691           | \$ 10,552     | 12.6%           |
| Gross margin     | 8,150                | 7,448               | 702           | 9.4%            |
| Gross margin %   | 8.6%                 | 8.9%                |               | -0.3%           |
| Operating loss   | \$ (5)               | \$ (356)            | \$ 351        | 98.6%           |
| Operating loss % | 0.0%                 | -0.4%               |               | 0.4%            |

The Consumer Products Group contributed \$94,243 in revenues for the two quarters ended June 30, 2012, compared to \$83,691 for the two quarters ended July 2, 2011, a \$10,552 or 12.6% increase. The table below explains the increase in revenue:

| <b>Consumer Products Group Revenue Changes</b>  |                 |
|---|-----------------|
| Revenues for the two quarters ended July 2, 2011  | \$83,691        |
| Increased sales due to the launch of two flexible pouch filling lines on the U.S. west coast in the fourth quarter of 2011, continued growth in our beverage categories, offset by decreased brokerage revenues | 6,966           |
| Higher sales volume as a result of increases in the healthy fruit snack category and increased volume to existing and new customers for nutrition bar offerings   | 6,815           |
| Incremental revenue due to the acquisition of Lorton s on August 8, 2011  | 2,618           |
| Decreased volume as we wind down industrial and food service product lines in our Frozen Foods operations, partially offset by higher volumes on retail offerings   | (5,847)         |
| Revenues for the two quarters ended June 30, 2012   | <b>\$94,243</b> |

Gross margin in the Consumer Products Group increased by \$702 to \$8,150 for the two quarters ended June 30, 2012 compared to \$7,448 for the two quarters ended July 2, 2011, and the gross margin percentage decreased by 0.3% to 8.6%. The decrease in gross margin as a percentage of revenue was due to negative contributions from Lorton s, pre-production costs related to our U.S. east coast expansion project and higher production costs at our Healthy Snacks operation. The table below explains the increase in gross margin:

| <b>Consumer Products Group Gross Margin Changes</b>  |                |
|--|----------------|
| Gross margin for the two quarters ended July 2, 2011   | \$7,448        |
| Higher volume and margin realized on retail format frozen food sales and decreased storage costs as a result of lower inventory levels                               | 2,742          |
| Increased volume and margin due to sales of our new flexible pouch offerings offset by margin declines due to pricing pressure in other consumer packaged categories | 263            |
| Incremental gross margin loss at Lorton s due to plant inefficiencies, transition costs and a product withdrawal   | (1,615)        |
| Higher production and raw material costs at our Healthy Snacks operations  | (332)          |
| Facility start-up costs related to the expansion of consumer packaged processing capabilities on the U.S. east coast   | (356)          |
| Gross margin for the two quarters ended June 30, 2012  | <b>\$8,150</b> |



Operating loss in the Consumer Products Group decreased by \$351, or 98.6%, to a loss of \$5 for the two quarters ended June 30, 2012, compared to a loss of \$356 for the two quarters ended July 2, 2011. The table below explains the decrease in operating loss:

| <b>Consumer Products Group Operating Loss Changes</b>                         |              |
|---|--------------|
| Operating loss for the two quarters ended July 2, 2011                        | (\$356)      |
| Increase in gross margin, as explained above                                  | 702          |
| SG&A savings primarily due to reduced headcount at our Frozen Foods operation | 442          |
| Incremental SG&A expenses from the acquisition of Lorton s                    | (502)        |
| Increase in corporate cost allocations  | (291)        |
| Operating loss for the two quarters ended June 30, 2012                       | <b>(\$5)</b> |

Looking forward, we expect improvements in margins and operating income from the Consumer Products Group through the growth of our Food Solutions and Healthy Snacks operations, and from a streamlined and focused Frozen Foods operation. We remain customer focused and continue to explore new ways to bring value-added product offerings and processes to market. We intend to continue to expand our operating platform into the processing and manufacturing of products in order to enhance value to our customer base. These efforts include the operation of two flexible re-sealable pouch filling lines on the U.S. west coast, which commenced operations during 2011, and the installation of two more flexible pouch filling lines on the U.S. east coast, both of which are expected to commence operations during the third quarter of 2012. Continued new product development and innovation in our Healthy Snacks operation combined with increasing demand for portable nutritious fruit offerings are expected to drive growth in this business. Long term we are targeting 8% to 10% operating margins from the Consumer Products Group. The statements in this paragraph are forward-looking statements. See [Forward-Looking Statements](#) above. Unexpected declines in volumes, shifts in consumer preferences, inefficiencies in our manufacturing processes, lack of consumer product acceptance, or our inability to successfully implement the particular goals and strategies indicated above, along with the other factors described above under [Forward-Looking Statements](#) , could have an adverse impact on these forward-looking expectations.

**International Foods Group**

| For the two quarters ended | June 30, 2012 | July 2, 2011 | Change | % Change |
|----------------------------|---------------|--------------|--------|----------|
|----------------------------|---------------|--------------|--------|----------|

|                |           |            |             |        |
|----------------|-----------|------------|-------------|--------|
| Revenues       | \$ 88,533 | \$ 100,443 | \$ (11,910) | -11.9% |
| Gross margin   | 12,441    | 13,792     | (1,351)     | -9.8%  |
| Gross margin % | 14.1%     | 13.7%      |             | 0.4%   |

|                    |          |          |          |        |
|--------------------|----------|----------|----------|--------|
| Operating income   | \$ 4,643 | \$ 5,433 | \$ (790) | -14.5% |
| Operating income % | 5.2%     | 5.4%     |          | -0.2%  |

The International Foods Group contributed \$88,533 in revenues for the two quarters ended June 30, 2012, compared to \$100,443 for the two quarters ended July 2, 2011, an \$11,910 or 11.9% decrease. The table below explains the decrease in revenue:

| <b>International Foods Group Revenue Changes</b>  |                 |
|---|-----------------|
| Revenues for the two quarters ended July 2, 2011  | \$100,443       |
| Lower volumes of organic commodities, driven by a weak European economy, such as coffee beans, sweeteners and fruit concentrates, partially offset by higher volumes of nuts, cocoa, and sesame | (8,720)         |
| Unfavorable impact on translation of revenues due to the weaker euro relative to the U.S. dollar  | (7,545)         |
| Increased commodity prices for organic commodities including sweeteners, coffee beans and fruit concentrates  | 4,355           |
| Revenues for the two quarters ended June 30, 2012   | <b>\$88,533</b> |

Gross margin in the International Foods Group decreased by \$1,351 to \$12,441 for the two quarters ended June 30, 2012 compared to \$13,792 for the two quarters ended July 2, 2011. Gross margin as a percentage of revenues was higher by 0.4% due to improved commodity pricing for organic ingredients. The table below explains the decrease in gross margin:

| <b>International Foods Gross Margin Changes</b>   |                 |
|---|-----------------|
| Gross margin for the two quarters ended July 2, 2011  | \$13,792        |
| Unfavorable impact on translation of gross margin due to the weaker euro relative to the U.S. dollar            | (1,061)         |
| Lower margins on reduced volumes of organic commodities such as coffee beans, sweeteners and fruit concentrates | (1,046)         |
| Improved margin on sweeteners due to a carryover of 2011 inventory at favorable prices                          | 756             |
| Gross margin for the two quarters ended June 30, 2012   | <b>\$12,441</b> |

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Operating income in the International Foods Group decreased by \$790, or 14.5%, to \$4,643 for the two quarters ended June 30, 2012, compared to \$5,433 for the two quarters ended July 2, 2011. The table below explains the decrease in operating income:

| <b>International Foods Group Operating Income Changes</b>   |                |
|---|----------------|
| Operating income for the two quarters ended July 2, 2011  | \$5,433        |
| Decrease in gross margin, as explained above  | (1,351)        |
| Higher compensation and other SG&A expenses in our European operations due to increased headcount | (534)          |
| Increase in corporate allocations   | (218)          |
| Favorable impact on euro borne SG&A spending due to the weaker euro relative to the U.S. dollar   | 602            |
| Foreign exchange gains on forward foreign exchange contracts                                      | 711            |
| Operating income for the two quarters ended June 30, 2012   | <b>\$4,643</b> |

Looking forward, the International Foods Group is focused on leveraging its sourcing, supply, and processing and distribution expertise to grow its portfolio of organic ingredients. Long-term group operating margins are targeted at 5% to 6% of revenues, which are expected to be achieved through a combination of sourcing, pricing and product development strategies. We also intend to forward and backward integrate where opportunities exist, expand our processing expertise and increase our value-added capabilities. The statements in this paragraph are forward-looking statements. See *Forward-Looking Statements* above. Unfavorable fluctuations in foreign exchange, reduced demand for natural and organic ingredients, increased competition, delayed synergies, as well as our inability to realize our particular strategic expansion goals, along with the other factors described above under *Forward-Looking Statements*, could have an adverse impact on these forward-looking expectations.

**Opta Minerals**

| <b>For the two quarters ended</b> | <b>June 30, 2012</b> | <b>July 2, 2011</b> | <b>Change</b> | <b>% Change</b> |
|-----------------------------------|----------------------|---------------------|---------------|-----------------|
| Revenues                          | \$ 59,546            | \$ 46,393           | \$ 13,153     | 28.4%           |
| Gross margin                      | 13,098               | 10,609              | 2,489         | 23.5%           |
| Gross margin %                    | 22.0%                | 22.9%               |               | -0.9%           |
| Operating income                  | \$ 4,898             | \$ 4,610            | \$ 288        | 6.2%            |
| Operating income %                | 8.2%                 | 9.9%                |               | -1.7%           |

Opta Minerals contributed \$59,546 in revenues for the two quarters ended June 30, 2012, compared to \$46,393 for the two quarters ended July 2, 2011, a \$13,153 or 28.4% increase. The table below explains the increase in revenue:

| <b>Opta Minerals Revenue Changes</b>   |                 |
|--|-----------------|
| Revenues for the two quarters ended July 2, 2011   | \$46,393        |
| Increased volumes of mill and foundry products as a result of increased demand for magnesium, chromite and lime blends | 7,205           |
| Incremental revenue due to the acquisition of Babco on February 10, 2012 and Inland on November 10, 2011               | 6,403           |
| Decreased volumes of abrasive and other industrial mineral product and services  | (455)           |
| Revenues for the two quarters ended June 30, 2012  | <b>\$59,546</b> |



Gross margin for Opta Minerals increased by \$2,489 to \$13,098 for the two quarters ended June 30, 2012 compared to \$10,609 for the two quarters ended July 2, 2011, and the gross margin percentage decreased by 0.9% to 22.0%. The decrease in gross margin as a percentage of revenue is largely driven by changes in product mix within mill and foundry product categories. The table below explains the increase in gross margin:

| <b>Opta Minerals Gross Margin Changes</b>  |                 |
|--|-----------------|
| Gross margin for the two quarters ended July 2, 2011                             | \$10,609        |
| Incremental gross margin due to the acquisitions of Babco and Inland             | 1,948           |
| Impact of increased volume of mill and foundry products due to higher demand     | 345             |
| Net margin impact on abrasive and other industrial mineral products and services | 196             |
| Gross margin for the two quarters ended June 30, 2012                            | <b>\$13,098</b> |

Operating income for Opta Minerals increased by \$288, or 6.2%, to \$4,898 for the two quarters ended June 30, 2012, compared to \$4,610 for the two quarters ended July 2, 2011. The table below explains the increase in operating income:

| <b>Opta Minerals Operating Income Changes</b>  |                |
|--|----------------|
| Operating income for the two quarters ended July 2, 2011                             | \$4,610        |
| Increase in gross margin, as explained above   | 2,489          |
| Increased bad debt expense due to bankruptcy of customer                             | (945)          |
| Decrease in foreign exchange gains   | (830)          |
| Incremental SG&A due to the acquisitions of Babco and Inland                         | (317)          |
| Increase in stock compensation expense, office supplies, depreciation and other SG&A | (109)          |
| Operating income for the two quarters ended June 30, 2012                            | <b>\$4,898</b> |

Opta Minerals continues to develop and introduce new products into the marketplace, and is focused on leveraging the global platform that has been put in place both to drive these new products and to improve efficiencies. Opta Minerals continues to expand in core North American and European markets through a combination of internal growth and successfully integrating strategic acquisitions. We own 66.2% of Opta Minerals and segment operating income is presented prior to non-controlling interest expense. The statements in this paragraph are forward-looking statements. See [Forward-Looking Statements](#) above. An extended period of softness in the steel and foundry industries, slowdowns in the economy, or delays in bringing new products and operations completely online, along with the other factors described above under [Forward-Looking Statements](#), could have an adverse impact on these forward-looking expectations.

**Corporate Services**

**For the two quarters ended      June 30, 2012      July 2, 2011      Change      % Change**

Operating loss                      \$        (3,357)    \$        (4,363)    \$        1,006        23.1%

Operating loss at SunOpta Corporate Services decreased by \$1,006 to \$3,357 for the two quarters ended June 30, 2012, from a loss of \$4,363 for the two quarters ended July 2, 2011. The table below explains the decrease in operating loss:

| <b>Corporate Services Operating Loss Changes</b>   |                  |
|--|------------------|
| Operating loss for the two quarters ended July 2, 2011   | (\$4,363)        |
| Increase in foreign exchange gains   | 1,184            |
| Increase in corporate management fees that are allocated to SunOpta operating groups   | 605              |
| Decrease in SG&A costs due to the weakened Canadian dollar causing Canadian borne expenses to be less costly when translated into U.S. dollars   | 212              |
| Higher compensation related costs due to increased short-term incentive and stock-based compensation expenses, partially offset by headcount rationalizations that occurred in the first quarter of 2012 | (783)            |
| Net effect of higher group health and benefits costs due to increased claims offset by reduced corporate overhead including professional fees and other administrative costs                             | (212)            |
| Operating loss for the two quarters ended June 30, 2012  | <b>(\$3,357)</b> |

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

**Liquidity and Capital Resources**

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

- Existing cash and cash equivalents;
- Available operating lines of credit;
- Cash flows generated from operating activities;
- Cash flows generated from the exercise, if any, of stock options or warrants during the year;
- Additional long-term financing; and
- Sale of non-core divisions, or assets.

On July 27, 2012, we entered into an amended and restated credit agreement with a syndicate of lenders. The amended agreement provides secured revolving credit facilities of Cdn \$10,000 and \$165,000, as well as an additional \$50,000 in availability upon the exercise of an uncommitted accordion feature. These facilities mature on July 27, 2016, with the outstanding principal amount repayable in full on the maturity date. The facilities replace our previous line of credit facilities of Cdn \$10,000 and \$115,000, and refinance non-revolving term facilities totalling \$21,077 as at June 30, 2012, which were due to mature on October 30, 2012.

On July 24, 2012, Opta Minerals amended its credit agreement to include a Cdn \$20,000 revolving term credit facility until December 31, 2012 (reducing to Cdn \$15,000 on January 1, 2013) and a Cdn \$52,500 non-revolving term credit

facility. The first tranche of the non-revolving term credit facility is for an amount of Cdn \$37,500, which was used by Opta Minerals to refinance its existing borrowings, with the principal repayable in equal quarterly installments of Cdn \$938. The second tranche is for an amount of Cdn \$15,000 and can only be used to fund the proposed acquisition of WGI, with the principal repayable in equal quarterly installments of Cdn \$375 after the completion of the acquisition. The second tranche will be cancelled if not drawn by Opta Minerals before October 31, 2012. The revolving term credit facility matures on August 14, 2013, with the outstanding principal amount repayable in full on the maturity date, and the non-revolving term credit facility matures on May 18, 2017, with the remaining outstanding principal amount repayable in full on the maturity date.

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In order to finance significant acquisitions that may arise in the future, we may need additional sources of cash that we could attempt to obtain through a combination of additional bank or subordinated financing, a private or public offering, or the issuance of common stock as consideration in an acquisition. There can be no assurance that these types of financing would be available or, if so, on terms that are acceptable to us.

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

## Cash Flows

### *Cash flows for the quarter ended June 30, 2012*

Net cash and cash equivalents decreased \$482 in the second quarter of 2012 to \$3,247 as at June 30, 2012, compared with \$3,729 at March 31, 2012, which reflected the following uses of cash:

- repayment of \$29,534 under line of credit facilities;
- capital expenditures of \$6,995, related to the expansion of our aseptic capacity and other manufacturing capabilities; and
- repayments of long-term debt of \$3,793.

Mostly offset by the following sources of cash:

- cash provided by continuing operating activities of \$28,966; and
- net proceeds from the sale of Purity of \$12,189.

Cash provided by operating activities from continuing operations was \$28,966 in the second quarter of 2012, compared with \$20,784 in the second quarter of 2011, an increase of \$8,182, reflecting an increase in earnings from continuing operations before changes in non-cash working capital of \$5,355, primarily due to the strong performance of the aseptic and grains-based operations including sunflower, and gross margin improvements at the frozen foods operations.

Cash used in investing activities of continuing operations was \$7,451 in the second quarter of 2012, compared with \$2,973 in the second quarter of 2011, an increase of \$4,478, primarily due to an increase in capital expenditures of \$1,698 in the second quarter of 2012, and proceeds of \$2,773 from the sale of frozen food assets located in Mexico during the second quarter of 2011. Cash provided by investing activities of discontinued operations of \$12,147 in the second quarter of 2012, primarily reflected the net proceeds from the sale of Purity of \$12,189.

Cash used in financing activities of continuing operations was \$33,886 in the second quarter of 2012, compared with \$17,680 in the second quarter of 2011, an increase of \$16,206, reflecting an increase of \$15,410 in repayments under line of credit facilities, primarily from the proceeds on the disposition of Purity.

***Cash flows for the two quarters ended June 30, 2012***

Net cash and cash equivalents increased \$869 in the first two quarters of 2012 to \$3,247 as at June 30, 2012, compared with \$2,378 at December 31, 2011, which reflected the following sources of cash:

- cash provided by continuing operating activities of \$21,856;
- increased long-term debt of \$19,373, mainly in connection with the acquisition of Babco; and
- net proceeds from the sale of Purity of \$12,189.

Mostly offset by the following uses of cash:

- cash consideration paid to acquire Babco of \$17,530;
- capital expenditures of \$11,914, related to the expansion of our aseptic capacity and other manufacturing capabilities;
- repayments of long-term debt of \$10,823; and
- net repayments of \$10,526 under line of credit facilities.

Cash provided by operating activities from continuing operations was \$21,856 in the first two quarters of 2012, compared with cash used of \$12,687 in the first two quarters of 2011, an increase of \$34,543, primarily reflecting an increase in earnings from continuing operations before changes in non-cash working capital of \$11,033, primarily due to the strong performance of the aseptic and grains-based operations including sunflower, and gross margin improvements at the frozen foods operations, as well as significantly lower purchases of grain commodities including sunflower and soy, due to a decision to carry over inventory from the 2011 crop year, and contract less acres in 2012, in order to realize the benefit from increasing commodity prices. In addition, this decline reflected reduced purchases of fruit-based commodities due to product rationalization efforts at our frozen foods operation.

Cash used in investing activities of continuing operations was \$30,002 in the first two quarters of 2012, compared with \$6,909 in the first two quarters of 2011, an increase of \$23,093, reflecting cash paid to acquire Babco of \$17,530 and an increase in capital expenditures of \$2,740 in the first two quarters of 2012, compared with proceeds of \$2,773 from the sale of the Mexican frozen food assets in the second quarter of 2011. Cash provided by investing activities of discontinued operations of \$12,134 in the first two quarters of 2012, primarily reflected the net proceeds from the sale of Purity of \$12,189.

Cash used in financing activities of continuing operations was \$2,757 in the first two quarters of 2012, compared with cash provided by financing activities of \$23,120 in the first two quarters of 2011, a decrease of \$25,877, primarily due to a decrease of \$38,953 in borrowings under line of credit facilities, reflecting reduced inventory purchases in the first two quarters of 2012 and the proceeds from the disposition of Purity, which was partially offset by a \$19,373 increase in long-term debt mainly related to the Babco acquisition.

**Off-Balance Sheet Arrangements**

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

**Contractual Obligations**

With the exception of amendments to our syndicated credit facilities and Opta Minerals credit facilities (as described above under *Liquidity and Capital Resources* ), there have been no material changes outside the normal course of business in our contractual obligations since December 31, 2011.



### **Adoption of New Accounting Standards**

Information regarding the adoption of new accounting standards is contained in note 1 to the interim consolidated financial statements.

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

For quantitative and qualitative disclosures about market risks, see Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risks, of the 2011 Form 10-K. There have been no material changes to our exposures to market risks since December 31, 2011.

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

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

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012.

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

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in our internal control over financial reporting (as such term is defined under Rule 13a-15(f) promulgated under the Exchange Act) occurred during the quarter ended June 30, 2012. Based on that evaluation, management concluded that there were no changes in our internal control over financial reporting during the quarter ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### **Item 1. Legal Proceedings**

#### **Colorado Sun Oil Processors, LLC dispute**

Colorado Mills, LLC ( 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 Colorado Sun Oil Processors, LLC. 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 2011 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 Powers County District Court. Colorado Mills filed a response on April 20, 2012. The Company filed a reply on April 27, 2012. The Powers County District Court denied the Company's motion and entered judgment on the arbitration award on July 6, 2012 in the amount of \$4,816. On July 13, 2012, the Company bonded the judgment in the amount of \$6,875, or approximately 125% of the judgment amount, to stay execution of the judgment pending the Company's filing of an appeal to the Colorado Court of Appeals. Although management believes the claims asserted by Colorado Mills are baseless, that the arbitrator committed prejudicial error, that vacatur of the award is warranted, and that the Company's appeal will be successful, management cannot predict whether the prospect of an unfavorable outcome in this matter is probable.

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

### **Item 1A. Risk Factors**

Certain risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2011. Other than as described below, there have been no material changes to the previously-reported risk factors as of the date of this quarterly report. All of such previously-reported risk factors continue to apply to our business and should be carefully reviewed in connection with an evaluation of our Company. The following disclosures are in addition to or provide updates to the previously-reported risk factors.

***Our business may be materially and adversely affected by our ability to renew our syndicated credit facilities when they become due on July 27, 2016***

Our syndicated credit facilities mature on July 27, 2016. We may not be able to renew these facilities to the same level, or on as favorable terms as in previous years. A reduced facility may impact our ability to finance our business, requiring us to scale back our operations and our use of working capital. Alternatively, obtaining credit on less favorable terms would have a direct impact on our profitability and operating flexibility.

***Our inability to meet the covenants of our credit facilities could materially and adversely affect our business***

Although we are currently in compliance with the financial covenants under the credit agreements and we believe that we are well positioned to comply with the financial covenants under the credit agreements in the future, compliance with these financial covenants will depend on the success of our business, our operating results, and our ability to achieve our financial forecasts. Various risks, uncertainties and events beyond our control could affect our ability to comply with the financial covenants and terms of the credit agreement. Failure to comply with our financial covenants and other terms could result in an event of default and the acceleration of amounts owing under the credit agreements, unless we were able to negotiate a waiver. The lenders could condition any such waiver on an amendment to the credit agreements on terms that may be unfavorable to us. If we are unable to negotiate a covenant waiver or replace or refinance our credit agreements on favorable terms or at all, our business will be adversely impacted.

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*A substantial portion of our assets and certain of our executive officers and directors are located outside of the U.S.; it may be difficult to effect service of process and enforce legal judgments upon us and certain of our executive officers and directors*

A substantial portion of our assets and certain of our executive officers and directors are located outside of the U.S. As a result, it may be difficult to effect service of process within the U.S. and enforce judgment of a U.S. court obtained against us or our executive officers and directors. Particularly, our stockholders may not be able to:

- effect service of process within the U.S. on us or certain of our executive officers and directors;
- enforce judgments obtained in U.S. courts against us or certain of our executive officers and directors based upon the civil liability provisions of the U.S. federal securities laws;
- enforce, in a court outside of the U.S., judgments of U.S. courts based on the civil liability provisions of the U.S. federal securities laws; or
- bring an original action in a court outside of the U.S. to enforce liabilities against us or any of our executive officers and directors based upon the U.S. federal securities laws.

**Item 6. Exhibits**

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

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**SIGNATURES**

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

SUNOPTA INC.

Date: August 9, 2012

/s/ Robert McKeracher  
Robert McKeracher  
Vice President and Chief Financial Officer

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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 2.1*               | Asset Purchase Agreement, dated as of May 24, 2012, between SunOpta, Inc. and Purity Life Health Products, L.P. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 30, 2012).  |
| 10.1               | Amendment to Employment Agreement, dated May 6, 2012, between SunOpta, Inc. and Steven R. Bromley (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 11, 2012).   |
| 10.2               | Letter Agreement, dated June 30, 2012, by and between SunOpta, Inc. and Hendrik (Rik) Jacobs (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 6, 2012).  |
| 10.3               | Seventh Amended and Restated Credit Agreement, dated as of July 27, 2012, among SunOpta, Inc. and SunOpta Foods Inc., as Borrowers, and Each of the Financial Institutions and Other Entities from Time to Time Parties Thereto, as Lenders, and Certain Affiliates of the Borrowers, as Obligors, and Bank of Montreal, as Agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 1, 2012). |
| <u>31.1**</u>      | <u>Certification by Steven Bromley, Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.</u>   |
| <u>31.2**</u>      | <u>Certification by Robert McKeracher, Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.</u>   |
| <u>32**</u>        | <u>Certifications by Steven Bromley, Chief Executive Officer, and Robert McKeracher, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.</u>   |

\* Exhibits and schedules to this exhibit have been omitted pursuant to Item 601(b)(2) of Regulation S-K. SunOpta will furnish copies of the omitted exhibits and schedules to the Securities and Exchange Commission upon its request.

\*\* Filed herewith