

SunOpta Inc.  
Form 10-K  
March 06, 2013

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

**FORM 10-K**

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

For the fiscal year ended **December 29, 2012**

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

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

**Commission File No. 001-34198**

**SUNOPTA INC.**

(Exact Name of Registrant as Specified in Its Charter)

**CANADA**  
(Jurisdiction of Incorporation)

**Not Applicable**  
(I.R.S. Employer Identification No.)

**2838 Bovaird Drive West**  
**Brampton, Ontario L7A 0H2, Canada**  
(Address of Principle Executive Offices)

**(905) 455-1990**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class                | Name of each exchange on which registered              |
|------------------------------------|--|
| <b>Common Shares, no par value</b> | <b>The NASDAQ Stock Market, Toronto Stock Exchange</b> |

Securities registered pursuant Section to 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

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Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Aggregate market value of the common equity held by non-affiliates of the registrant, computed using the closing price as reported on the NASDAQ Global Select Market for the registrant's common shares on June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, was \$369,782,539. The registrant's common shares trade on the NASDAQ Global Select Market under the symbol STKL and on the Toronto Stock Exchange under the symbol SOY.

The number of shares of the registrant's common stock outstanding as of March 1, 2013 was 66,123,796.

**Documents Incorporated by Reference:** Portions of the SunOpta Inc. Definitive Proxy Statement for the 2013 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**FORM 10-K**  
**For the year ended December 29, 2012**  
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## Basis of Presentation

Except where the context otherwise requires, all references in this Annual Report on Form 10-K for the fiscal year ended December 29, 2012 ( Form 10-K ) to the Company , we , us , our or similar words and phrases are to SunOpta and its subsidiaries, taken together.

In this report, all currency amounts are expressed in thousands of United States ( U.S. ) dollars ( \$ ), except per share data, unless otherwise stated. Amounts expressed in Canadian dollars are expressed in thousands of Canadian dollars and preceded by the symbol Cdn \$ . Amounts expressed in euros are expressed in thousands of euros and are preceded by the symbol € . The following table sets forth, for the periods indicated, the rate of exchange for the U.S. dollar, expressed in Canadian dollars, based on Bank of Canada exchange rates. These rates are provided solely for convenience, and do not necessarily reflect the rates used by us in the preparation of our financial statements.

| Year | Closing | Average |
|------|---------|---------|
| 2012 | 0.9965  | 1.0000  |
| 2011 | 1.0170  | 0.9900  |
| 2010 | 0.9946  | 1.0300  |

## Forward-Looking Statements

This Form 10-K contains forward-looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as anticipate , estimate , intend , project , potential , continue , believe , expect , could , would , should , might , plan , will , may , predict , and words and phrases of similar impact and include, but are not limited to references to possible operational consolidation, reduction of non-core assets and operations, business strategies, plant and production capacities, revenue generation potential, anticipated construction costs, competitive strengths, goals, capital expenditure plans, business and operational growth and expansion plans, anticipated operating margins and operating income targets, gains or losses associated with business transactions, cost reductions, rationalization and improved efficiency initiatives, proposed new product offerings, and references to the future growth of the business and global markets for the Company's products. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on certain assumptions and analyses we make in light of our experience and our interpretation of current conditions, historical trends and expected future developments, as well as other factors that we believe are appropriate in the circumstance.

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

- our ability to renew our North American syndicated credit facilities when they become due on July 27, 2016;
- restrictions in our syndicated credit agreement on how we may operate our business;
- our ability to meet the covenants of our credit facilities;
- our potential additional capital needs in order to maintain current growth rates, which may not be available on favorable terms or at all;
- our customers' ability to choose not to buy products from us;
- loss of a key customer;
- changes in and difficulty in predicting consumer preferences for natural and organic food products;
- the highly competitive industry in which we operate;
- an interruption at one or more of our manufacturing facilities;



- the loss of service of our key management;
- the effective management of our supply chain;
- volatility in the prices of raw materials and energy;
- enactment of climate change legislation;
- unfavorable growing conditions due to adverse weather conditions;
- dilution in the value of our common shares through the exercise of stock options, 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 ability to realize the value of our investment in Opta Minerals Inc.;
- our lack of management and operational control over Mascoma Corporation;
- fluctuations in exchange rates, interest rates and certain commodities;
- our ability to effectively manage our growth and integrate acquired companies; and
- the volatility of our operating results and share price.

Consequently all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that our actual results or the developments we anticipate will be realized. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report. For a more detailed discussion of the principal factors that could cause actual results to be materially different, you should read our risk factors in Item 1A, Risk Factors, included elsewhere in this report.

## PART I

### Item 1. Business

#### INTRODUCTION

SunOpta, a corporation organized under the laws of Canada in 1973, is a leading global company operating businesses focused on a healthy products portfolio that promotes sustainable well-being. With expertise in field to table integration, we specialize in the sourcing, processing and packaging of natural, organic and specialty food products. As a general principle, we do not own or operate our own farms, retail stores, or extensively market our own consumer brands. Our core natural and organic food operations focus on value-added grains, fiber and fruit-based product offerings, supported by a global sourcing and supply infrastructure. Our assets, operations and employees are principally located in North America and Europe. We have two non-core holdings: a 66.1% ownership position in Opta Minerals Inc. and its subsidiaries ( Opta Minerals ), a producer, distributor and recycler of industrial materials; and an 18.7% ownership position in Mascoma Corporation ( Mascoma ), an innovative biofuels company.

#### Business Objectives, Goals and Strategies

Our vision is to be the recognized global leader in natural and organic food products that drive sustainable well-being. The objective of our business strategy is to maximize stakeholder value through:

- Strategically supplying healthy food to retailers, food service and food manufacturers.
- Leveraging our global, integrated field to table supply chain capabilities.
- Fostering passionate talented employees.

To reach our objective, we have established the following financial goals:

- 8% operating income as a percentage of revenues in three years.
- 10% EBITDA as a percentage of revenues in three years.
- 15% return on net assets in three years.

In order to deliver on these goals we have developed the following core strategies:

- Become a pure play natural and organic foods company. This includes evaluating our existing product portfolio, integrating strategically-aligned acquisitions, and divesting non-core assets to focus on key market categories and geographies.
- Aggressively grow our value-added packaged foods and ingredients portfolios. This includes enhancing innovation through shared research and development capabilities, and the addition of new sourcing and processing capabilities to achieve higher gross margins from the introduction of new products, packaging and processes to the market.
- Leverage the integrated platform we have built. This includes optimizing our supply chain capabilities, available production capacity, and consolidated back office functions to achieve synergies and cost improvements.

These strategies form the framework within which key initiatives and near-term action plans are developed, helping to create focus and a high degree of accountability for our businesses and employees.

## Segment Information

We divide our operations into the following industry segments:

- SunOpta Foods, which accounted for approximately 88% of our fiscal 2012 consolidated revenues; and
- Opta Minerals, which represented approximately 12% of our fiscal 2012 consolidated revenues.

SunOpta Foods operates in the natural, organic and specialty foods product sectors and utilizes a number of integrated business models to bring cost-effective and quality products to market. We believe these markets will continue to grow as consumers focus on health and wellness.

In February 2012, we undertook a process to streamline the operations and organizational structure of SunOpta Foods in order to drive efficiencies and better align product innovation and commercial activities. During the first quarter of 2012, the 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 Development ), the International Foods Group comprises solely our international sourcing and supply operations (Tradin Organic). The Grains and Foods Group remained unchanged.

SunOpta Foods is currently comprised of the following four operating segments:

- Grains and Foods Group;
- Ingredients Group;
- Consumer Products Group; and
- International Foods Group.

We intend, however, to continue to realign our operations with a focus on three key go-to-market segments: raw materials; value-added ingredients; and consumer-packaged products. Over time we expect our operating segments will be realigned accordingly.

Opta Minerals is a vertically integrated provider of custom process optimization solutions and supplier of industrial minerals and silica-free abrasives for use primarily in the steel, foundry, loose abrasive cleaning and municipal water filtration industries.

Financial information for each segment describing revenues from external customers, a measure of profit or loss, and total assets for the last three fiscal years, as well as financial information about geographic areas for the last three fiscal years, is set forth in note 21 of the Consolidated Financial Statements.

## Business Development

Our strategy is to focus on our core natural and organic value-added foods business. In this regard, we have completed a number of selective acquisitions in early fiscal 2013 and over the preceding three fiscal years, as follows:

- On December 31, 2012, we acquired a grains handling and processing facility operated as the Organic Land Corporation OOD ( OLC ) and located in Silistra, Bulgaria. The purchase price was €3,200, plus an earn-out based on pre-determined earnings targets over a three-year period. We have been sourcing non-genetically modified ( non-GMO ) sunflower kernel from OLC since late 2011. The facility is located near a protected and



chemical free agricultural area, which produces organic products including sunflower, flax seed, corn, barley, and soybeans. This acquisition diversifies our non-GMO and organic sunflower processing operations and should allow us to expand our capabilities into other organic products grown in the region. The Bulgarian processing operation is included in the International Foods Group.

- In August 2011, we completed the acquisition of the assets and business of Lorton's Fresh Squeezed Juices, Inc. ( Lorton's ) for cash consideration of \$2,500, plus an earn-out based on pre-determined earnings targets over a three-year period. Lorton's is an integrated producer of a variety of citrus based products in both industrial and packaged formats. This acquisition expanded our integrated operations into the extracting, processing and packaging of citrus-based ingredients through consumer packaged products, and provided increased capacity for future growth and expansion. Lorton's operations are included in the Consumer Products Group.
- In December 2010, we completed the acquisition of the assets and business of Edner of Nevada, Inc. ( Edner ) for cash consideration of \$4,000, plus an earn-out based on pre-determined revenue targets over a five-year period. Edner produces a wide variety of nutritious portable foods such as nutrition bars and grains-based snack bars serving the fast growing wholesome and convenient healthy snacks category from its 104,000 square foot facility, located in Carson City, Nevada. Edner's operations are included in the Consumer Products Group.
- In November 2010, we completed the acquisition of Dahlgren & Company Inc. ( Dahlgren ) for cash consideration of \$46,303, plus an earn-out based on pre-determined earnings targets over a two-year period. Dahlgren is an integrated processor and global supplier of confection sunflower seed products including in-shell and kernel products, roasted sunflower and soy nuts, bird food, hybrid seed and other products. Dahlgren serves customers in the U.S. and Canada, as well as Europe, Asia, Australia and South America. Dahlgren's operations are included in the Grains and Foods Group.

In addition, we have invested in a number of internal growth projects to diversify our sources of supply, as well as to add capacity, improve profitability, and expand our value-added processing capabilities at a number of our facilities, as follows:

- The International Foods Group is constructing a cocoa processing facility in Middenmeer, the Netherlands, which will specialize in the processing of organic and fair trade certified cocoa beans into derivatives, such as organic cocoa powder, butter, and liquor. All cocoa beans processed at this facility are expected to be sourced internally through Tradin Organic. The facility will provide needed capacity to accommodate our organic and specialty cocoa business that is currently processed by third parties. We expect the facility will be operational in the third quarter of 2013. Once fully commissioned, it will employ approximately 30 personnel and have an annual processing capacity of approximately 9,000 metric tons of raw cocoa.
- In November 2012, the Grains and Food Group completed an expansion of our aseptic non-dairy beverage processing and packaging capabilities at its Modesto, California plant, which increased our overall aseptic non-dairy beverage and broth capacity by approximately 10% to between 250 and 300 million quarts, depending on product mix. The expansion was necessary to meet growing demand for natural and organic beverages such as soy, rice, almond and sunflower. In 2010, the Grains and Foods Group also completed an upgrade and retrofit of the Alexandria, Minnesota processing and packaging facility.
- In September 2012, the Consumer Products Group completed the commissioning of two flexible re-sealable pouch filling lines at a new facility located in Allentown, Pennsylvania. As the first two lines are expected to reach capacity through committed long-term contracts, we have initiated expansion plans to install an additional two pouch filling lines at the Allentown facility, which we expect to be operational in the third quarter of 2013. We entered the flexible, re-sealable pouch business in late 2011 with the installation of two pouch filling lines at a third-party production facility in California. The flexible re-sealable pouch is applicable to a wide range of product categories including natural and organic fruit and vegetable snacks, apple sauces, tomato products, baby food, yogurts, toppings and beverages. Once the new east coast lines are operational, we expect to have a total filling capacity of approximately 150 million pouches.
- In December 2011, the Ingredients Group completed the installation of a new aseptic processing line with a processing capacity of approximately 30 million pounds at Pacific Fruit Processors, our value-added fruit ingredients operation. Applications for the new equipment include fruit bases for yogurts, smoothies, fruit toppings and food service products, in both organic and conventional formats.



We have also completed the following strategic divestitures of non-core assets in order to focus on our natural and organic foods business:

- In June 2012, we completed the sale of Purity, our Canadian natural health products distribution business, for cash consideration of Cdn \$14,000 at closing, plus an earn-out if Purity achieves certain earnings targets during the one- year period following the closing date. The divestiture of Purity completed our exit from all non-core distribution businesses. Purity was formerly part of the International Foods Group.
- In June 2011, we completed the sale of land and buildings in Irapuato, Mexico to parties related to Fruvemex Mexicali, S.A. de C.V. ( Fruvemex ). In addition, in April 2011, we sold our frozen fruit processing assets in Rosarito and Irapuato, Mexico to Fruvemex. As part of this transaction we entered into a strategic raw material supply agreement with Fruvemex. These assets were included in the former Fruit Group. Aggregate consideration related to these transactions amounted to \$5,650. In May 2011, the former Fruit Group also completed the sale of frozen fruit processing equipment located in Salinas, California for cash consideration of \$1,773.
- In August 2010, we completed the sale of SunOpta BioProcess Inc. ( SunOpta BioProcess ) to Mascoma Canada Inc., a wholly owned subsidiary of Mascoma, in exchange for a combination of preferred shares, common shares and warrants of Mascoma valued at \$50,925, with a net value of \$33,345 after settling the preferred share liability with former SunOpta BioProcess shareholders. The combination of the two companies brought together SunOpta BioProcess fiber preparation and pretreatment technology with Mascoma's consolidated bioprocessing technology, to create a company with comprehensive capabilities for converting non-food cellulose (wood chips, energy crops and organic solid waste) into ethanol and high value co-products. SunOpta BioProcess represented the former SunOpta BioProcess operating segment, which was eliminated with this sale.
- In June 2010, we completed the sale of our Canadian Food Distribution assets to UNFI Canada, Inc., a wholly- owned subsidiary of United Natural Foods, Inc., ( UNFI ) for cash consideration of Cdn \$68,000. The divestiture of the Canadian Food Distribution assets was an important step in our strategy to focus on our core food manufacturing platform. The Canadian Food Distribution assets formed part of the former Distribution Group operating segment, which was eliminated with this sale.

For more information regarding acquisitions and divestitures, see Notes 2 and 3 of the Consolidated Financial Statements.

## **Other Developments**

### *Amended Credit Agreements*

On September 25, 2012, The Organic Corporation ( TOC ) and certain of its subsidiaries entered into a credit facilities agreement with two lenders, which provides for a €45,000 revolving credit facility covering working capital needs and a €3,000 pre-settlement facility covering currency hedging requirements. A portion of the revolving credit facility was used to repay an existing €35,000 line of credit facility of TOC. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date, and the credit limit can be extended or adjusted based on the needs of the business and upon approval of the lenders. These facilities support the global sourcing, supply and processing capabilities of the International Foods Group.

On July 27, 2012, we entered into an amended and restated credit agreement with a syndicate of lenders to support our core North American food operations. 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. These facilities replaced our previous line of credit facilities of Cdn \$10,000 and \$115,000, and refinanced non-revolving term facilities totaling approximately \$21,000, which were due to mature on October 30, 2012.

On July 24, 2012, Opta Minerals amended and restated its credit agreement to include a Cdn \$15,000 revolving term credit facility and a Cdn \$52,500 non-revolving term credit facility. The revolving term credit facility matures on August 14, 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. These facilities are specific to the operations of Opta Minerals, are standalone and separate from facilities used to finance our core food operations, and carry no cross default or other provisions.

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**Corporate Social Responsibility Report**

In January 2013, we released our second annual Corporate Social Responsibility Report, which provides a progress update on previously established sustainability goals covering social, environmental and economic objectives, and details key priorities for the future. The report covers all of our operations, excluding Opta Minerals, and is available on our website. The Corporate Social Responsibility Report and the other information included on our website is not included in, or incorporated by reference into, this Form 10-K.

**Senior Management Appointments**

Effective August 1, 2012, Hendrik (Rik) Jacobs was appointed to the position of President and Chief Operating Officer, with operational responsibility for SunOpta Foods. Mr. Jacobs brings over 20 years of international sales, marketing, innovation, strategic development and general management experience to this role. Former Vice President and Chief Operating Officer Tony Tavares left the Company effective July 27, 2012.

**SUNOPTA FOODS****Introduction**

SunOpta Foods has been built through business acquisitions and significant internal growth. It operates 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. Below is a summary listing of acquisitions and significant facilities that we have acquired since the inception of SunOpta Foods. This summary does not include any acquisitions that were subsequently divested.

**Date of Acquisition      Business Operations Acquired**

|                    |   |
|--------------------|---|
| August 3, 1999     | Sunrich Inc. (Grains and Foods Group)   |
| August 15, 2000    | Certain assets of Hoffman Aseptic (Grains and Foods Group)  |
| September 18, 2000 | Northern Food and Dairy, Inc. (Grains and Foods Group and Ingredients Group)  |
| March 14, 2001     | First Light Foods Inc. (Grains and Foods Group)   |
| December 4, 2002   | Opta Food Ingredients, Inc. (Ingredients Group)   |
| May 8, 2003        | Kettle Valley Dried Fruit Ltd. (Consumer Products Group)  |
| November 1, 2003   | SIGCO Sun Products, Inc. (Grains and Foods Group)   |
| December 1, 2003   | Sonne Labs, Inc. (Grains and Foods Group)   |
| April 19, 2004     | Purchase of the assets of General Mills Bakeries & Foodservice oat fiber processing facility (Ingredients Group)  |
| September 13, 2004 | 51% of the outstanding shares of Organic Ingredients, Inc. (The remaining 49% of the outstanding shares were acquired on April 5, 2005) (Consumer Products Group) |
| June 2, 2005       | Earthwise Processors, LLC (Grains and Foods Group)  |
| June 20, 2005      | Cleugh's Frozen Foods, Inc. (Consumer Products Group)   |
| July 13, 2005      | Pacific Fruit Processors, Inc. (Ingredients Group)  |
| November 7, 2006   | Hess Food Group LLC (Consumer Products Group)   |
| August 7, 2007     | Operating assets of a soymilk manufacturing facility in Heuvelton, New York (Grains and Foods Group)  |
| April 2, 2008      | The Organic Corporation (International Foods Group)   |
| November 8, 2010   | Dahlgren & Company, Inc. (Grains and Foods Group)   |
| December 14, 2010  | Assets of Edner of Nevada, Inc. (Consumer Products Group)   |
| August 5, 2011     | Assets of Lorton's Fresh Squeezed Juices, Inc. (Consumer Products Group)  |
| December 31, 2012  | Organic Land Corporation OOD (International Foods Group)  |

SunOpta Foods' long-term strategy is to leverage the platform that has been developed via implementation of continuous improvement principles, new product development and a focus on value-added components of the business, and to continue to pursue selective acquisitions that align with the value-added components of our integrated business models. We believe that the natural, organic and specialty foods markets offer solid long-term growth opportunities as consumers focus on health and wellness and see diet as a key part of a healthy lifestyle. We also believe these markets remain fragmented with numerous players in North America and internationally.

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Specific strategies of SunOpta Foods in the last several years have included the following:

- Diversify the range of organic and non-GMO grains, fiber and fruit-based products that we market, including via the acquisition of businesses that are integrated from sourcing through ingredients and packaged products.
- Develop value-added natural and organic fiber and food ingredient solutions to meet the demands of food manufacturers wanting to improve the healthfulness of their products or expand into the natural and organic markets.
- Invest in value-added processing capabilities which add further value to sourced raw materials.
- Expand our ability to source and supply natural and organic food products worldwide.
- Invest in healthy convenience and nutritious portable foods via both internal growth opportunities and acquisitions, driven by our belief that this segment will continue to be a strong area of growth for natural and organic food products.
- Expand the number of customer private label natural and organic programs including soy and alternative beverages, frozen fruit, fruit beverages, re-sealable pouch and healthy convenience food categories.
- Develop and expand our operations outside of North America via acquisitions or by entering into partnerships and strategic alliances with food producers internationally.

## **Grains and Foods Group**

### *Operations and Product Offerings Grains and Foods Group*

The Grains and Foods Group specializes in marketing organic, identity preserved ( IP ), and non-GMO grains, ingredients, packaged goods and processing services with a core focus on soybean, sunflower and corn products. The Grains and Foods Group works to ensure that it provides its customers with high quality organic, non-GMO and IP specialty grains and seeds by serving as a grower's supplier of seed; purchaser of the grower's specialty crops; and processor and packager of a wide range of grains-based ingredients and consumer-packaged products. We believe this field to table approach allows the Grains and Foods Group to meet the specific needs of domestic and foreign food manufacturers and processors, by providing products in the varieties and quantities needed in a timely and cost effective manner.

The Grains and Foods Group's products include:

1. A wide variety of IP, non-GMO and organic seeds and whole grains including soy, corn and sunflower for food applications offering premium varieties with superior food quality. The Grains and Foods Group's integrated model results in control at every stage of production, from seed selection and growing through storage, processing and transportation.
2. Organic, non-GMO and IP grain-based ingredients, including:
  - Raw material sourcing and processing of soy based ingredients in liquid, spray-dried and roasted formats.
  - Grain-based ingredients which utilize non-GMO and organic soy, corn, sunflower and rice; specialty organic functional ingredients, including maltodextrins, tack blends, fiber products; flavor enhancing products, including snack coatings, cheese powders and flavor systems; an innovative line of organic dairy ingredients; and organic soy and sunflower oils.



3. A variety of packaged food products for retail and foodservice use, including:

- A wide variety of private label packaged products for retailers and consumer foods companies, including aseptic and refrigerated soy, rice, almond, sunflower and other alternate beverages; aseptic broths and teas; frozen edamame and vegetable blends; and roasted grains-based snacks.
- Branded food products under the Sunrich Naturals brand, including:
  - Alternative beverages a variety of soy, rice, almond and sunflower based beverages for retail and foodservice.
  - Frozen vegetables a variety of frozen edamame and vegetable blends for health food stores, foodservice operators and retail outlets.
  - Roasted grains-based snacks specializing in providing healthy, non-GMO and organic snacks to schools, retailers and healthcare facilities throughout North America. Products include in-shell sunflower and sunflower kernels, and roasted corn and soy snacks.

4. A full range of bulk grain-based animal feed and pet food products. The premium feed products originate from select organic and non-GMO soy, corn, sunflower and other grains.

The Grains and Foods Group also engages in processing and contract manufacturing services and offers a comprehensive range of services including basic grain cleaning, ingredient processing, custom roasting, and retail-ready packaging. With processing facilities throughout the U.S., plus a number of storage and office facilities, it can handle a range of order sizes, including barge lots, rail cars, bags, pallets, and retail packages. The Grains and Foods Group services include:

- Grain conditioning services for soy, corn and sunflower. The Grains and Foods Group's advanced equipment and technology for scalping and foreign matter removal is engineered to meet U.S. Department of Agriculture (USDA) Grain Standards for premium food grade seed and grain conditioning.
- Grain milling for corn, oat and grain processing, with various granulations and batch sizing.
- Ingredient processing expertise and equipment needed for extraction, separation and concentration of a wide variety of grains-based and dairy ingredients.
- Liquid packaging through its aseptic packaging facilities, specializing in Tetra Pak equipment in a variety of pack sizes and extended shelf life options. The Grains and Foods Group also partners with third-party fillers to provide extended shelf life refrigerated packaging formats to its customers.
- Grains roasting and packaging through extensive facilities offering a wide range of consumer and bulk packaging.

#### ***Competition Grains and Foods Group***

The Grains and Foods Group competes with large grain suppliers for customers and competes with other companies active on the international commercial grain procurement market for supply. The Grains and Foods Group's non-GMO and organic specialty grains compete in the smaller niche U.S. commercial non-GMO and organic grains market. Key to competing in these markets is access to transportation, supply and relationships with producers. The Grains and Foods Group's aseptic and roasted packaged products facilities compete with a number of other regional manufacturers, and its ingredient offerings compete with a range of suppliers from small local companies through large multi-nationals.

#### ***Distribution, Marketing, and Sales Grains and Foods Group***

The Grains and Foods Group has well established sales and marketing capabilities. As a leading provider of non-GMO and organic soy, corn, sunflower and grain-based food ingredients, it offers a comprehensive range of ingredients and services to the food industry. Distribution channels can vary greatly by product category, but the Grains and Foods Group enjoys a diverse to market strategy in each product category. Its organic, non-GMO and IP

ingredients are sold to food manufacturers worldwide. For specialty whole grain raw materials, approximately 50% of the customer base is international.

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Food ingredients are sold principally to customers in North America that range from major multi-nationals to smaller specialty food marketers, but are expanding geographically as the Grains and Foods Group opens new international markets. The consumer goods distribution channels include private label and store brands, food service and also SunOpta-controlled brands. This wide array of sales and distribution avenues is intended to allow the Grains and Foods Group to maximize sales and margin while mitigating the risk of concentrating business in a single segment of the market.

### ***Suppliers Grains and Foods Group***

The Grains and Foods Group has an extensive established IP, organic soy and corn grower network with approximately 2,500 producers, with many relationships existing for over 25 years, and relationships with approximately 1,000 sunflower farmers in the Midwest and southern U.S. The Grains and Foods Group also has a network of growers in South America, Africa and Asia. Because weather conditions and other factors can limit the availability of certain grains in North America, the Grains and Foods Group continues to focus on expanding production and sourcing capabilities to other parts of the world in hand with the International Foods Group to ensure supply in years when local production is below normal levels. By diversifying supply, it also has the ability to divert available product based on market demand and customer requirements in order to maximize return.

### **Ingredients Group**

#### ***Operations and Product Offerings Ingredients Group***

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

The Ingredients Group's products include:

1. Fibers and brans, including *Canadian Harvest*<sup>®</sup> *Oat Fiber*, *SunOpta*<sup>®</sup> *Soy Fiber*, *SunOpta*<sup>®</sup> *Rice Fiber*, *SunOpta*<sup>®</sup> *Cellulose Fiber* and *SunOpta*<sup>®</sup> *Pea Fiber* brands of insoluble organic and conventional fiber products, *Barley Balance* soluble fiber, *MultiFiber* blends, value-added starch-based texturizers, and a number of custom processed ingredients. The Ingredients Group's family of insoluble fiber products are derived from oat, soy, pea and rice hulls. In addition, the Ingredients Group provides two gluten-free cellulose fibers, which are highly concentrated sources of insoluble dietary fiber. These products are used commercially to increase the fiber content of cereals, breads, cookies and crackers; to increase yield and enhance texture in ground and processed meat products; and to add strength and reduce breakage in baked products. The Ingredients Group also provides highly functional fiber blends for specific applications under the *MultiFiber* brand name and offers *Canadian Harvest*<sup>®</sup> *Stabilized Brans* derived from oat, wheat and corn, as well as wheat germ. The stabilized brans are heat-treated to extend shelf life and ground to meet customer needs for appropriate particle size.
2. *SunOpta*<sup>®</sup> *Specialty Starch* products, including *OptaGrade*<sup>®</sup> and *OptaMist*<sup>®</sup>. *OptaGrade* is a natural, starch-based texturizing agent that is used commercially in a variety of dairy products including natural, imitation, and processed cheeses, sour cream, cream cheese, cottage cheese and yogurt. *OptaMist* is also a starch-based texturizing agent that improves the taste, texture and appearance of dairy products, yogurt, cheese products, and salad dressings.
3. Value-added fruit-based ingredients in aseptic and conventional formats, which are custom formulated to provide unique flavor and texture profiles for a wide range of specialized applications. Applications include fruit for yogurts, ice creams, cheeses, smoothies, shakes, frozen desserts, bakery fillings, health bars, various beverages, dressings, marinades, dips and sauces.

4. Custom ingredients and contract manufacturing services. The Ingredients Group produces a number of unique functional food ingredients, and offer services to customers on a contract basis utilizing proprietary technologies.

We believe the Ingredients Group is well positioned to capitalize on the rapid growth of the health conscious natural and organic food markets, with its wide range of fiber, brans, starch and fruit-based products. The *2010 Dietary Guidelines for Americans* recommends choosing foods that provide dietary fiber and increasing the intake of whole fruit, as consumption of both fiber and fruit is below recommended levels in the U.S. The Ingredients Group's portfolio of insoluble fibers, stabilized brans and fiber blends are used in numerous products such as fiber-enriched breads and other baked goods, breakfast cereals and snack bars. These products can be used to increase total dietary fiber content of foods, including dairy and meat products, while minimizing negative effects on taste, texture and appearance. Stabilized oat brans can be used as a source of soluble fiber, which is beneficial to cardiovascular health. Through the use of natural and organic ingredients, including strawberries, blueberries, peaches, and other fruits, the Ingredients Group's fruit-based applications are formulated to improve the nutritional content of its customers' products. In addition to helping food manufacturers improve the healthfulness of their food products, the Ingredients Group's ingredient offerings can be used to improve the overall quality of food products, reduce formulation costs, and meet specific processing requirements. We believe that all of our ingredient products are Generally Regarded As Safe (GRAS) under current U.S. Food and Drug Administration (FDA) regulations (see Regulation SunOpta Foods below).

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### ***Competition Ingredients Group***

Food ingredients are considered unique niche items usually developed or processed for specific customers or industry segments. The Ingredients Group competes with other product developers and specialty processors for the specialty ingredient business. Competitors include major companies with food ingredient divisions, other food ingredient and sourcing companies, other insoluble and soluble fiber processors, and consumer food companies that also engage in the development and sale of food ingredients. Many of these competitors have financial and technical resources, as well as production and marketing capabilities that are greater than our own.

### ***Distribution, Marketing, and Sales Ingredients Group***

The Ingredients Group utilizes a technically-oriented customer account team. It works closely with customers to identify product formulation, cost and productivity opportunities, and develops solutions for customers based on proprietary, value-added, highly functional food ingredients that use the Ingredients Group's technical knowledge and manufacturing base. The Ingredients Group takes a multidisciplinary approach to achieve this level of customer understanding and service. Members of the Ingredients Group's direct sales force are teamed up with the appropriate technical personnel to work as consultants in defining and developing a range of potential solutions to its customers' formulation and product development needs.

Our food ingredients are used by approximately 300 customers worldwide, including some of the largest U.S. consumer-packaged food companies. The Ingredients Group's product offerings are sold through distributors around the world, including the International Foods Group. Based on our internal estimates, the Ingredients Group is the world's largest supplier of oat fiber to the food industry, one of the largest producers of soy fiber in the U.S., and the largest producer of organic soy fiber in the U.S.

### ***Suppliers Ingredients Group***

The availability of the Ingredients Group's raw materials is subject to world market conditions; however, there are a number of alternative sources of supply for most raw materials. Oat and soy hulls are primarily sourced from major food companies or their brokers and we believe there is adequate supply to meet current production requirements. Supply shortfalls would have an effect on availability and price and would be reflected in finished product pricing. Certain other raw materials are supplied by processing customers and are not sourced directly from suppliers within SunOpta Foods. Fruit ingredient raw materials are sourced from processors and traders of frozen fruits, including the International Foods Group and our own fruit processing operations, major sweetener producers, and a number of regional and national flavor companies. Availability of supplies is subject to world market conditions, including quantity and quality of supply.

### **Consumer Products Group**

#### ***Operations and Product Offerings Consumer Products Group***

The 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 products.

The Consumer Products Group's products include:

1. Conventional and organic beverage processing and re-sealable pouch filling solutions in a variety of product categories, including shelf stable and refrigerated juices, frozen fruits and vegetables, specialty beverages, vitamin waters, electrolyte waters, energy drinks, soups, baby food, and healthy fruit and vegetable based snacks in flexible pouches.



2. Nutritious healthy snacks including natural and organic fruit-based snacks in bar, twist, rope and bite size shapes, with the ability to add a variety of ingredients including fiber, plus a range of baked and extruded nutrition bars using a wide variety of ingredients including grains, proteins and other ingredients.
3. Individually Quick Frozen natural and organic frozen fruits and vegetables, including strawberries, blueberries, raspberries, peppers and many other items.

***Competition Consumer Products Group***

The Consumer Products Group faces competition when securing fruit, vegetable and grain raw materials; however, due to the location of its processing facilities, it is able to source these raw materials from a number of growing regions and suppliers. In particular, it sources frozen fruits and vegetables from a number of domestic and worldwide growers, processors and traders, including the International Foods Group.

The Consumer Products Group's beverage and pouch products compete in the private label retail market with the offerings of major food manufacturing companies. Its healthy snack products have a large number of competitors, which include independent fruit snack manufacturers, fruit snack divisions of larger food manufacturers, and nutrition bar manufacturers. Its frozen fruit and vegetable products compete with processors primarily in California and Mexico, and frozen fruit imports from Mexico, South America, Europe and Asia. In many cases, Mexican, South American, European and Asian competitors are able to achieve greater cost efficiencies due to lower relative costs of living and costs of supply in these regions.

***Distribution, Marketing and Sales Consumer Products Group***

The Consumer Products Group supplies frozen fruit and vegetable products to the private label retail market, including large retailers and club stores, food manufacturers, food service distributors, quick service and casual dining restaurants located principally in North America. In addition, it supplies healthy fruit snacks and nutrition bars to branded food companies and the private label retail market. We estimate that the Consumer Products Group is the largest supplier of natural and organic private label fruit snacks in the U.S.

***Suppliers Consumer Products Group***

The Consumer Products Group's raw materials are subject to the availability of fruit, vegetable and grain supply, which is based on conditions that are beyond our control. Frozen fruits, berries, and vegetables are sourced directly from a large number of suppliers throughout the U.S., Mexico and globally, or indirectly through the International Foods Group. Raw material suppliers for healthy snacks products include growers and traders of apples and apple concentrates, flavor companies, processors and traders of fruit and grain products, including the International Foods Group.

**International Foods Group**

***Operations and Product Offerings International Foods Group***

The International Foods Group includes European and North American based operations that source and supply raw material ingredients and trade organic commodities. Its principal operations are located in Amsterdam, the Netherlands and Santa Cruz, California and comprise the global sourcing and supply operations of Tradin Organic, including a business in Dalian, China that supplies food grade organic soybeans, feed, organic sunflower kernels and other grains and distributes certain organic food products, as well as sourcing and processing operations in Ethiopia for organic and specialty coffees and organic and conventional sesame seeds. In addition, the International Foods Group is expanding its integrated processing capabilities with the construction of its value-added organic and specialty cocoa facility in the Netherlands.

The International Foods Group sources raw material ingredients from approximately 60 countries around the world, and, in our estimation, is one of the largest suppliers of a wide range of organic commodities to the food industry in the European, North American and Asian markets. It sources organic fruit and vegetable based ingredients, sweeteners, cocoa, coffee, grains, nuts, seeds and pulses and other organic food products from virtually every continent to ensure quality of supply, minimize crop risk and provide contra-seasonal solutions to our customers. In many cases, the International Foods Group will enter into exclusive arrangements with growers and/or processors of key strategic commodities to control the reliability of its supply chain.

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### ***Competition International Foods Group***

The organic food industry is very competitive due primarily to the limited worldwide supply of organic raw materials. The International Foods Group's competitors in the supply of industrial organic ingredients include domestic and worldwide brokers, traders and food processors.

### ***Distribution, Marketing and Sales International Foods Group***

Sales and marketing is conducted through technically oriented sales teams strategically located close to specific geographic sourcing and/or sales regions. The International Foods Group maintains one of the largest global sourcing and supply networks in the world, working closely to develop and manage global organic supply and link these supplies with diverse customer needs, and it also provides procurement support for other SunOpta operations.

### ***Suppliers International Foods Group***

The International Foods Group's raw material suppliers include growers, processors and traders of non-GMO and organic fruit and vegetable based ingredients, sweeteners and other food products. Raw materials are sourced from growing regions worldwide. Organic food suppliers are required to meet stringent organic certification requirements equivalent to the USDA National Organic Program, European Union ( EU ) standards, or others.

### **Regulation SunOpta Foods**

SunOpta Foods is subject to a wide range of governmental regulations and policies in various countries and regions where we operate, including the U.S., Canada, the Netherlands, throughout the rest of the EU, China and Ethiopia. These laws, regulations and policies are implemented, as applicable in each jurisdiction, on the national, federal, state, provincial and local levels. For example, SunOpta Foods is affected by laws and regulations related to: seed, fertilizer and pesticides; the purchasing, harvesting, transportation and warehousing of grain and other products; the processing, packaging and sale of food, including wholesale operations; and product labelling and marketing, food safety and food defense. SunOpta Foods is also affected by government-sponsored price supports, acreage set aside programs and a number of environmental regulations.

#### ***U.S. Regulations***

SunOpta Foods is required to comply with the regulations and policies promulgated by the Environmental Protection Agency ( EPA ) and corresponding state agencies, as well as the USDA, the Grain Inspection, Packers and Stockyard Administration, the FDA, the Federal Trade Commission ( FTC ), Occupational Safety and Health Administration ( OSHA ) and the Commodities and Futures Trading Commission.

#### ***USDA National Organic Program and Similar Regulations***

SunOpta Foods is involved in the sourcing, manufacturing, supplying, processing, marketing, selling and distribution of organic seed and food products and, as such, is subject to certain organic quality assurance standards. In 1990, Congress passed the *Organic Foods Production Act* mandating that the USDA develop national standards for organically produced agricultural products to assure consumers that those products marketed as organic meet consistent, uniform standards. The *Organic Foods Production Act* established the National Organic Program, a marketing program housed within the Agricultural Marketing Service of the USDA.

In December 2000, after considering recommendations from the National Organic Standards Board, as well as private, state, and foreign organic certification programs, USDA adopted regulations with respect to a national organic production, handling, labeling and certification program contained within 7 CFR 205. The regulations became fully effective in October 2002. These regulations, among other things, set forth the minimum standards producers must

meet, and have reviewed by an accredited USDA-certifying agent, in order to label their products 100% organic , organic , or made with organic ingredients and display the USDA organic seal. The regulations impose strict standards on the production of organic food products and limit the use of non-organic or synthetic materials in the production of organic foods. Generally, organic food products are produced using:

- agricultural management practices intended to promote and enhance ecosystem health;
- no genetically engineered seeds or crops, sewage sludge, long-lasting pesticides, herbicides or fungicides; and
- food processing practices intended to protect the integrity of the organic product and disallow irradiation, genetically modified organisms or synthetic preservatives.

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After becoming certified, organic operations must retain records concerning the production, harvesting, and handling of agricultural products that are to be sold as organic for a period of five years. Any organic operation found to be in violation of the USDA organic regulations is subject to enforcement actions, which can include financial penalties or suspension or revocation of their organic certificate.

Additionally, our organic products may be subject to various state regulations. Many states have adopted their own organic programs making the state agency responsible for enforcing USDA regulations for organic operations. However, state organic programs may also add more restrictive requirements due to specific environmental conditions or the necessity of production and handling practices in the state. Applicable regulatory agencies in the U.S. include the USDA, which monitors and ensures the integrity of both the organic process and agricultural grain business, and the FDA and Department of Homeland Security ( DHS ), which oversee the safety, security and efficacy of the food supply in the U.S.

We currently manufacture and distribute a number of organic products that are subject to the standards set forth in the *Organic Foods Production Act* and the regulations adopted thereunder by the National Organic Standards Board. We believe that we are in material compliance with the organic regulations applicable to our business.

### *Food-Related Regulations*

As a manufacturer and distributor of food products, SunOpta Foods is also subject to a number of federal, state and local food-related regulations, including, but not limited to, the *Federal Food, Drug and Cosmetic Act of 1938* (the FDCA ) and regulations promulgated thereunder by the FDA. This comprehensive regulatory framework governs the manufacture (including composition and ingredients), labeling, packaging and safety of food in the U.S. The FDA:

- regulates manufacturing practices for foods through its current good manufacturing practices regulations;
- specifies the standards of identity for certain foods, including many of the products we sell; and
- prescribes the format and content of certain information required to appear on food product labels.

Some of the key food safety and food labeling regulations in the U.S. include, but are not limited to, the following:

#### 1. Food Safety Regulations

In 2011, the Food Safety Modernization Act (the FSMA ) became effective, significantly expanding the authority of the FDA and imposing new regulation of food production, sales and imports. The goal of FSMA is to shift the focus of the current food safety scheme away from one that is reactive to one that is preventative. Although there remains uncertainty concerning how FSMA will be implemented in light of budgetary concerns, the FDA has taken initial steps to assert its new authority. For instance, the FDA has begun using its authority to administratively detain food products that it has reason to believe are adulterated or misbranded for up to 30 days. In addition, the agency has issued interim final rules on criteria for administrative detention and on prior notice of imported food.

Most recently in January 2013, the FDA released for public comment proposed rules on Preventive Controls for Human Food and Standards for Produce Safety. The FDA expects to issue its proposed rule on importer foreign supplier verification in the near term. Future proposed rules will address preventive controls for animal food, and accreditation of third-party auditors. The proposed rules on preventive controls relating to human food for human consumption would apply to SunOpta Foods as we manufacture, process, pack and hold food for human consumption. The rule proposes a requirement that firms have written plans in place to identify potential hazards, put in place steps to address them, verify that the steps are working, and outline how to correct any problems that arise. The rule also proposes a requirement that each covered facility prepare and implement a written food safety plan, which would include the following: hazard analysis; risk based preventive controls; monitoring procedures; corrective actions; verification; and recordkeeping.

In addition, we are subject to the *Public Health Security and Bioterrorism Preparedness and Response Act of 2002* (the Bioterrorism Act ) and regulations issued thereunder. The Bioterrorism Act authorizes the FDA to take the regulatory action necessary to protect the nation s food supply against the threat of intentional or accidental contamination. The major components of the Bioterrorism Act include registration of food facilities with the FDA; prior notice of virtually all imported food shipments under FDA authority; recordkeeping requirements for food facilities; FDA authority to administratively detain food; FDA authority to institute debarment of food importers for various violations related to food importation; and creation of a clear way to re-import previously refused foods if certain criteria are met.

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Lastly, we are subject to numerous other federal, state and local regulations involving such matters as the licensing and registration of manufacturing facilities, enforcement by government health agencies of standards for our products, inspection of our facilities and regulation of our trade practices in connection with the sale of food products.

## 2. Food Labeling Regulations

SunOpta Foods is subject to certain requirements relating to food labeling under the FDCA and corresponding FDA regulations as well as the *Fair Packaging and Labeling Act* enacted in 1967 and corresponding FTC regulations. Although the FTC, FDA, and USDA share jurisdiction over claims made by manufacturers of food products, the FDA retains primary jurisdiction over the labeling of food products whereas the FTC regulates advertising.

The FDA and FTC require that all food products be labeled to disclose the net contents, the identity of commodity, nutrition information, and the name and place of business of the product's manufacturer, packer, or distributor in order to prevent consumer deception. Both agencies also require that any claim on the product be truthful and not misleading.

Other state and local statutes and regulations may impose additional food labeling requirements. For instance, the *California Safe Drinking Water and Toxic Enforcement Act of 1986* (commonly referred to as Proposition 65) requires, with a few exceptions, that a specific warning appear on any consumer product sold in California that contains a substance, above certain levels, listed by that state as having been found to cause cancer or birth defects. This law exposes all food and beverage producers to the possibility of having to provide warnings on their products.

### *FDA GRAS Regulations*

Food ingredients can be classified into four groups including: food additives; color additives; prior sanctioned substances, and GRAS substances. In particular, a food additive is a substance, the intended use of which results or may reasonably be expected to result, directly or indirectly, either in their becoming a component of food or otherwise affecting the characteristics of food. Food additives require premarket approval under the 1958 Food Additive Amendments to the FDCA as administered by FDA. However, in enacting those amendments, Congress recognized that many substances intentionally used in a manner whereby they are added to food would not require a formal premarket review by FDA to assure their safety, either because their safety had been established by a long history of use in food or by virtue of the nature of the substances, their customary or projected conditions of use, and the information generally available to scientists about the substances. Congress thus excluded from the definition of food additive substances that are generally recognized, among qualified experts, as having been adequately shown through scientific procedures to be safe under the conditions of their intended use, or GRAS.

Companies may establish GRAS status through self-affirmation whereby the producer determines on its own that the ingredient is GRAS, normally with the assistance of a panel of qualified experts. The producer may also voluntarily submit a GRAS Notification to the FDA that includes the product's description, conditions of use, and the basis for GRAS determination, among other information. The FDA response to a GRAS notice, typically issued within 180 days, is not an approval and the product may be marketed while the FDA is reviewing the information.

A food ingredient is eligible for GRAS classification based on the views of experts qualified by scientific training and experience to evaluate the safety of the product. The expert's views are either based on scientific procedures or through experience based on common use of the material prior to 1958. If based on scientific procedures they must use the same quantity and quality of scientific evidence as would be required for the FDA to issue a premarket approval of the sale of a food additive. If a food ingredient is not entitled to GRAS status, premarket approval must be sought through the filing of a Food Additive Petition.

Many of SunOpta Food's products are being marketed pursuant to GRAS self-affirmation. We believe that a majority of products for which we have retained commercial rights are GRAS. However, such status cannot be determined until actual formulations and uses are finalized. Thereafter, we decide whether self-affirmation procedures and a GRAS

notification will be appropriate. For those components that do not qualify for GRAS, we may be required to file a Food Additive Petition. In the event that a petition is required, we may elect to sell or license its rights to manufacture, market, and distribute the component to another party.

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### *Environmental Regulations*

SunOpta Foods is also subject to various U.S. federal, state and local environmental regulations. Some of the key environmental regulations in the U.S. include, but are not limited to, the following.

- Air quality regulations air quality is regulated by the EPA and certain city/state air pollution control groups. Emission reports are filed annually.
- Waste treatment/disposal regulations solid waste is either disposed of by a third-party or, in some cases, we have a permit to haul and apply the sludge to land. Agreements exist with local city sewer districts to treat waste at specified levels of Biological Oxygen Demand ( BOD ), Total Suspended Solids ( TSS ) and other constituents. This can require weekly/monthly reporting as well as annual inspection.
- Sewer regulations we have agreements with the local city sewer districts to treat waste at specified limits of BOD and TSS. This requires weekly/monthly reporting as well as annual inspection.
- Hazardous chemicals regulations Various reports are filed with local city/state emergency response agencies to identify potential hazardous chemicals being used in our facilities, including reports filed with the Department of Public Safety Emergency Response Commission in Minnesota and the Kentucky Emergency Response Commission.
- Storm water all facilities are inspected annually and must comply with an approved storm water plan to protect water supplies.

### *Employee Safety Regulations*

We are subject to certain safety regulations, including OSHA regulations. These regulations require us to comply with certain manufacturing safety standards to protect our employees from accidents. We believe that we are in material compliance with all employee safety regulations applicable to our business.

### *Canadian and Other Non-U.S. Regulations*

Outside of the U.S., regulations concerning the sale or characterization of food ingredients vary substantially from country to country, and we take appropriate steps to comply with such regulations.

In Canada, the sale of food is regulated under various federal and provincial laws, principally the federal *Food and Drugs Act* ( FADA ), *Canada Agricultural Products Act* ( CAPA ), and the *Canadian Environmental Protection Act, 1999* ( CEPA ), along with their supporting regulations. Some of the key Canadian regulatory instruments include but are not limited to the following:

- *Food and Drug Regulations* (under the FADA) food and drugs are subject to specific regulatory requirements, including composition (such as food additives, fortification, and food standards), packaging, labelling, advertising and marketing, and licensing requirements.
- *Organic Products Regulations, 2009* ( OPR ) (under the CAPA) as of June 30, 2009, the OPR require mandatory certification to the revised national organic standard for agricultural products that are to be represented as organic in international and inter-provincial trade, or that bear the federal organic agricultural product legend (or federal logo). Except for certain exceptions and conditions, a U.S.-Canada Organic Equivalence Arrangement is currently in place whereby agricultural products produced and processed in conformity with the U.S. *Organic Foods Production Act* and the Canadian OPR are deemed to have been produced and processed in accordance with the OPR and may be sold, labelled or represented in Canada as organic.
- *Canada Consumer Product Safety Act* ( CCPSA ) the CCPSA provides oversight and regulation of consumer products with respect to manufacturers, importers, and retailers. It includes, without limitation, the ability to require product recalls, mandatory incident reporting, document retention requirements, increased fines and penalties, and packaging and labeling requirements. While the CCPSA does not apply to food, it does apply to

its packaging with respect to safety. It is possible that there will be amendments introduced to the FADA, to capture the essence of the regulatory oversight found in the CCPSA. We have no way of anticipating if and when that may occur.



We are subject to Dutch and European Commission ( EC ) regulations and policies. Our European subsidiary, TOC, is involved in the sourcing, supplying, marketing, selling and distribution of organic food products and, as such, is subject to standards for production, labeling and inspection of organic products contained in EC Regulation 2092/91 (and its subsequent amendments). TOC is certified by Skal, the inspection body for the production of organic products in the Netherlands. Products certified as organic by an EU-recognized inspection body, such as Skal, can be marketed within the entire EU. In addition, under the terms of an equivalency arrangement between the U.S. and the EU, organic operations certified to the USDA organic or EU organic standards may be labeled and sold as organic in both the U.S. and EU.

TOC is also affected by general food legislation both at EU and Dutch level relating to product safety and hygiene, among others. TOC is Hazard Analysis and Critical Control Point certified in the Netherlands and manages a fully computerized system that guarantees the traceability of each product. In addition, TOC also considers and abides by EU and local legislation with regard to packaging and packaging waste. TOC is also subject to the regulations and policies of the countries outside of the EU in which it operates, including China and Ethiopia.

### **Research and Development SunOpta Foods**

Research and development and new product and process innovation are key priorities of SunOpta Foods and initiatives are focused on continuous improvement of our existing product portfolios and production processes, as well as the development of innovative new products. Innovation is a key pillar for us and a necessity in the natural and organic foods categories.

SunOpta Food s extensive applications and research and development expertise is organized around four key product categories:

- Grains and grain-based ingredients through finished packaged products;
- Value-added ingredients focused on fiber and fruit based applications;
- Fruit-based consumer packaged products; and
- Value-added nutritious healthy snacks and portable foods.

Our product development teams include highly trained and experienced food scientists and technologists that are dedicated to both the development of unique new product offerings plus addressing product development opportunities for our customers including new and custom formulations, innovations in packaging formats, and new production processes and applications. Applications and technical support provided by each of our operating groups to our customers include all aspects of product development from concept to commercial launch, as well as ongoing manufacturing and processing support. Representatives from our operating groups also meet regularly to coordinate efforts to develop products which leverage the talents and product capabilities from across our organization.

SunOpta Foods continues to develop new products to maximize the capabilities of our aseptic packaging facilities in Modesto, California and Alexandria, Minnesota, including the development of non-dairy based beverages that address the growing consumer demand for beverages that address allergy concerns and provide a unique nutritional portfolio. The expanding interest to incorporate grain-based foods in consumers diets also creates numerous opportunities to develop ingredients that can be incorporated into food developers menu items.

In addition, SunOpta Foods continues to expand its product portfolio via the addition of new fiber and ingredient offerings that can be used to improve the nutritional content and functionality of a variety of foods. Demand for food fibers has continued to grow and we believe that this is a long-term trend due to an increased focus on healthy foods. Many of our ingredient solutions can be used in products that aid in satiety to respond to the growing epidemic of obesity in North America and elsewhere. Many of our ingredients can also be used in products which qualify for a whole grain claim by augmenting the insoluble and soluble fiber content of foods.

SunOpta Foods also continues to develop new fruit-based beverages, healthy fruit snacks, nutrition bars and fruit based resealable pouch products, as well as innovative fruit ingredient systems for the dairy, food service and beverage industries. We are also looking at using fiber and other ingredients in these fruit products to improve their ability to address satiety and lower glycemic indices.

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## **Intellectual Property SunOpta Foods**

The nature of a number of SunOpta Food s products and processes requires that we create and maintain patents, trade secrets and trademarks. Our policy is to protect our technology, brands and trade names by, among other things, filing patent applications for technology relating to the development of our business in the U.S. and in selected foreign jurisdictions, registering trademarks in the U.S., Canada and selected foreign jurisdictions where we sell products, and maintenance of confidentiality agreements with outside parties and employees.

SunOpta Food s success will depend, in part, on our ability to protect our products, trade names and technology under U.S. and international patent laws and other intellectual property laws. We believe that we own or have sufficient rights to use all of the proprietary technology, information and trademarks necessary to manufacture and market our products; however, there is always a risk that patent applications relating to our products or technologies will not result in patents being issued, or, if issued, will be later challenged by a third party, or that current or additional patents will not afford protection against competitors with similar technology.

We also rely on trade secrets and proprietary know-how and confidentiality agreements to protect certain technologies and processes. Even with these steps taken, our outside partners and contract manufacturers could gain access to our proprietary technology and confidential information. All employees are required to adhere to internal policies which are intended to further protect our technologies, processes and trade secrets.

## **Properties SunOpta Foods**

As at December 29, 2012, SunOpta Foods operated 27 processing facilities in 11 U.S. states, as well as China and Ethiopia. SunOpta Foods also owns and leases a number of office and distribution locations in the U.S., Canada, the Netherlands, Ethiopia and China, and leases and utilizes public warehouses to satisfy its storage needs. For more details see Item 2. Properties, elsewhere in this report.

## **OPTA MINERALS**

### **Introduction**

Opta Minerals, a majority-owned subsidiary, is a vertically integrated provider of custom process solutions and industrial minerals products. We acquired Opta Minerals (formerly known as Barnes Environmental and Industrial) in 1995. Since then, Opta Minerals has grown steadily through a combination of internal growth and strategic acquisitions in Canada, the U.S., and Europe. In February 2005, we sold approximately 29% of the outstanding common shares of Opta Minerals as part of an initial public offering. As at December 29, 2012, our ownership position in Opta Minerals was 66.1% . The common shares of Opta Minerals are traded on the Toronto Stock Exchange ( TSX ), under the symbol OPM .

### **Business Development**

Opta Minerals has completed the following acquisitions over the last three fiscal years:

- In August 2012, Opta Minerals acquired approximately 94% of the outstanding common shares of WGI Heavy Metals, Incorporated ( WGI ). In November 2012, Opta Minerals completed the acquisition of the remaining outstanding common shares of WGI. Opta Minerals paid total cash consideration of \$14,968. WGI s principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure waterjet cutting machine replacement parts and components. This acquisition complemented Opta Minerals existing product portfolio and expands product line offerings to new and existing customers.

- 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, subject to customary post-closing purchase price adjustments, plus contingent consideration based on the achievement of certain earnings targets over the next five years. Babco is an industrial processor and supplier of petroleum coke, synthetic slag, ladle sand and crushed graphite. This acquisition complemented Opta Minerals existing product portfolio and provides for additional product line offerings to new and existing customers in the region.
- 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 financial targets. Inland s business is complementary with current Opta Minerals product offerings and has capacity for growth and significant synergy opportunities.

## **Operations and Product Offerings Opta Minerals**

Opta Minerals competes primarily in the industrial minerals and silica-free abrasives markets, focusing to date on select markets in North America and in Europe. Opta Minerals currently has offices and production and distribution facilities in Ontario, Québec, Saskatchewan, Florida, Idaho, Indiana, Louisiana, Maryland, Michigan, New York, Ohio, South Carolina, Texas, Virginia and production locations in Europe in Kosice, Slovakia; Romans, France; and Ermsleben and Rodermark, Germany. Opta Minerals successful integration of its business acquisitions into its existing operations and financial management systems has created synergies that have increased revenues and profit margins. It has invested in improving plant equipment and infrastructure and has been able to reduce costs while growing production capabilities. We believe that Opta Minerals is currently well-positioned to expand current operations with modest capital expenditures.

Opta Minerals produces, manufactures, distributes and recycles industrial minerals, silica-free abrasives and specialty sands and other products and services to the foundry, steel, loose abrasive cleaning, roofing granule, marine/bridge cleaning, waterjet cutting, and municipal, recreational and industrial water filtration industries. Its principal product lines include: (i) blends of industrial minerals used primarily in heavy industrial applications; (ii) silica-free abrasives; and (iii) specialty sands, filtration media and other products and services.

### ***Industrial Minerals***

Opta Minerals sells industrial mineral products primarily to the foundry and steel industries. Significant industrial minerals products produced by Opta Minerals include chromites, magnesium blends, lime, nozzle sands, clays, coated sands, petroleum coke, crushed graphite, pre-cast refractory shapes, injection lances, and a wide range of foundry pre-mixes.

### ***Silica-Free Abrasives***

Opta Minerals abrasive products are primarily sold into shipbuilding, ship repair, bridge cleaning, waterjet cutting and roofing granule markets. The abrasives produced are free of silica, making them a clean, efficient and recyclable alternative to traditional abrasives. Recycling operations are conducted at Waterdown, Ontario, Norfolk, Virginia and Ermsleben, Germany. This is an important service that Opta Minerals provides to its customers which results in the reuse of materials that would otherwise be sent directly to landfills. Significant silica-free abrasive products produced by Opta Minerals include BlackBlast, Ultra Blast, EconoBlast, EbonyGrit, Powerblast, Galaxy Garnet, Emerald Creek Garnet, Bengal Bay Garnet and other specialty abrasives.

### ***Specialty Sands and Other Products and Services***

Opta Minerals also generates revenues from the sale of specialty sands, filtration media and other products and technical services. The silica sands are not sold for use as an abrasive material. Significant specialty sands and other products and services of Opta Minerals include filtration and industrial sands, garnets for filtration and waterjet cutting, construction sands, golf bunker sand, silica (not sold for loose abrasive applications), colored sand, waterjet cutting replacement parts and components, and technical services.

## **Properties Opta Minerals**

Opta Minerals operations encompass and service much of North America. Opta Minerals has built or acquired facilities at locations along the east and southern coasts of the U.S. where major shipbuilding, ship repair, bridge cleaning and roofing shingle production activities are concentrated. Multiple facilities allow for fast and economic service and have enabled Opta Minerals to broaden its product lines to supply wider markets and applications from these facilities.

Opta Minerals operations in Europe service major integrated steel mill customers, as well as a variety of other industries in Europe and represents a platform for continued growth in European markets.

For more details, see Item 2. Properties, elsewhere in this report.

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## **Competition Opta Minerals**

In both industrial minerals and abrasive markets, Opta Minerals competes through a combination of product quality and customer service combined with competitive pricing.

### ***Industrial Minerals***

The industrial minerals industry is characterized by a number of large public and private companies that service the bulk of requirements for both the foundry and steel industry. These companies include Vesuvius Group S.A./N.V., Stollberg Group, SKW Mettallurgie GmbH, Magnesium Elektron and Prince Minerals which tend to have broad product offerings that service a range of customer requirements. The remaining market requirements are fulfilled by small regionally based companies with limited product lines that generally focus on local markets.

### ***Silica-Free Abrasives***

The silica-free abrasives industry is characterized by a number of regionally-based companies with limited product lines tending to focus on geographically adjacent markets. Their competition varies by product line, customer classification and geographic market. Opta Minerals conducts business throughout North America with a focus on key regions including the Quebec-Detroit corridor, New York, Maryland, Virginia, Georgia, Florida, Louisiana and Texas, all of which are areas of high volume ship repairs and bridge cleaning activities.

### ***Specialty Sands and Other Products and Services***

Competition within the specialty sand and other niche markets serviced by Opta Minerals is characterized by a number of small, regionally-based competitors. Competition varies by product line, customer classification and geographic market.

## **Distribution, Marketing and Sales Opta Minerals**

Opta Minerals has an active program to develop and acquire new products and services that expand their target markets while leveraging their existing infrastructure and expertise. Opta Minerals offers one of the broadest ranges of industrial minerals and abrasives in the industry and can provide customer product configuration solutions for almost every type of application. Opta Minerals conducts business throughout North America and key areas of Europe, via a direct sales force supported by strong technical and operational resources, with a focus on high volume industrial mineral consumption regions. Opta Minerals facilities are strategically located near customers or raw material supplies to economically and efficiently distribute products.

## **Suppliers Opta Minerals**

As is customary in the industry, Opta Minerals generally does not have long-term contracts with its major suppliers. Although we believe that Opta Minerals have access to similar products from competing suppliers, any disruption in the source of supply, particularly of the most commonly used or exclusively sourced items, or any material fluctuation in the quality, quantity or cost of such supply, could have a material adverse effect on our results of operations and financial condition.

Opta Minerals obtains key raw materials such as magnesium, lime, coal slag, copper slag, nickel slag, petroleum coke and garnet from a wide variety of global sources. Copper slag is supplied by both domestic and foreign mining and refining companies. Coal slag is supplied on an exclusive basis from U.S. power plants and other suppliers. Petroleum coke is supplied primarily by a Canadian petroleum refiner. Opta Minerals produces industrial garnet derived from a waste mining stream at its Keeseville, New York facility. In addition, it has agreements with multiple mines in China and suppliers in India to market their garnet in North America, South America and Europe. Opta Minerals also

purchases significant quantities of magnesium for its mill and foundry services operations from manufacturers located primarily in China, Eastern Europe and the Middle East.

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## Regulation Opta Minerals

Opta Minerals' business primarily involves the handling of inorganic and mineral-based materials. These types of materials are generally benign and are not expected to give rise to environmental issues. Almost all of their environmental regulation is standard to the industry with the exception of certain permits required in Ontario and Virginia to recycle various types of solid waste, and in Idaho for the protection of wetlands and reclamation of land. The Ontario Ministry of Environment has the right to inspect the Waterdown, Ontario site and review the results of third party monitoring and perform its own testing. Similar rights of inspection by the EPA and state regulators exist at the facility in Norfolk, Virginia. At both locations, they are subject to monthly reporting and periodic audits as well as having a financial bond in place with the respective governments should there be a contamination.

Since we acquired Opta Minerals in 1995, we believe it has been in material compliance with all applicable environmental legislation and has not been subject to any actions by regulatory authorities. Based on known existing conditions, all facilities are currently in material compliance with all environmental permitting requirements of the local authorities and are reviewed on an annual basis. These permits generally cover air and ground water at those facilities where applicable. Absent any currently unforeseen changes to applicable legislation, we anticipate that future costs relating to environmental compliance will not have a material adverse effect on our financial position.

## CORPORATE SERVICES GROUP

The corporate office of SunOpta is located in Brampton, Ontario. In addition, centralized information technology and financial shared services groups are located in Edina, Minnesota. Employees of the Corporate Services Group perform a variety of management, financial, information technology and administration roles.

## ENVIRONMENTAL HAZARDS

We believe that, with respect to both our operations and real property, we are in material compliance with environmental laws at all of our locations.

## EMPLOYEES

As of December 29, 2012, we had a total of 1,830 (December 31, 2011 1,889) employees as follows:

| Segment            | Employees    |
|--------------------|--------------|
| SunOpta Foods      | 1,426        |
| Opta Minerals      | 347          |
| Corporate Services | 57           |
| <b>Total</b>       | <b>1,830</b> |

We believe that our relations with both union and non-union employees are good.

## AVAILABLE INFORMATION

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the *Securities Exchange Act of 1934* (the Exchange Act), are available free of charge on our website at [www.sunopta.com](http://www.sunopta.com) as soon as reasonably practicable after we file such information electronically with, or furnish it to, the U.S. Securities and Exchange Commission (the SEC) and applicable Canadian Securities Administrators (the CSA).

**Item 1A. Risk Factors**

Our business, operations and financial condition are subject to various risks and uncertainties, including those described below and elsewhere in this report. We believe the most significant of these risks and uncertainties are described below, any of which could adversely affect our business, financial condition and results of operations and could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this report. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment. There may be additional risks and uncertainties not presently known to us or that we currently consider immaterial. Consequently, you should not consider the following to be a complete discussion of all possible risks or uncertainties applicable to our business. These risk factors should be read in conjunction with the other information in this report and in the other documents that we file from time to time with the SEC and the CSA.

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

Our North American syndicated credit facilities mature on July 27, 2016. We may not be able to renew these facilities to the same level, or on terms as favorable 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 credit agreements restrict how we may operate our business, and our business may be materially and adversely affected if these restrictions prevent us from implementing our business plan**

We have a number of credit agreements providing for various credit facilities including a primary facility with a syndicate of lenders. Our credit agreements contain covenants that limit the discretion of our management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create other liens, to complete a merger, amalgamation or consolidation, to make certain distributions or make certain payments, investments and guarantees and to sell or otherwise dispose of certain assets. These restrictions may hinder our ability to execute on our growth strategy or prevent us from implementing parts of our business plan.

**Our business could be materially and adversely affected if we are unable to meet the covenants of our credit facilities**

Although we are currently in compliance with the financial covenants under our credit agreements and we believe that we are well positioned to comply with the financial covenants under our 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 agreements. 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.

**We may require additional capital to maintain current growth rates, which may not be available on favorable terms or at all**

We have grown via a combination of internal growth and acquisitions requiring available financial resources. Our ability to raise capital, through equity or debt financing, is directly related to our ability to both continue to grow and improve returns from our operations. Debt or equity financing may not be available to us on favorable terms or at all. In addition, an equity financing would dilute our current shareholders and may result in a decrease in our share price if we are unable to realize returns equal to or above our current rate of return. We will not be able to maintain our growth rate and our strategy as a consolidator within the natural and organic food industries without continued access to capital resources.

**Our customers generally are not obligated to continue purchasing products from us**

Many of our customers buy from us under purchase orders, and we generally do not have long-term agreements with or commitments from these customers for the purchase of products. We cannot provide assurance that our customers will maintain or increase their sales volumes or orders for the products supplied by us or that we will be able to maintain or add to our existing customer base. Decreases in our customers' sales volumes or orders for products supplied by us may have a material adverse effect on our business, financial condition or results of operations.

**Loss of a key customer could materially reduce revenues and earnings**

Although we had no customers that represented over 10% of revenues for the year ended December 29, 2012, the loss or cancellation of business with any of our larger customers could materially and adversely affect our business, financial condition or results of operations.

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### **Consumer preferences for natural and organic food products are difficult to predict and may change**

Approximately 88% of our fiscal 2012 revenues were derived from SunOpta Foods. Our success depends, in part, on our ability and our customers' ability to offer products that anticipate the tastes and dietary habits of consumers and appeal to their preferences on a timely and affordable basis. A significant shift in consumer demand away from our products or products that utilize our integrated grains, ingredients and fruits, or our failure to maintain our current market position, could reduce our sales and harm our business. Consumer trends change based on a number of possible factors, including nutritional values, a change in consumer preferences or general economic conditions. Additionally, there is a growing focus among some consumers to buy local food products in an attempt to reduce the carbon footprint associated with transporting food products from longer distances, which could result in a decrease in the demand for food products and ingredients that we import from other countries or transport from remote processing locations or growing regions. These changes could lead to, among other things, reduced demand and price decreases, which could have a material adverse effect on our business.

### **We operate in a highly competitive industry**

We operate businesses in highly competitive product and geographic markets in the U.S., Canada, Europe and various international markets. The Grains and Foods Group, Ingredients Group, Consumer Products Group and International Foods Group compete with various U.S. and international commercial grain procurement marketers, major companies with food ingredient divisions, other food ingredient companies, stabilizer companies, trading companies, and consumer-packaged food companies that also engage in the development and sale of food ingredients and other food companies involved in natural and organic fruits. These competitors may have financial resources and staff larger than ours and may be able to benefit from economies of scale, pricing advantages and greater resources to launch new products that compete with our offerings. We have little control over and cannot otherwise affect these competitive factors. If we are unable to effectively respond to these competitive factors or if the competition in any of our product markets results in price reductions or decreased demand for our products, our business, results of operations and financial condition may be materially impacted.

### **An interruption at one or more of our manufacturing facilities could negatively affect our business**

We own or lease, manage and operate a number of manufacturing, processing, packaging, storage and office facilities (see Item 2. Properties, elsewhere in this report). An interruption in or the loss of operations at one or more of these facilities, or the failure to maintain our labor force at one or more of these facilities, could delay or postpone production of our products or our ability to deliver such products, which could have a material adverse effect on our business, results of operations and financial condition until we could secure an alternate source of supply.

### **If we lose the services of our key management, our business could suffer**

Our prospects depend to a significant extent on the continued service of our key executives, and our continued growth depends on our ability to identify, recruit and retain key management personnel. We are also dependent on our ability to continue to attract, retain and motivate our personnel. We do not carry key person life insurance on any of our executive officers, with the exception of the President and Chief Executive Officer of Opta Minerals. If we lose the services of our key management or fail to identify, recruit and retain key personnel, our business, results of operations and financial condition may be materially and adversely impacted.

### **If we do not manage our supply chain effectively, our operating results may be adversely affected**

Our supply chain is complex. We rely on suppliers for our raw materials and for the manufacturing, processing, packaging and distribution of many of our products. The inability of any of these suppliers to deliver or perform for us in a timely or cost-effective manner could cause our operating costs to rise and our margins to fall. Many of our products are perishable and require timely processing and transportation to our customers. Many of our products can

only be stored for a limited amount of time before they spoil and cannot be sold. We must continuously monitor our inventory and product mix against forecasted demand or risk having inadequate supplies to meet consumer demand as well as having too much inventory that may reach its expiration date. If we are unable to manage our supply chain efficiently and ensure that our products are available to meet consumer demand, our operating costs could increase and our margins could fall.

**Volatility in the prices of raw materials and energy could increase our cost of sales and reduce our gross margins**

Raw materials used by SunOpta Foods and Opta Minerals represent a significant portion of our cost of sales. Our cost to purchase services and materials, such as grains, fruits and other commodities, processing aids, industrial minerals and natural gas, can fluctuate depending on many factors, including weather patterns, economic and political conditions and pricing volatility. In addition, we must compete for limited supplies of these raw materials and services with competitors having greater resources than us. If our cost of materials and services increases due to any of the above factors, we may not be able to pass along the increased costs to our customers.

SunOpta Foods enters into a number of exchange-traded commodity futures and options contracts to partially hedge its exposure to price fluctuations on transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to our assessment of exposure from expected price fluctuations and an inability to hedge a number of raw materials.

Exchange purchase and sales contracts may expose us to risks that a counterparty to a transaction is unable to fulfill its contractual obligation. We may be unable to hedge 100% of the price risk of each transaction due to timing and availability of hedge contracts and third party credit risk. In addition, we have a risk of loss from hedge activity if a grower does not deliver the commodity as scheduled. We also monitor the prices of natural gas and will from time to time lock in a percentage of our natural gas needs based on current prices and expected trends.

An increase in our cost of sales resulting from an increase in the price of raw materials and energy would have an adverse impact on our financial condition and results of operations.

### **Climate change legislation could have an impact on our financial condition and consolidated results of operations**

Legislative and regulatory authorities in the U.S., Canada and internationally will likely continue to consider numerous measures related to climate change and greenhouse gas emissions. In order to produce, manufacture and distribute our products, we and our suppliers, use fuels, electricity and various other inputs that result in the release of greenhouse gas emissions. Concerns about the environmental impacts of greenhouse gas emissions and global climate change may result in environmental taxes, charges, regulatory schemes, assessments or penalties, which could restrict or negatively impact our operations, as well as our suppliers, who would likely pass all or a portion of their costs along to us. We may not be able to pass any resulting cost increases along to our customers. Any enactment of laws or passage of regulations regarding greenhouse gas emissions or other climate change legislation by the U.S., Canada or any other international jurisdiction where we conduct business could adversely affect our financial condition and results of operations.

### **Adverse weather conditions could impose costs on our business**

Our various food products, from seeds and grains to ingredients, fruits, vegetables and other inputs, are vulnerable to adverse weather conditions, including windstorms, floods, droughts, fires and temperature extremes, which are quite common but difficult to predict. Additionally, severe weather conditions may occur with higher frequency or may be less predictable in the future due to the effects of climate change. Unfavorable growing conditions can reduce both crop size and crop quality. In extreme cases, entire harvests may be lost in some geographic areas. These factors can increase costs, decrease revenues and lead to additional charges to earnings, which may have a material adverse effect on our business, results of operations and financial condition.

### **The exercise of stock options, participation in our employee stock purchase plan and issuance of additional securities could dilute the value of our common shares**

As of December 29, 2012, there were outstanding stock options to purchase 3,687,500 of our common shares, with exercise prices ranging from \$0.91 to \$13.75 per common share. The exercise of these stock options could result in dilution in the value of our common shares and the voting power represented thereby. Furthermore, to the extent common shares are issued pursuant to the exercise of stock options, the employee stock purchase plan or other issuances of common shares, our share price may decrease due to the additional amount of common shares available in the market. The subsequent sales of these shares could encourage short sales by our shareholders and others, which could place further downward pressure on our share price. Moreover, the holders of our stock options may hedge their positions in our common shares by short selling our common shares, which could further adversely affect our stock price.





**Impairment charges in goodwill or other intangible assets could adversely impact our financial condition and consolidated results of operations**

As a result of our acquisitions, a portion of our total assets is comprised of intangible assets and goodwill. We are required to perform impairment tests of our goodwill and other intangible assets annually, or at any time when events occur that could affect the value of our intangible assets and/or goodwill. We have previously recorded impairment charges to our consolidated statements of operations. We expect to engage in additional acquisitions, which may result in our recognition of additional intangible assets and goodwill. A determination that impairment has occurred would require us to write-off the impaired portion of our goodwill or other intangible assets, resulting in a charge to our earnings. Such a write-off could adversely impact our financial condition and results of operations.

**Technological innovation by our competitors could make our food products less competitive**

Our competitors include major food ingredient and consumer-packaged food companies that also engage in the development and sale of food and food ingredients. Many of these companies are engaged in the development of food ingredients and other packaged food products and frequently introduce new products into the market. Existing products or products under development by our competitors could prove to be more effective or less costly than our products.

**We rely on protection of our intellectual property and proprietary rights**

The success of SunOpta Foods depends in part on our ability to protect our intellectual property rights. We rely primarily on patent, copyright, trademark and trade secret laws to protect our proprietary technologies. Our policy is to protect our technology by, among other things, filing patent applications for technology relating to the development of our business in the U.S. and in selected foreign jurisdictions.

Our trademarks and brand names are registered in the U.S., Canada and other jurisdictions. We intend to keep these filings current and seek protection for new trademarks to the extent consistent with business needs. We also rely on trade secrets and proprietary know-how and confidentiality agreements to protect certain of the technologies and processes used by SunOpta Foods.

The failure of any patents, trademarks, trade secrets or other intellectual property rights to provide protection to our technologies would make it easier for our competitors to offer similar products, which could result in lower sales or gross margins.

**We are subject to substantial environmental regulation and policies**

We are, and expect to continue to be, subject to substantial federal, state, provincial and local environmental regulation. Some of the key environmental regulations to which we are subject include air quality regulations of the EPA and certain city/state air pollution control groups, waste treatment/disposal regulations, including but not limited to specific regulations of the Ontario Ministry of Environment and Energy and the Commonwealth of Virginia, Department of Environmental Quality, sewer regulations under agreements with local city sewer districts, regulations governing hazardous substances, storm water regulations and bioterrorism regulations. For a more detailed summary of the environmental regulations and policies to which we are subject, see *Business Regulation SunOpta Foods* and *Business Regulation Opta Minerals* in Item 1 of this report. Our business also requires that we have certain permits from various state, provincial and local authorities related to air quality, storm water discharge, solid waste, land spreading and hazardous waste.

In the event that our safety procedures for handling and disposing of potentially hazardous materials in certain of our businesses were to fail, we could be held liable for any damages that result and any such liability could exceed our resources. We may be required to incur significant costs to comply with environmental laws and regulations in the

future. In addition, changes to environmental regulations may require us to modify our existing plant and processing facilities and could significantly increase the cost of those operations.

The foregoing environmental regulations, as well as others common to the industries in which we participate, can present delays and costs that can adversely affect business development and growth. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material adverse effect on our business, results of operations and financial condition. In addition, any changes to current regulations may impact the development, manufacturing and marketing of our products, and may have a negative impact on our future results.

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## **SunOpta Foods is subject to significant food and health regulations**

SunOpta Foods is affected by a wide range of governmental regulations in Canada, the U.S., and several countries in Europe, among others. These laws and regulations are implemented at the national level (including, among others, federal laws and regulation in Canada and the U.S.) and by local subdivisions (including, among others, state laws in the U.S. and provincial laws in Canada). We are also subject to regulations of the EU and the regulatory authority of regulatory agencies in several different countries. Examples of regulatory agencies influencing our operations include: the USDA, the FDA, the DHS, the EPA, the CFIA, and Skal, among others.

Examples of laws and regulations that affect SunOpta Foods include laws and regulations applicable to:

- the use of seed, fertilizer and pesticides;
- the purchasing, harvesting, transportation and warehousing of grain and other products;
- the processing and sale of food, including wholesale operations; and
- the product labeling and marketing of food and food products, food safety and food defense.

These laws and regulations affect various aspects of our business. For example, as described in more detail under Business Regulation SunOpta Foods in Item 1 of this report, certain food ingredient products manufactured by SunOpta Foods are regulated under the 1958 Food Additive Amendments of FDCA, as administered by the FDA. Under the FDCA, pre-marketing approval by the FDA is required for the sale of a food ingredient which is a food additive unless the substance is generally regarded as safe, or GRAS, under the conditions of its intended use by qualified experts in food safety. We believe that most products for which we have retained commercial rights are GRAS. However, such status cannot be determined until actual formulations and uses are finalized. As a result, we may be adversely impacted if the FDA determines that our food ingredient products do not meet the criteria for GRAS. In addition, certain USDA regulations set forth the minimum standards producers must meet in order to have their products labeled as certified organic and we currently manufacture a number of organic products that are covered by these regulations. While we believe our products and our supply chain are in compliance with these regulations, changes to food regulations may increase our costs to remain in compliance. We could lose our organic certification if a facility becomes contaminated with non-organic materials or if we do not use raw materials that are certified organic. The loss of our organic certifications could materially harm our business, results of operations and financial condition.

Changes in any government laws and regulations applicable to our operations could increase our compliance costs, negatively affect our ability to sell certain products or otherwise adversely affect our results of operations. In addition, while we believe SunOpta Foods is in material compliance with all laws and regulations applicable to our operations, we cannot assure you that we have been, or will at all times be, in compliance with all food production and health requirements, or that we will not incur material costs or liabilities in connection with these requirements. Our failure to comply with any laws, regulations or policies applicable to our business could result in fines, lawsuits, enforcement actions, penalties or loss in the ability to sell certain products, any of which could adversely affect our business, results of operations and financial condition.

## **Our operations are influenced by agricultural policies**

SunOpta Foods is affected by governmental agricultural policies such as price supports and acreage set aside programs and these types of policies may affect our business. The production levels, markets and prices of the grains and other raw products that we use in our business are materially affected by government programs, which include acreage control and price support programs of the USDA. Revisions in these programs, in the U.S. and elsewhere, could have an adverse effect on the results of our operations.

## **Product liability suits, recalls and threatened market withdrawals, could have a material adverse effect on our business**

The sale of food products for human consumption involves the risk of injury or illness to consumers. Such injuries may result from inadvertent mislabeling, tampering by unauthorized third parties or product contamination or spoilage. Under certain circumstances, we may be required to recall or withdraw products, which may lead to a material adverse effect on our business. Even if a situation does not necessitate a recall or market withdrawal, product liability claims might be asserted against us. While we are subject to governmental inspection and regulations and believe our facilities and those of our co-packers comply in all material respects with all applicable laws and regulations, if the consumption of any of our products causes, or is alleged to have caused, a health-related illness in the future we may become subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or physical harm could adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image. Moreover, claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. We maintain product liability insurance in an amount that we believe to be adequate. However, we cannot be sure that we will not incur claims or liabilities for which we are not insured or that exceed the amount of our insurance coverage. A product liability judgment against us or a product recall could have a material adverse effect on our business, consolidated financial condition, results of operations or liquidity.

**Litigation and regulatory enforcement concerning marketing and labeling of food products**

The marketing and labeling of any food product in recent years has brought increased risk that consumers will bring putative class action lawsuits and that the FTC and/or state attorneys general will bring legal action concerning the truth and accuracy of the marketing and labeling of the product. Examples of causes of action that may be asserted in a putative consumer class action lawsuit include fraud, unfair trade practices, recession, and breach of state consumer protection statutes (such as Proposition 65 in California). FTC and/or state attorneys general may bring legal action that seeks removal of a product from the marketplace, fines and penalties. Even when not merited, putative class claims, action by the FTC or state attorneys general enforcement actions can be expensive to defend and adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image.

**The value of our ownership position in Opta Minerals is dependent on the ability of Opta Minerals management to enhance shareholder value within Opta Minerals**

We have identified our investment in Opta Minerals as a non-core holding. The value of our ownership position in Opta Minerals is dependent on the ability of Opta Minerals management to enhance shareholder value within Opta Minerals by executing on growth opportunities that may be identified and pursued, including the effective integration of acquisitions, if any, in order to capitalize on synergy opportunities. Our ability to realize the value of our investment in Opta Minerals is dependent on our ability to identify and act on strategic alternatives, including a possible sale of Opta Minerals or our majority ownership interest in Opta Minerals in the future. However, available strategic alternatives, if any, will depend on market conditions from time to time, and there can be no assurance that any viable strategic alternatives will be identified or pursued.

**Our lack of management and operational control over Mascoma may limit our ability to protect or increase the value of our interest in Mascoma**

We have an 18.7% ownership interest in Mascoma, through a combination of preferred and common shares. We do not have the ability to exercise day-to-day control over Mascoma. The management team of Mascoma could make business decisions that could impair the economic value of our interest in Mascoma. In addition, we have no ability to cause Mascoma to take actions that might be to our benefit, including but not limited to actions relating to a change of control of Mascoma and declarations of dividends to Mascoma's stockholders. For the foregoing reasons, we may be unable to prevent actions that could have an adverse impact on our investment in Mascoma.

**Fluctuations in exchange rates, interest rates and certain commodities could adversely affect our results of operations, financial condition and liquidity**

We are exposed to foreign exchange rate fluctuations as our non-U.S.-based operations are translated into U.S. dollars for financial reporting purposes. We are exposed to changes in interest rates as a significant portion of our debt bears interest at variable rates. We are exposed to price fluctuations on a number of commodities as we hold inventory and enter into transactions to buy and sell products in a number of markets. Additional qualitative and quantitative disclosures about these risks can be found in Item 7A of this report. As a result of these exposures, fluctuations in exchange rates, interest rates and certain commodities could adversely affect our liquidity, financial condition and results of operations.

### **We may not be able to effectively manage our growth and integrate acquired companies**

From time to time we may pursue acquisition opportunities that are consistent with our overall growth strategy. Our ability to effectively integrate acquisitions, including our ability to realize potentially available marketing opportunities and cost savings in a timely and efficient manner will have a direct impact on our future results. We may encounter problems in connection with the integration of any new businesses, such as challenges relating to the following:

- integration of an acquired company's products into our product mix;
- the amount of cost savings that may be realized as a result of our integration of an acquired product or business;
- unanticipated quality and production issues with acquired products;
- adverse effects on business relationships with suppliers and customers;
- diversion of management attention;
- difficulty with personnel and loss of key employees;
- implementation of an integrated enterprise wide accounting and information system and consolidation of back office accounting;
- compatibility of financial control and information systems;
- exchange rate risk with respect to acquisitions outside the U.S.;
- potential for patent and trademark claims or other litigation against or involving the acquired company; and
- in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences.

### **Our operating results and share price are subject to significant volatility**

Our net sales and operating results may vary significantly from period to period due to:

- changes in our customers and/or their demand;
- changes in our operating expenses;
- management's ability to execute our business strategies focused on improved operating earnings;
- personnel changes;
- legal and administrative cases (whether civil, such as environmental or product related, or criminal), settlements, judgments and investigations;
- foreign currency fluctuations;
- supply shortages or commodity price fluctuations; and
- general economic conditions.

In addition, our share price may be highly volatile compared to larger public companies. Certain announcements could have a significant effect on our share price, including announcements regarding:

- fluctuations in financial performance from period to period;
- mergers, acquisitions and/or divestitures;
- changes in key personnel;
- strategic partnerships or arrangements;
- litigation and governmental inquiries;
- changes in governmental regulation and policy;
- patents or proprietary rights;
- changes in consumer preferences and demand;
- new financings; and
- general market conditions.



Higher volatility increases the chance of larger than normal price swings which reduces predictability in the share value of our stock and could impair investment decisions. In addition, price and volume trading volatility in the stock markets can have a substantial effect on our share price, frequently for reasons other than our operating performance. These broad market fluctuations could adversely affect the market price of our common shares.

**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 1B. Unresolved Staff Comments**

None.

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**Item 2. Properties**

Our primary facilities in each of our segments are as follows:

**SunOpta Foods**

SunOpta Foods operates from the following locations, which are owned unless otherwise noted.

| <b>Location</b>         | <b>State/Province/<br/>Country</b> | <b>Group/Sub Group</b> | <b>Facility Description</b>  |
|-------------------------|------------------------------------|------------------------|--|
| Brampton                | Ontario                            | Corporate Head Office  | Corporate head office  |
| Edina (Lease)(1)        | Minnesota                          | Corporate Services     | Corporate, IT, Shared Services, Grains and Foods Group and Ingredients Group head office |
| Hope                    | Minnesota                          | Grains and Foods Group | Grain processing   |
| Alexandria              | Minnesota                          | Grains and Foods Group | Aseptic packaging  |
| Alexandria              | Minnesota                          | Grains and Foods Group | Ingredient processing  |
| Alexandria              | Minnesota                          | Grains and Foods Group | Storage  |
| Modesto (Lease)(2)      | California                         | Grains and Foods Group | Aseptic processing and packaging   |
| Wahpeton                | North Dakota                       | Grains and Foods Group | Grain processing, warehouse and distribution   |
| Wahpeton                | North Dakota                       | Grains and Foods Group | Grain storage  |
| Huevelton               | New York                           | Grains and Foods Group | Ingredient processing  |
| Blooming Prairie        | Minnesota                          | Grains and Foods Group | Grain storage  |
| Ellendale               | Minnesota                          | Grains and Foods Group | Grain storage  |
| Sandusky (Monthly Rent) | Michigan                           | Grains and Foods Group | Grain sales office   |
| Cresco                  | Iowa                               | Grains and Foods Group | Grain milling  |
| Breckenridge            | Minnesota                          | Grains and Foods Group | Grain processing and distribution  |
| Breckenridge (Lease)(3) | Minnesota                          | Grains and Foods Group | Grain sales office   |
| Goodland                | Kansas                             | Grains and Foods Group | Grain processing and distribution  |
| Edson (Land Lease)(4)   | Kansas                             | Grains and Foods Group | Grain processing and distribution  |
| Moorhead                | Minnesota                          | Grains and Foods Group | Grain processing and distribution  |
| Crookston               | Minnesota                          | Grains and Foods Group | Grain processing, warehouse and distribution   |
| Fargo                   | North Dakota                       | Grains and Foods Group | Grain processing, warehouse and distribution   |
| Grace City              | North Dakota                       | Grains and Foods Group | Grain processing, warehouse and distribution   |
| Ipswich (Lease)(5)      | South Dakota                       | Grains and Foods Group | Grain storage  |

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|                            |               |   |   |
|----------------------------|---------------|---|---|
| Chelmsford (Lease)(6)      | Massachusetts | Ingredients Group                                 | Ingredients Group former head office and development center |
| Louisville (Lease)(7)      | Kentucky      | Ingredients Group                                 | Fiber processing  |
| Cedar Rapids               | Iowa          | Ingredients Group                                 | Fiber processing  |
| Cambridge                  | Minnesota     | Ingredients Group                                 | Fiber processing  |
| Cambridge (Lease)(8)       | Minnesota     | Ingredients Group                                 | Storage   |
| Fosston                    | Minnesota     | Ingredients Group                                 | Ingredient processing                                       |
| Galesburg                  | Illinois      | Ingredients Group                                 | Ingredient processing                                       |
| South Gate (Lease)(9)      | California    | Ingredients Group                                 | Fruit ingredient processing, warehouse and distribution     |
| Santa Cruz (Lease)(10)     | California    | Consumer Products Group/International Foods Group | Sales and administrative office                             |
| San Bernardino (Lease)(11) | California    | Consumer Products Group                           | Beverage processing, warehouse and distribution             |
| Allentown (Lease)(12)      | Pennsylvania  | Consumer Products Group                           | Flexible re-sealable pouch processing and distribution      |
| Brampton (Lease)(13)       | Ontario       | Consumer Products Group                           | Fruit snack sales and administrative office                 |
| Omak (Lease)(14)           | Washington    | Consumer Products Group                           | Fruit snack processing, warehouse and distribution          |
| Carson City (Lease)(15)    | Nevada        | Consumer Products Group                           | Nutrition bar processing, warehouse and distribution        |

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| Location               | State/Province/<br>Country | Group/Sub Group           | Facility Description                                |
|------------------------|----------------------------|---------------------------|---|
| Summerland (Lease)(16) | British Columbia           | Consumer Products Group   | Administrative office                               |
| Buena Park (Lease)(17) | California                 | Consumer Products Group   | Frozen fruit processing, warehouse and distribution |
| Cerritos (lease)(18)   | California                 | Consumer Products Group   | Sales and administration office                     |
| Amsterdam (Lease)(19)  | The Netherlands            | International Foods Group | Sales and administrative office                     |
| Dalian (Lease)(20)     | China                      | International Foods Group | Grain processing                                    |
| Shanghai (Lease)(21)   | China                      | International Foods Group | Sales office  |
| Addis Ababa (Monthly)  | Ethiopia                   | International Foods Group | Coffee processing and warehouse                     |
| Humera (Lease)(22)     | Ethiopia                   | International Foods Group | Grain processing, warehouse and storage             |
| Middenmeer (Lease)(23) | The Netherlands            | International Foods Group | Cocoa processing (under construction)               |
| Silistra               | Bulgaria                   | International Foods Group | Grain processing (acquired December 31, 2012)       |

|    |  |    |   |
|----|--|----|---|
| 1  | Leases have an expiry date of December 2020. | 2  | Lease has an expiry date of May 2019.       |
| 3  | Lease has an expiry date of October 2017.    | 4  | Lease has an expiry date of November 2023.  |
| 5  | Lease has an expiry date of October 2015.    | 6  | Lease has an expiry date of September 2013. |
| 7  | Lease has an expiry date of December 2019.   | 8  | Lease has expiry date of January 2015.      |
| 9  | Lease has an expiry date of June 2015.       | 10 | Lease has an expiry date of December 2016.  |
| 11 | Lease has an expiry date of February 2015.   | 12 | Lease has an expiry date of April 2016.     |
| 13 | Lease has an expiry date of November 2017.   | 14 | Lease has an expiry date of May 2017.       |
| 15 | Lease has an expiry date of December 2015.   | 16 | Lease has an expiry date of December 2016.  |
| 17 | Lease has an expiry date of May 2015.        | 18 | Lease has an expiry date of August 2015.    |
| 19 | Lease has an expiry date of October 2022.    | 20 | Lease has an expiry date of August 2013.    |
| 21 | Lease has an expiry date of August 2013.     | 22 | Lease has an expiry date of November 2013.  |
| 23 | Lease has an expiry date of December 2017.   |    |   |

### Opta Minerals

Opta Minerals operates from the following major locations, which are owned unless otherwise noted.

| Location  | State/Province/<br>Country | Group         | Description |
|-----------|----------------------------|---------------|-------------|
| Waterdown | Ontario                    | Opta Minerals |             |

|                          |                |               |   |
|--------------------------|----------------|---------------|---|
|                          |                |               | Group head office, processing and distribution    |
| Brantford (Lease)(1)     | Ontario        | Opta Minerals | Distribution and packing center                   |
| Bruno de Guigues         | Quebec         | Opta Minerals | Specialty sands processing                        |
| New Orleans (Lease)(2)   | Louisiana      | Opta Minerals | Abrasives processing and distribution             |
| Norfolk                  | Virginia       | Opta Minerals | Abrasives processing and distribution             |
| Keeseville               | New York       | Opta Minerals | Garnet processing and distribution                |
| Baltimore (Lease)(3)     | Maryland       | Opta Minerals | Abrasives processing                              |
| Hardeeville              | South Carolina | Opta Minerals | Abrasives processing                              |
| Laval (Lease)(4)         | Quebec         | Opta Minerals | Minerals processing                               |
| Walkerton                | Indiana        | Opta Minerals | Minerals processing                               |
| Kosice (Lease)(5)        | Slovakia       | Opta Minerals | Minerals processing                               |
| Milan                    | Michigan       | Opta Minerals | Minerals processing                               |
| Freeport (Lease)(6)      | Texas          | Opta Minerals | Abrasives processing                              |
| Tampa (Lease)(7)         | Florida        | Opta Minerals | Abrasives processing                              |
| Romans-sur-Isere         | France         | Opta Minerals | Minerals processing                               |
| Elyria (Lease)(8)        | Ohio           | Opta Minerals | Minerals processing                               |
| Regina                   | Saskatchewan   | Opta Minerals | Minerals processing                               |
| Fernwood                 | Idaho          | Opta Minerals | Mining and abrasives processing                   |
| Coeur d Alene (Lease)(9) | Idaho          | Opta Minerals | Manufacturing, assembly, distribution and offices |

| Location              | State/Province/<br>Country | Group         | Description          |
|-----------------------|----------------------------|---------------|----------------------|
| Ermsleben             | Germany                    | Opta Minerals | Abrasives processing |
| Rodermark (Lease)(10) | Germany                    | Opta Minerals | Offices              |

|   |   |    |   |
|---|---|----|---|
| 1 | Lease has an expiry date of April 2015.     | 2  | Lease has an expiry date of December 2013.  |
| 3 | Lease has an expiry date of December 2013.  | 4  | Lease has an expiry date of February 2017.  |
| 5 | Lease is month to month.                    | 6  | Lease has an expiry date of March 2014.     |
| 7 | Lease has an expiry date of January 2014.   | 8  | Lease has an expiry date of January 2014.   |
| 9 | Lease has an expiry date of September 2018. | 10 | Lease has an expiry date of September 2013. |

### Executive Offices

Our executive head office is located at 2838 Bovaird Drive West, Brampton, Ontario, a property we own.

### Item 3. 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 Processing 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 2010 in the U.S. Bankruptcy Court, District of Colorado, Colorado Mills purchased substantially all of the assets of the joint venture.

A separate arbitration proceeding occurred between Grains and Foods and Colorado Mills to resolve direct claims each party asserted against the other. The case was arbitrated during the week of August 8, 2011 and proposed findings were filed on September 13, 2011. On January 4, 2012 the arbitrator entered an award denying Grains and Foods claims and awarding Colorado Mills \$4,816 for its breach of contract claim and \$430 for accrued interest. The Company subsequently filed a motion to vacate the arbitration award on March 30, 2012 in Prowers County District Court. Colorado Mills filed a response on April 20, 2012. The Company filed a reply on April 27, 2012. The Prowers County District Court denied the Company's motion and entered judgment on the arbitration award on July 6, 2012 in the amount of \$4,816. On July 13, 2012, the Company bonded the judgment in the amount of \$6,875, or approximately 125% of the judgment amount, to stay execution of the judgment pending the Company's filing of an appeal to the Colorado Court of Appeals. On August 20, 2012, the Company appealed the judgment to the Colorado Court of Appeals. Oral Argument for the appeal has not yet been scheduled. Although management believes the claims asserted by Colorado Mills are baseless, that the arbitrator committed prejudicial error, and that vacatur of the

award is warranted, management cannot predict whether the prospect of an unfavorable outcome in this matter is probable. As of December 29, 2012 and December 31, 2011, the Company accrued the full value of the award, together with accrued interest, pending the outcome of post-arbitration judicial proceedings.

From time to time, we are involved in litigation incident to the ordinary conduct of our business. For a discussion of certain other legal proceedings, see Note 20 of our Consolidated Financial Statements included elsewhere in this report.

**Item 4. Mine Safety Disclosures**

None.

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**Executive Officers of the Registrant**

The following is information concerning our executive officers and other significant officers as of the date of this report:

| <b>Name</b>       | <b>Position with Company</b>  |
|-------------------|---|
| Steven Bromley    | Director and Chief Executive Officer  |
| Robert McKeracher | Vice President and Chief Financial Officer  |
| Hendrik Jacobs    | President and Chief Operating Officer   |
| John Ruelle       | Chief Administrative Officer and Senior Vice President of Corporate Development and Secretary |
| Allan Routh       | Director, SunOpta Inc. and President, Grains and Foods Group                                  |

**Steven Bromley** (Age 53) serves as Chief Executive Officer and a Director of the Company. Mr. Bromley joined the Company in June 2001, was appointed President in January 2005, and subsequently Chief Executive Officer in February 2007. Mr. Bromley was appointed to the Board of Directors of SunOpta on January 26, 2007. From June 2001 through September 2003, Mr. Bromley served as the Company's Executive Vice President and Chief Financial Officer. Mr. Bromley was subsequently appointed as Chief Operating Officer and held this role until his appointment as Chief Executive Officer. In August 2012, Mr. Bromley relinquished the Presidency to Hendrik Jacobs, who joined SunOpta as President and Chief Operating Officer. Prior to joining the Company, Mr. Bromley spent over 13 years in the Canadian dairy industry in a wide range of financial and operational roles with both Natrel Inc. and Ault Foods Limited. From 1997 to 1999 he served on the Board of Directors of Natrel Inc. Mr. Bromley is a Director of most of the Company's subsidiaries, and since July 2004 has served on the Board of Directors of Opta Minerals which is approximately 66.1% owned by SunOpta.

**Robert McKeracher** (Age 36) serves as Vice President and Chief Financial Officer of the Company overseeing all financial reporting, compliance and corporate treasury activities. He previously served as Vice President of Financial Reporting for SunOpta from June 2008 until October 2011, and as Director of Financial Reporting from August 2007 to June 2008. Prior to joining the Company, Mr. McKeracher was the Manager of Business Planning and Treasury at Magna Entertainment Corp. from May 2003 to August 2007, after spending four years in public accounting in the assurance and business advisory practice at PriceWaterhouseCoopers LLP. Mr. McKeracher is a Chartered Accountant and holds a Bachelor of Commerce degree from The University of Toronto. In the past five years, Mr. McKeracher has not served on any reporting issuer's Board of Directors.

**Hendrik Jacobs** (Age 52) joined the Company in August 2012 as President and Chief Operating Officer. Mr. Jacobs brings over 20 years of international sales, marketing, innovation, strategic development and general management experience to this role. Over the previous 11 years Mr. Jacobs held a number of progressively responsible positions with Tetra Pak, the world's leading supplier of equipment and materials for the processing and packaging of liquid food products, with revenues of approximately \$12 billion in 165 markets worldwide. In his last position with Tetra Pak, Mr. Jacobs served as Cluster Vice President for North Europe with responsibility for the United Kingdom, Ireland, Scandinavia and the Baltic States. Prior to this role, he served as Managing Director Benelux with responsibility for the Netherlands, Belgium and Luxemburg, as Vice President of Strategy and Planning with responsibility for setting long term technology and product development strategies, and as Vice President of Sales for TetraPak USA. Prior to joining Tetra Pak Mr. Jacobs held a number of international sales, marketing and general management positions with PepsiCo, Royal Dutch Ahold and the Coca-Cola Company. Mr. Jacobs holds a Masters of Business Administration degree from the American Graduate School of International Management and a Bachelor of Business Administration from Oregon State University. In the past five years, Mr. Jacobs has not served on any reporting issuer's Board of Directors.

**John Ruelle** (Age 43) serves as Chief Administrative Officer and Senior Vice President of Corporate Development and Secretary. Mr. Ruelle was appointed to this position in January 2013. From October 2011 to January 2013, Mr. Ruelle served as Vice President and Chief Administrative Officer. Mr. Ruelle joined SunOpta in November 2007 as

Vice President of Finance and Administration and Chief Financial Officer of the SunOpta Grains and Foods Group, the largest operating division of SunOpta. Mr. Ruelle brought over 15 years of progressive food industry senior leadership experience with a focus on building foundational structures to achieve aggressive revenue and profitably growth through driving talent management, business processes and strategy linkage. Prior to joining SunOpta, Mr. Ruelle was Vice President of Finance and Administration, Chief Financial Officer, Treasurer and Corporate Secretary for Restaurant Technologies, Inc. where he was co-founder and managed over 30 Greenfield start-ups. Earlier in his career he held various financial and operational roles with LaserMaster Technologies and was a Certified Public Accountant with Larson Allen, LLP. Mr. Ruelle has a Bachelor of Science degree from St. John's University. In the past five years, Mr. Ruelle has not served on any reporting issuer's Board of Directors.

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**Allan Routh** (Age 62) was elected to the Board of Directors in September 1999. Mr. Routh is President of the Company's Grains and Foods Group and prior to March 2003 was President and Chief Executive Officer of the SunRich Food Group, Inc., a wholly-owned subsidiary of the Company. Mr. Routh has been involved in the natural and organic food industry and soy industry organizations since 1984. In the past five years, Mr. Routh has not served on any other reporting issuer's Board of Directors.

## PART II

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases Equity Securities**

Our common shares trade in U.S. dollars on The NASDAQ Global Select Market under the symbol **STKL**, and in Canadian dollars on the TSX under the symbol **SOY**.

The following table indicates the high and low sales prices for our common shares for each quarterly period during the past two fiscal years on the NASDAQ and TSX. The prices shown are representative inter-dealer prices, do not include retail mark-ups, markdowns or commissions and do not necessarily reflect actual transactions.

|                    | NASDAQ       |             | TSX              |                 |
|--------------------|--------------|-------------|------------------|-----------------|
|                    | High<br>(\$) | Low<br>(\$) | High<br>(Cdn \$) | Low<br>(Cdn \$) |
| <b>Fiscal 2012</b> |              |             |                  |                 |
| First Quarter      | 5.56         | 4.13        | 5.52             | 4.21            |
| Second Quarter     | 6.20         | 5.32        | 6.30             | 5.32            |
| Third Quarter      | 6.71         | 4.86        | 6.55             | 4.92            |
| Fourth Quarter     | 6.60         | 5.27        | 6.50             | 5.35            |
| <b>Fiscal 2011</b> |              |             |                  |                 |
| First Quarter      | 8.53         | 6.20        | 8.44             | 6.10            |
| Second Quarter     | 8.58         | 6.50        | 8.39             | 6.37            |
| Third Quarter      | 7.12         | 4.63        | 6.85             | 4.51            |
| Fourth Quarter     | 5.80         | 4.40        | 5.95             | 4.70            |

As of December 29, 2012, we had approximately 639 shareholders of record. We have never paid cash dividends on our common stock and do not anticipate paying dividends in the foreseeable future. Our future dividend policy will depend on our earnings, capital requirements and financial condition, requirements of the financial agreements to which we are then a party and other factors considered relevant by our Board of Directors. Additionally, the terms of our existing credit facilities restrict our ability to pay dividends to shareholders. The receipt of cash dividends by U.S. shareholders from a Canadian corporation, such as we are, may be subject to Canadian withholding tax.

**Equity Compensation Plan Information**

The following table provides information as of December 29, 2012 with respect to our common shares that may be issued under existing equity compensation plans.

| <b>Plan Category</b>                                    | <b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)</b> | <b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b> | <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plan (Excluding Securities Reflected in Column (a)) (c)</b> |
|---|---|--|---|
| Equity compensation plans approved by security holders: |   |  |   |
| Stock option plan                                       | 3,687,500   | \$ 5.46  | 1,704,541   |
| Employee stock purchase plan                            | N/A   | N/A  | 1,443,986   |
| Warrants <sup>(1)</sup>                                 | 850,000   | 4.56   | -   |
| <b>Total</b>  | <b>4,537,500</b>  | <b>\$ 5.29</b>   | <b>3,148,527</b>  |

(1) Effective August 7, 2012, we registered 850,000 of our common shares for issuance upon the exercise of outstanding warrants that were previously issued in connection with services provided under the terms of an advisory services agreement dated January 22, 2010.

**Shareholder Return Performance Graph**

This performance graph shall not be deemed filed for purposes of Section 18 of the Exchange Act or incorporated by reference into any filing of SunOpta under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following graph compares the five-year cumulative shareholder return on our common shares to the cumulative total return of the S&P/TSX Composite and the NASDAQ Industrial Indices for the period which commenced December 31, 2007.

|                         | <u>2007</u> | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| SunOpta Inc.            | 100.00      | 11.76       | 25.17       | 58.58       | 36.10       | 41.87       |
| Nasdaq Industrial Index | 100.00      | 54.62       | 80.21       | 100.25      | 99.52       | 116.71      |
| S&P/TSX Composite       | 100.00      | 64.97       | 84.91       | 97.18       | 86.42       | 89.03       |

Assumes that \$100.00 was invested in our common shares and in each Index on December 31, 2007.

**Item 6. Selected Financial Data**

We have completed a number of acquisitions and divestitures over the five fiscal periods presented below. For a listing of the acquisitions completed by SunOpta Foods and Opta Minerals, refer to Part I, Item 1 of this report entitled Business. In addition, the pro forma revenues, pro forma earnings (loss) attributable to SunOpta Inc., and pro forma basic and diluted earnings (loss) per share are presented in Note 2 of the Consolidated Financial Statements contained in Item 8 of this report.

The following information for fiscal years 2012, 2011 and 2010 has been summarized from our Consolidated Financial Statements. The information set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and related notes to fully understand the factors that may affect the comparability of the information presented below.

|  | 2012 <sup>(1), (2)</sup> | 2011 <sup>(1), (3)</sup> | 2010 <sup>(1), (4)</sup> | 2009 <sup>(1)</sup>    | 2008 <sup>(1), (5)</sup> |
|--|--------------------------|--------------------------|--------------------------|------------------------|--------------------------|
|  | \$                       | \$                       | \$                       | \$                     | \$                       |
| Revenues   | 1,091,064                | 1,019,871                | 831,677                  | 753,224                | 796,774                  |
| Earnings (loss) from continuing operations                   | 22,968                   | 16,230 <sup>(6)</sup>    | 16,635 <sup>(7)</sup>    | (4,308) <sup>(8)</sup> | (15,099) <sup>(9)</sup>  |
| Basic earnings (loss) per share from continuing operations   | 0.35                     | 0.25                     | 0.26                     | (0.07)                 | (0.23)                   |
| Diluted earnings (loss) per share from continuing operations | 0.34                     | 0.24                     | 0.25                     | (0.07)                 | (0.23)                   |
| Total assets   | 707,310                  | 631,503                  | 609,300                  | 551,290                | 581,047                  |
| Bank indebtedness  | 131,061                  | 109,718                  | 75,910                   | 63,481                 | 67,164                   |
| Long-term debt (including current portion)                   | 58,198                   | 52,264                   | 64,732                   | 87,189                 | 111,527                  |
| Long-term liabilities (including current portion)            | 7,015                    | 6,581                    | 7,089                    | 3,443                  | 6,379                    |
| <b>Exchange rates<sup>(10)</sup></b>                         |                          |                          |                          |                        |                          |
| Closing  | 0.9965                   | 1.0170                   | 0.9946                   | 1.0510                 | 1.2180                   |
| Average  | 1.0000                   | 0.9900                   | 1.0300                   | 1.1415                 | 1.0660                   |

- (1) Reflects the reclassification of the revenues and expenses of Purity Life Natural Health Products (sold June 2012) to discontinued operations.
- (2) Includes the results of operations of WGI Heavy Metals, Incorporated (acquired August 2012) and Babco Industrial Corp. (acquired February 2012) from the respective dates of acquisition.
- (3) Includes the results of operations of Inland RC, LLC (acquired November 2011) and Lorton's Fresh Squeezed Juices, Inc. (acquired August 2011) from the respective dates of acquisition.
- (4) Includes the results of operations of Edner of Nevada, Inc. (acquired December 2010) and Dahlgren & Company, Inc. (acquired November 2010) from the respective dates of acquisition.
- (5) Includes the results of operations of The Organic Corporation B.V. (acquired April 2008) from the date of acquisition.
- (6) Includes a charge for the impairment of long-lived assets of \$358 and a gain on sale of assets of \$2,872.

- (7) Includes a charge for the impairment of long-lived assets of \$7,549.
- (8) Includes a charge for the impairment of goodwill of \$8,841.
- (9) Includes a charge for the impairment of goodwill of \$10,154.
- (10) Represents the rate of exchange for the U.S. dollar, expressed in Canadian dollars, based on the Bank of Canada exchange rates.

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## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) section provides analysis of our operations and financial position for the fiscal period ended December 29, 2012 and includes information available to March 6, 2013, unless otherwise indicated herein. It is supplementary information and should be read in conjunction with the Consolidated Financial Statements included elsewhere in this report.

Certain statements contained in this MD&A may constitute forward-looking statements as defined under securities laws. Forward-looking statements may relate to our future outlook and anticipated events or results and may include statements regarding our future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives. In some cases, forward-looking statements can be identified by terms such as anticipate , estimate , intend , project , potential , continue , believe , expect , should , might , plan , will , may , predict , or other similar expressions concerning matters that are not historical. 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 in the Risk Factors section at Item 1A of this 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 noted herein, all dollar amounts in this MD&A are expressed in thousands of U.S. dollars, except per share amounts.

### **Overview**

We operate in the following two industry segments:

- SunOpta Foods, which accounted for approximately 88% of fiscal 2012 revenues, sources, processes, packages and markets a wide range of natural, organic and specialty raw materials, ingredients and packaged food products, with a focus on soy, corn, sunflower, fruit, fiber and other natural and organic food products; and
- Opta Minerals, which accounted for approximately 12% of fiscal 2012 revenues, processes, distributes and recycles industrial minerals, silica-free abrasives, and specialty sands for use in the steel, foundry, loose abrasive cleaning, and municipal water filtration industries.

For a more detailed description of our operating groups and their businesses, please see the Business section at Item 1 of the Form 10-K.

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

In February 2012, we undertook a process to streamline the operations and organizational structure of SunOpta Foods 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 Development ), the International Foods Group comprises solely our international sourcing and supply operations (Tradin Organic). The Grains and Foods Group remained unchanged.

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SunOpta Foods currently consists of four operating segments: the Grains and Foods Group, the Ingredients Group, the Consumer Products Group, and the International Foods Group. The segmented operations information provided in this MD&A for the current and comparative periods reflects these realigned operating segments.

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 reduced annual costs by approximately \$3,000 before tax. In addition, we have recently taken steps towards the closure of the Chelmsford, Massachusetts office of the Ingredients Group, which involves the relocation of certain back-office functions to our U.S. corporate office located in Edina, Minnesota. We expect that this office closure will result in annualized savings of approximately \$1,200 once fully implemented. The costs associated with the closure and relocation are not expected to be material.

## **Business Development**

### ***Cocoa Processing Facility***

The International Foods Group is constructing a cocoa processing facility in Middenmeer, the Netherlands, which will specialize in the processing of organic and fair trade certified cocoa beans into derivatives, such as organic cocoa powder, butter, and liquor. All cocoa beans processed at this facility are expected to be sourced internally through Tradin Organic. The facility will provide needed capacity to accommodate our organic and specialty cocoa business that is currently processed by third parties. We expect the facility will be operational in the third quarter of 2013. Once fully commissioned, it will employ approximately 30 personnel and have an annual processing capacity of approximately 9,000 metric tons of raw cocoa.

### ***Bulgarian Processing Operation***

On December 31, 2012, we acquired a grains handling and processing facility operated as the Organic Land Corporation OOD ( OLC ) and located in Silistra, Bulgaria. The purchase price was €3,200, plus an earn-out based on pre-determined earnings targets over a three-year period. We have been sourcing non-genetically modified ( non-GMO ) sunflower kernel from OLC since late 2011. The facility is located near a protected and chemical free agricultural area, which produces organic products including sunflower, flax seed, corn, barley, and soybeans. This acquisition diversifies our non-GMO and organic sunflower processing operations and should allow us to expand our capabilities into other organic products grown in the region. The Bulgarian processing operation is included in the International Foods Group.

### ***Pouch Filling Operation***

In September 2012, we completed the commissioning of two flexible re-sealable pouch filling lines at a new facility located in Allentown, Pennsylvania. As the first two lines are expected to reach capacity through committed long-term contracts, we have initiated expansion plans to install an additional two pouch filling lines at the Allentown facility, which we expect to be operational in the third quarter of 2013. We entered the flexible, re-sealable pouch business in late 2011 with the installation of two pouch filling lines at a third-party production facility in California. The flexible re-sealable pouch is applicable to a wide range of product categories including natural and organic fruit and vegetable snacks, apple sauces, tomato products, baby food, yogurts, toppings and beverages.

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

In August 2012, Opta Minerals paid \$14,098 in cash to acquire approximately 94% of the outstanding common shares of WGI Heavy Metals, Incorporated ( WGI ). In November 2012, Opta Minerals completed the acquisition of the remaining outstanding common shares of WGI for cash consideration of \$870. WGI 's principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure water



jet cutting machine replacement parts and components. This acquisition complemented Opta Minerals' existing product portfolio and expands product line offerings to new and existing customers.

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***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 based on the achievement of certain earnings targets over the next five years. Babco is an industrial processor of petroleum coke. This acquisition complemented 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 financial 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 of \$2,500, plus potential additional consideration pursuant to an earn-out based on pre-determined earnings targets over a four-year period. Lorton's is an integrated producer of a variety of citrus based products in both industrial and packaged formats. This acquisition expanded our integrated operations into the extracting, processing and packaging of citrus-based ingredients through consumer packaged products, and provided increased capacity for future growth and expansion. Lorton's operations are included in the Consumer Products Group.

***Edner of Nevada, Inc.***

In December 2010, we completed the acquisition of the assets and business of Edner of Nevada, Inc. ( Edner ) for cash consideration of \$4,000, plus an earn-out based on pre-determined revenue targets over a five-year period. Edner produces a wide variety of nutritious portable foods such as nutrition bars and grains-based snack bars serving the fast growing wholesome and convenient healthy snacks category from its 104,000 square foot facility, located in Carson City, Nevada. Edner's operations are included in the Consumer Products Group.

***Dahlgren & Company Inc.***

In November 2010, we completed the acquisition of Dahlgren & Company Inc. ( Dahlgren ) for cash consideration of \$46,303, plus an earn-out based on pre-determined earnings targets over a two-year period. Dahlgren is an integrated processor and global supplier of confection sunflower seed products including in-shell and kernel products, roasted sunflower and soy nuts, bird food, hybrid seed and other products. Dahlgren serves customers in the U.S. and Canada, as well as Europe, Asia, Australia and South America. Dahlgren's operations are included in the Grains and Foods Group.

**Strategic Divestitures**

***Purity Life Natural Health Products***

On June 5, 2012, we completed the sale of Purity, our Canadian natural health products distribution business, for cash consideration of \$13,443 (Cdn \$14,000) 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 completed our exit from all non-core distribution businesses. The operating results of Purity have been reclassified to discontinued operations. Purity was formerly part of the International Foods Group.

***Colorado Sun Oil Processing LLC***

In August 2011, we disposed of our interest in the Colorado Sun Oil Processing LLC ( CSOP ) joint venture to Colorado Mills, LLC ( Colorado Mills ) pursuant to the outcome of related bankruptcy proceedings. The operating results of CSOP have been reclassified to discontinued operations, which included a pre-tax charge of \$5,246 in the fourth quarter of 2011 related to an arbitration ruling in favor of Colorado Mills in respect of the joint venture agreement, as well as legal fees and interest costs incurred in connection with the ongoing arbitration proceedings (see note 20 to the interim consolidated financial statements). CSOP was part of the Grains and Foods Group.

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### ***Frozen Fruit Processing Assets***

In June 2011, we completed the sale of land and buildings in Irapuato, Mexico to parties related to Fruvemex Mexicali, S.A. de C.V. ( Fruvemex ). In addition, in April 2011, we sold our frozen fruit processing assets in Rosarito and Irapuato, Mexico to Fruvemex. As part of this transaction we entered into a strategic raw material supply agreement with Fruvemex. These assets were included in the former Fruit Group. Aggregate consideration related to these transactions amounted to \$5,650. In May 2011, the former Fruit Group also completed the sale of frozen fruit processing equipment located in Salinas, California for cash consideration of \$1,773.

### ***SunOpta BioProcess Inc.***

In August 2010, we completed the sale of SunOpta BioProcess Inc. ( SunOpta BioProcess ) to Mascoma Canada Inc., a wholly owned subsidiary of Mascoma Corporation ( Mascoma ), in exchange for a combination of preferred shares, common shares and warrants of Mascoma valued at \$50,925, with a net value of \$33,345 after settling the preferred share liability with former SunOpta BioProcess shareholders. The combination of the two companies brought together SunOpta BioProcess fiber preparation and pretreatment technology with Mascoma's consolidated bioprocessing technology, to create a company with comprehensive capabilities for converting non-food cellulose (wood chips, energy crops and organic solid waste) into ethanol and high value co-products. SunOpta BioProcess represented the former SunOpta BioProcess operating segment, which was eliminated with this sale.

### ***Canadian Food Distribution***

In June 2010, we completed the sale of our Canadian Food Distribution assets to UNFI Canada, Inc., a wholly-owned subsidiary of United Natural Foods, Inc., for cash consideration of \$65,809 (Cdn \$68,000). The divestiture of the Canadian Food Distribution assets was an important step in our strategy to focus on our core food manufacturing platform. The Canadian Food Distribution assets formed part of the former Distribution Group operating segment, which was eliminated with this sale.

### **Commodity Prices**

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

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( U.S. GAAP ) requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. The estimates and assumptions made require us to exercise our judgment and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. We continually evaluate the information that forms the basis of our estimates and assumptions as our business and the business environment generally changes. The use of estimates is pervasive throughout our financial statements. The following

are the accounting estimates which we believe to be most important to our business.

***Revenue Recognition***

We recognize revenue at the time of delivery of the product or service and when all of the following have occurred: a sales agreement is in place; price is fixed or determinable; and collection is reasonably assured. Consideration given to customers such as value incentives, rebates, early payment discounts and other discounts are recorded as reductions to revenues at the time of sale.

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### ***Accounts Receivable***

Our accounts receivable primarily includes amounts due from our customers. The carrying value of each account is carefully monitored with a view to assessing the likelihood of collection. An allowance for doubtful accounts is provided for as an estimate of losses that could result from customers defaulting on their obligation to us. In assessing the amount of reserve required, a number of factors are considered including the age of the account, the credit-worthiness of the customer, payment terms, the customer's historical payment history and general economic conditions. Because the amount of the reserve is an estimate, the actual amount collected could differ from the carrying value of the amount receivable. Note 5 of the Consolidated Financial Statements provides an analysis of the changes in the allowance for doubtful accounts.

### ***Inventory***

Inventory is our largest current asset and consists primarily of raw materials and finished goods held for sale. Inventories are valued at the lower of cost, valued on a weighted-average cost basis, or estimated net realizable value except for certain grain inventories that are carried at market value. In order to determine the value of inventory at the balance sheet date, we evaluate a number of factors to determine the adequacy of provisions for inventory. These factors include the age of inventory, the amount of inventory held by type, future demand for products, and the expected future selling price we expect to realize by selling the inventory. Our estimates are judgmental in nature and are made at a point in time, using available information, expected business plans, and expected market conditions. As a result, the actual amount received on sale could differ from our estimated value of inventory. We perform a review of our inventory by reporting unit and product line on a quarterly basis. Note 6 of the Consolidated Financial Statements provides an analysis of the movements in the inventory reserve.

### ***Grower Advances***

Prepaid and other current assets include advances to growers required to secure future delivery of product. An allowance against realizing these advances is recorded when it is determined that we will not recover the advances, due to default on scheduled repayment terms, or general economic and market conditions. Advances to growers are typically made at the start of the growing season. We monitor these advances for adherence to agreed upon terms, assess the status of the crops being grown, and evaluate general economic and market conditions in order to determine if the collection of the advance is at risk.

### ***Intangible Assets***

We evaluate amortizable intangible assets acquired through business combinations for impairment annually, and more frequently if events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. Our evaluation is based on an assessment of potential indicators of impairment, such as an adverse change in the business climate that could affect the value of an asset, such as the loss of a significant customer; current or forecasted operating or cash flow losses that demonstrate continuing losses associated with the use of an asset, such as the introduction of a competing product that results in a significant loss of market share; and a current expectation that, more likely than not, an intangible asset will be disposed of before the end of its previously estimated useful life, such as a plan to exit a product line or business in the near term.

Impairment exists when the carrying amount of an amortizable intangible asset is not recoverable and its carrying value exceeds its estimated fair value. A discounted cash flow analysis is typically used to determine fair value using estimates and assumptions that market participants would apply. Some of the estimates and assumptions inherent in a discounted cash flow model include the amount and timing of the projected future cash flows, and the discount rate used to reflect the risks inherent in the future cash flows. A change in any of these estimates and assumptions could produce a different fair value, which could have a material impact on our results of operations. In addition, an intangible asset's expected useful life can increase estimation risk, as longer-lived assets necessarily require

longer-term cash flow forecasts, which for some of our intangible assets can be in excess of 20 years. In connection with an impairment evaluation, we also reassess the remaining useful life of the intangible asset and modify it, as appropriate.

There was no indication of impairment of intangible assets based on the evaluation done for fiscal 2012. In fiscal 2011, we recorded an impairment charge of \$6,025 related to write-down of intangible assets of Purity, which amount has been reclassified to discontinued operations as a result of the divestiture of Purity, and \$270 related to intangible assets of our frozen foods operation. In fiscal 2010, we recorded an intangible asset impairment charge of \$454 related to sale of our fruit processing operations in Mexico and California, as well as a charge of \$2,355 in connection with the closure of our brokerage operation in Chicago Illinois.

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### ***Goodwill***

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized but is tested at least annually for impairment at the reporting unit level.

Reporting units are operating segments or components of operating segments for which discrete financial information is available. To evaluate goodwill, the fair value of each reporting unit is compared to its carrying value. Where the carrying value is greater than the fair value, the implied fair value of the reporting unit goodwill is determined by allocating the fair value of the reporting unit to all the assets and liabilities of the reporting unit with any remainder being allocated to goodwill. The implied fair value of the reporting unit goodwill is then compared to the carrying value of that goodwill to determine whether an impairment loss exists. Any impairment loss is recognized in earnings.

We measure the fair value of reporting units using discounted cash flows. Because the business is assumed to continue in perpetuity, the discounted cash flows include a terminal value. The first year or base year in the calculation of the discounted cash flow model is based on actual results in each component, adjusted for unusual and non-recurring items. Future years' cash flows to perpetuity are forecasted based on projected revenue growth, and our planned business strategies in future periods that would impact actual cash flows reported in the base year. Examples of planned strategies would include a plant or line expansion at an existing facility, a reduction of working capital at a specific location, and price increases or cost reductions within the reporting unit. The revenue growth and planned business strategies for future periods incorporated into the discounted cash flow model reflect our long-term view of the market. The discount rate is based on a reporting unit's targeted weighted-average cost of capital, which is not necessarily the same as our weighted-average cost of capital. These assumptions are subject to change and are impacted by our ability to achieve our forecasts and by economic conditions that may impact future results and result in projections not being attained. Each year we re-evaluate the assumptions used to reflect changes in the business environment.

There was no indication of goodwill impairment based on the testing done for fiscal years 2012 and 2011. In fiscal 2010, we recorded an impairment charge of \$1,654 related to goodwill of the former Natural Health Products reporting unit, which amount has been reclassified to discontinued operations as a result of the divestiture of Purity. Note 9 of the Consolidated Financial Statements provides a summary of the critical assumptions used in the fiscal 2010 annual impairment test.

### ***Acquisitions***

Business acquisitions are accounted for by the acquisition method of accounting. Under this method, the purchase price is allocated to the assets acquired and the liabilities assumed based on the fair value at the time of the acquisition. Any excess purchase price over the fair value of identifiable assets acquired and liabilities assumed is recorded as goodwill. The assumptions and estimates with respect to determining the fair value of intangible assets acquired generally requires the most judgment, and include estimates of future profitability, and/or customer and supplier based attrition, income tax rates and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of the acquired assets and liabilities assumed could impact the amounts assigned to assets, liabilities and goodwill in the purchase price allocation. Future net earnings can be affected as a result of changes in these estimates resulting in an asset or goodwill impairment. In addition, amortization periods are subjective based on expected useful lives and chosen rates. We determine the useful lives of intangible assets based on a number of factors, such as legal, regulatory, or contractual provisions that may limit useful life, and we consider the effects of obsolescence, anticipated demand, existence or absence of competition, and other economic factors on useful life. Note 2 of the Consolidated Financial Statements provide information with respect to businesses acquired and note 9 outlines annual amortization expense relating to these intangibles.



Some acquisitions involve contingent consideration to be potentially paid based on the achievement of specified future financial targets by the acquiree. Acquisition-related contingent consideration is initially recognized as a liability at estimated fair value and re-measured each reporting period with changes in the estimated fair value recognized in earnings. These estimates of fair value involve uncertainties as they include assumptions about the likelihood of achieving the specified financial targets, projections of future financial performance, and assumed discount rates. A change in any of these assumptions could produce a different fair value, which could impact the amounts assigned to assets and liabilities in the purchase price allocation, or the amounts recognized in earnings to reflect subsequent changes in the carrying value of the liability. Note 4 of the Consolidated Financial Statements includes disclosures regarding the estimated fair value of contingent consideration.

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### ***Contingencies***

We make estimates for payments that are contingent on the outcome of uncertain future events. These contingencies include accrued but unpaid bonuses, tax-related matters, and claims arising in connection with legal proceedings. In establishing our estimates, we consider historical experience with similar contingencies and the progress of each contingency, as well as the recommendations of internal and external advisors and legal counsel. We re-evaluate all contingencies as additional information becomes available; however, given the inherent uncertainties, the ultimate amount paid could differ from our estimates.

### ***Income Taxes***

We are liable for income taxes in the U.S., Canada, and other jurisdictions where we operate. Our effective tax rate differs from the statutory tax rate and will vary from year to year primarily as a result of numerous permanent differences, investment and other tax credits, the provision for income taxes at different rates in foreign and other provincial jurisdictions, enacted statutory tax rate increases or reductions in the year, the benefit of cross-jurisdictional financing structures, changes due to foreign exchange, changes in valuation allowance based on our recoverability assessments of deferred tax assets, and favorable or unfavorable resolution of various tax examinations.

In making an estimate of our income tax liability, we first assess which items of income and expense are taxable in a particular jurisdiction. This process involves a determination of the amount of taxes currently payable as well as the assessment of the effect of temporary timing differences resulting from different treatment of items for accounting and tax purposes. These differences in the timing of the recognition of income or the deductibility of expenses result in deferred income tax balances that are recorded as assets or liabilities as the case may be on our balance sheet. We also estimate the amount of valuation allowance to maintain relating to loss carry forwards and other balances that can be used to reduce future taxes payable. This judgment is based on forecasted results in the jurisdiction and certain tax planning strategies and as a result actual results may differ from forecasts. We assess the likelihood of the ultimate realization of these tax assets by looking at the relative size of the tax assets in relation to the profitability of the businesses and the jurisdiction to which they can be applied, the number of years based on management's estimate it will take to use the tax assets and any other special circumstances. If different judgments had been used, our income tax liability could have been different from the amount recorded. In addition, the taxing authorities of those jurisdictions upon audit may not agree with our assessment. Note 15 of the Consolidated Financial Statements provides an analysis of the changes in the valuation allowance and the components of our deferred tax assets.

While we believe we have adequately provided for all tax positions, amounts asserted by taxing authorities could differ from our accrued position. Accordingly, additional provisions on federal, provincial, state and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved.

### ***Stock-Based Compensation***

We maintain a stock option plan under which incentive stock options may be granted to employees and non-employee directors. At each grant date, we are required to estimate a number of inputs, such as the estimated life of the option, future stock price volatility, and the forfeiture rate used in the Black-Scholes option-pricing model to determine a fair value for the options granted to employees or non-employee directors. Prior to fiscal 2012, the expected life and forfeiture rate of a stock option was based on historical exercise and forfeiture patterns; however, the expected life of stock options granted in fiscal 2012 was determined using the simplified method, as we changed the term of our stock option grants from six years to 10 years and, as a result, our historical exercise data no longer provided a reasonable basis upon which to estimate expected life. Future stock price volatility is based on historical volatility of our common shares over the expected life of the stock option. Once determined at the grant date, the fair value of the stock option award is recorded over the vesting period of the options granted. Refer to note 13 of the Consolidated Financial Statements for disclosure of the inputs used to determine the fair value of stock-based compensation.



**Results of Fiscal 2012 Operations Compared With Results of Fiscal 2011 Operations**

|   | December 29, 2012 | December 31, 2011 | Change        | Change        |
|---|-------------------|-------------------|---------------|---------------|
|   | \$                | \$                | \$            | %             |
| <b>Revenue</b>  |                   |                   |               |               |
| SunOpta Foods   | 964,413           | 926,751           | 37,662        | 4.1%          |
| Opta Minerals   | 126,651           | 93,120            | 33,531        | 36.0%         |
| <b>Total Revenue</b>  | <b>1,091,064</b>  | <b>1,019,871</b>  | <b>71,193</b> | <b>7.0%</b>   |
| <b>Gross Profit</b>   |                   |                   |               |               |
| SunOpta Foods   | 107,032           | 100,498           | 6,534         | 6.5%          |
| Opta Minerals   | 26,705            | 20,746            | 5,959         | 28.7%         |
| <b>Total Gross Profit</b>                                       | <b>133,737</b>    | <b>121,244</b>    | <b>12,493</b> | <b>10.3%</b>  |
| <b>Segment Operating Income (Loss)<sup>(1)</sup></b>            |                   |                   |               |               |
| SunOpta Foods   | 42,911            | 34,958            | 7,953         | 22.8%         |
| Opta Minerals   | 10,062            | 7,577             | 2,485         | 32.8%         |
| Corporate Services  | (6,001)           | (8,766)           | 2,765         | 31.5%         |
| <b>Total Segment Operating Income</b>                           | <b>46,972</b>     | <b>33,769</b>     | <b>13,203</b> | <b>39.1%</b>  |
| Other expense (income), net                                     | 2,194             | (2,832)           | 5,026         | 177.5%        |
| <b>Earnings from continuing operations before the following</b> | <b>44,778</b>     | <b>36,601</b>     | <b>8,177</b>  | <b>22.3%</b>  |
| Interest expense, net   | 9,333             | 8,839             | 494           | 5.6%          |
| Provision for income taxes                                      | 10,934            | 9,896             | 1,038         | 10.5%         |
| Earnings from continuing operations                             | 24,511            | 17,866            | 6,645         | 37.2%         |
| Earnings attributable to non-controlling interests              | 1,543             | 1,636             | (93)          | -5.7%         |
| Earnings (loss) from discontinued operations, net of taxes      | 448               | (11,005)          | 11,453        | 104.1%        |
| Gain on sale of discontinued operations, net of taxes           | 808               | 71                | 737           | 1038.0%       |
| <b>Earnings attributable to SunOpta Inc.</b>                    | <b>24,224</b>     | <b>5,296</b>      | <b>18,928</b> | <b>357.4%</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. 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<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | Consol-<br>idated<br>\$ |
|--|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|------------------------|------------------------|-----------------------------|-------------------------|
| <b>December<br/>29, 2012</b>   |                                    |                            |                                     |                                       |                        |                        |                             |                         |
| Segment<br>operating<br>income<br>(loss)                                       | 32,796                             | 3,464                      | (982)                               | 7,633                                 | 42,911                 | 10,062                 | (6,001)                     | 46,972                  |
| Other<br>income<br>(expense),<br>net   | 348                                | (248)                      | (131)                               | -                                     | (31)                   | (1,175)                | (988)                       | (2,194)                 |
| Earnings<br>(loss) from<br>continuing<br>operations<br>before the<br>following | 33,144                             | 3,216                      | (1,113)                             | 7,633                                 | 42,880                 | 8,887                  | (6,989)                     | 44,778                  |

|  |        |       |         |       |        |       |         |        |
|--|--------|-------|---------|-------|--------|-------|---------|--------|
| <b>December<br/>31, 2011</b>   |        |       |         |       |        |       |         |        |
| Segment<br>operating<br>income<br>(loss)                                       | 22,813 | 7,083 | (3,978) | 9,040 | 34,958 | 7,577 | (8,766) | 33,769 |
| Other<br>income<br>(expense),<br>net   | 114    | (54)  | 2,887   | -     | 2,947  | -     | (115)   | 2,832  |
| Earnings<br>(loss) from<br>continuing<br>operations<br>before the<br>following | 22,927 | 7,029 | (1,091) | 9,040 | 37,905 | 7,577 | (8,881) | 36,601 |

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 year ended December 29, 2012 increased by 7.0% to \$1,091,064 from \$1,019,871 for the year ended December 31, 2011. Revenues in SunOpta Foods increased by 4.1% to \$964,413 and revenues in Opta Minerals increased by 36.0% to \$126,651. 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. Contributing to the increase in revenues within SunOpta Foods were higher sales volumes of value-added aseptic beverages and other consumer packaged goods, and strong demand and higher pricing for corn and organic feed products due to the effects of the North American drought. Those factors were partially offset by lower revenues in our European ingredients operation due to economic uncertainty and a weaker euro relative to the

U.S. dollar, as well as lower volumes and pricing for fiber and fruit ingredient products. At Opta Minerals, the increase in revenues primarily reflected the incremental revenues of Babco and WGI, which were acquired in fiscal 2012.

Gross profit increased \$12,493, or 10.3%, to \$133,737 for the year ended December 29, 2012, compared with \$121,244 for the year ended December 31, 2011. As a percentage of revenues, gross profit for the year ended December 29, 2012 was 12.3% compared to 11.9% for the year ended December 31, 2011, an increase of 0.4%. 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. In addition, we generated stronger margins on sales of corn and organic feedstuffs as a result of higher pricing and favorable costing relating to inventory carried over from 2011. Negatively impacting gross profit percentage for the year ended December 29, 2012 were reduced efficiencies in the Ingredients Group due to lower production volumes; unfavorable product mix and higher production costs at our healthy snacks operation; and operating losses at our juice extraction and packaging operation. In addition, we incurred pre-production costs of \$1,270 in fiscal 2012, related to the new Allentown pouch filling operation that was fully commissioned in September 2012.

Total segment operating income for the year ended December 29, 2012 increased by \$13,203, or 39.1%, to \$46,972, compared with \$33,769 for the year ended December 31, 2011. As a percentage of revenue, segment operating income was 4.3% for the year ended December 29, 2012, compared with 3.3% for the year ended December 31, 2011. The increase in segment operating income at SunOpta Foods reflected the improved performance of the aseptic beverages and grains-based businesses including sunflower, and gross margin and cost structure improvements at our frozen foods operation, partially offset by declines in the Ingredients Group and healthy snacks operation. The increase in segment operating income at Opta Minerals primarily reflected the incremental contribution from Babco and WGI, partially offset by a \$945 bad debt provision recorded in the second quarter of 2012, related to the bankruptcy filing of a large steel products customer. Also contributing to the increase in segment operating income were lower employee compensation-related costs, as a result of rationalization efforts undertaken in the first quarter of 2012 to streamline operations and improve efficiencies within SunOpta Foods, and the favorable impact of foreign exchange movements for the Canadian dollar and euro relative to the U.S. dollar.

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

Other expense for the year ended December 29, 2012 of \$2,194 included accrued severance of \$795 payable to a former executive officer and other employee severances of \$500 related to our rationalization efforts, as well as transaction and rationalization costs incurred by Opta Minerals in connection with the acquisitions of WGI and Babco. Other income of \$2,832 for the year ended December 31, 2011 included a \$2,872 gain on the sale of frozen food assets located in Mexico.

The increase in interest expense of \$494 to \$9,333 for the year ended December 29, 2012, compared with \$8,839 for the year ended December 31, 2011, reflected an increase in long-term debt at Opta Minerals in connection with the WGI and Babco acquisitions.

The provision for income tax for the year ended December 29, 2012 was \$10,934, or 30.8% of earnings before taxes, compared with \$9,896, or 35.6% of earnings before taxes, for the year ended December 31, 2011. The reduction in the effective tax rate reflected the impacts of changes in enacted tax rates and the realizability of deferred tax assets recognized in fiscal 2012.

Earnings from continuing operations for the year ended December 29, 2012 were \$24,511, as compared to \$17,866 for the year ended December 31, 2011, an increase of \$6,645 or 37.2% . Diluted earnings per share from continuing operations were \$0.34 for the year ended December 29, 2012, compared with \$0.24 for the year ended December 31, 2011.

Earnings attributable to non-controlling interests for the year ended December 29, 2012 were \$1,543, compared with earnings of \$1,636 for the year ended December 31, 2011. The \$93 decrease reflected lower earnings in the speciality coffee operation of a less-than-wholly-owned subsidiary, partially offset by an increase in earnings at Opta Minerals, including the incremental contribution from Babco.

Earnings from discontinued operations, net of income taxes, of \$448 for the year ended December 29, 2012 reflected the results of operations of Purity, as well as proceeds of \$333 received on final settlement of the CSOP bankruptcy proceedings with Colorado Mills, partially offset by legal fees and interest costs incurred relating to the CSOP arbitration proceedings. In addition, we recognized a gain on sale of Purity of \$808 in fiscal 2012. Loss from discontinued operations, net of income taxes, of \$11,005 for the year ended December 31, 2011 reflected losses from the operations of Purity and CSOP, including the \$5,246 pre-tax charge related to the arbitration ruling in favor of Colorado Mills, partially offset by a gain on sale of CSOP to Colorado Mills of \$71.

On a consolidated basis, we realized earnings of \$24,224 (diluted earnings per share of \$0.36) for the year ended December 29, 2012, compared with earnings of \$5,296 (diluted earnings per share of \$0.08) for the year ended December 31, 2011.

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

| For the year ended | December 29, 2012 | December 31, 2011 | Change | % Change |
|--------------------|-------------------|-------------------|--------|----------|
| Revenue            | 964,413           | 926,751           | 37,662 | 4.1%     |
| Gross Margin       | 107,032           | 100,498           | 6,534  | 6.5%     |
| Gross Margin %     | 11.1%             | 10.8%             |        | 0.3%     |
| Operating Income   | 42,911            | 34,958            | 7,953  | 22.8%    |
| Operating Income % | 4.4%              | 3.8%              |        | 0.6%     |

SunOpta Foods contributed \$964,413 or 88.4% of consolidated revenue for the year ended December 29, 2012 compared to \$926,751 or 90.9% of consolidated revenues for the year ended December 31, 2011, an increase of \$37,662. Revenues in SunOpta Foods increased 4.1% compared to the year ended December 29, 2012. 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 consumer packaged food product categories, offset by decreased volumes of fiber and fruit ingredients, and lower demand in Europe. The table below explains the increase in revenue by group for SunOpta Foods:

| <b>SunOpta Foods Revenue Changes</b>         |                  |
|--|------------------|
| Revenue for the year ended December 31, 2011 | \$926,751        |
| Increase in the Grains and Foods Group       | 45,464           |
| Decrease in the Ingredients Group            | (8,530)          |
| Increase in the Consumer Products Group      | 15,783           |
| Decrease in the International Foods Group    | (15,055)         |
| Revenue for the year ended December 29, 2012 | <b>\$964,413</b> |

Gross margin in SunOpta Foods increased by \$6,534 for the year ended December 29, 2012 to \$107,032, or 11.1% of revenues, compared to \$100,498, or 10.8% of revenues for the year ended December 31, 2011. The table below explains the increase in gross margin by group:

| <b>SunOpta Foods Gross Margin Changes</b>         |                  |
|---|------------------|
| Gross Margin for the year ended December 31, 2011 | \$100,498        |
| Increase in the Grains and Foods Group            | 10,643           |
| Decrease in the Ingredients Group                 | (4,353)          |
| Increase in the Consumer Products Group           | 2,948            |
| Decrease in the International Foods Group         | (2,704)          |
| Gross Margin for the year ended December 29, 2012 | <b>\$107,032</b> |



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Operating income in SunOpta Foods increased by \$7,953 for the year ended December 29, 2012 to \$42,911 or 4.4% of revenues, compared to \$34,958 or 3.8% of revenues for the year ended December 31, 2011. The table below explains the increase in operating income:

| <b>SunOpta Foods Operating Income Changes</b>                  |                 |
|--|-----------------|
| Operating Income for the year ended December 31, 2011          | \$34,958        |
| Increase in gross margin, as noted above                       | 6,534           |
| Increase in foreign exchange gains                             | 8               |
| Decrease in selling, general and administrative ( SG&A ) costs | 1,411           |
| Operating Income for the year ended December 29, 2012          | <b>\$42,911</b> |

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

| <b>Grains and Foods Group</b> | <b>December 29, 2012</b> | <b>December 31, 2011</b> | <b>Change</b> | <b>% Change</b> |
|-------------------------------|--------------------------|--------------------------|---------------|-----------------|
| Revenue                       | 524,659                  | 479,195                  | 45,464        | 9.5%            |
| Gross Margin                  | 56,642                   | 45,999                   | 10,643        | 23.1%           |
| Gross Margin %                | 10.8%                    | 9.6%                     |               | 1.2%            |
| Operating Income              | 32,796                   | 22,813                   | 9,983         | 43.8%           |
| Operating Income %            | 6.3%                     | 4.8%                     |               | 1.5%            |

The Grains and Foods Group contributed \$524,659 in revenues for the year ended December 29, 2012, compared to \$479,195 for the year ended December 31, 2011, a \$45,464 or 9.5% increase. The table below explains the increase in revenue:

| <b>Grains and Foods Group Revenue Changes</b>  |                  |
|--|------------------|
| Revenue for the year ended December 31, 2011   | \$479,195        |
| Increased volume and improved pricing for organic grains and commodity corn, as well as improved pricing on commodity soy, partially offset by lower volume of commodity soy                                     | 25,610           |
| Increased volume and higher pricing on aseptically packaged beverages  | 22,149           |
| Transfer of dairy blended food ingredient business from the Ingredients Group  | 5,036            |
| Increased volume for sunflower kernel products, partially offset by lower pricing  | 4,594            |
| Increased pricing of sunflower planting seeds sold into international markets, partially offset by lower volume  | 1,120            |
| Lower volume of grain-based food ingredients, partially offset by improved pricing   | (6,989)          |
| Lower volume of in-shell sunflower products due to softness in international markets, as well as reduced pricing on bird feed, partially offset by improved in-shell pricing and an increase in bird feed volume | (6,056)          |
| Revenue for the year ended December 29, 2012   | <b>\$524,659</b> |

Gross margin in the Grains and Foods Group increased by \$10,643 to \$56,642 for the year ended December 29, 2012 compared to \$45,999 for the year ended December 31, 2011, and the gross margin percentage increased by 1.2% to 10.8% . The increase in gross margin as a percentage of revenue was primarily due to increased production efficiencies at our aseptic processing and packaging facilities, higher volume and improved pricing on organic grains

and commodity corn, improved pricing on commodity soy and sunflower kernel, as well as improved margins on specialty oil contracts that negatively impacted margins in the prior year. The table below explains the increase in gross margin:

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| <b>Grains and Foods Group Gross Margin Changes</b>   |                 |
|--|-----------------|
| Gross Margin for the year ended December 31, 2011  | \$45,999        |
| Higher volume and improved pricing on aseptically packaged beverages combined with plant efficiencies due to increased volumes   | 4,429           |
| Higher volume and improved pricing on organic grains and commodity corn, partially offset by lower volume and compressed margins due to higher cost commodity soy  | 4,350           |
| Improved pricing on sunflower kernel and lower volume of export bakery kernel products that were sold at a loss in the prior year, partially offset by lower by-product contribution due to lower pricing and higher costs | 1,115           |
| Lower volume of specialty oils that were sold at a loss in the prior year, combined with improved pricing on other food ingredients, partially offset by lower food ingredient volume                                      | 749             |
| Gross Margin for the year ended December 29, 2012  | <b>\$56,642</b> |

Operating income in the Grains and Foods Group increased by \$9,983 or 43.8% to \$32,796 for the year ended December 29, 2012, compared to \$22,813 for the year ended December 31, 2011. The table below explains the increase in operating income:

| <b>Grains and Foods Group Operating Income Changes</b>   |                 |
|--|-----------------|
| Operating Income for the year ended December 31, 2011  | \$22,813        |
| Increase in gross margin, as explained above   | 10,643          |
| Lower spending on professional fees, and consulting, utility and insurance costs, partially offset by increased compensation costs | 422             |
| Decrease in foreign exchange gains   | (610)           |
| Increase in corporate cost allocations   | (472)           |
| Operating Income for the year ended December 29, 2012  | <b>\$32,796</b> |

Looking forward, we believe the Grains and Foods Group is well positioned in growing natural and organic food categories. We expect the aseptic processing and packaging expansion at our U.S. west coast facility 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.

| <b>Ingredients Group</b> | <b>December 29, 2012</b> | <b>December 31, 2011</b> | <b>Change</b> | <b>% Change</b> |
|--------------------------|--------------------------|--------------------------|---------------|-----------------|
| Revenue                  | 82,544                   | 91,074                   | (8,530)       | -9.4%           |
| Gross Margin             | 13,098                   | 17,451                   | (4,353)       | -24.9%          |
| Gross Margin %           | 15.9%                    | 19.2%                    |               | -3.3%           |
| Operating Income         | 3,464                    | 7,083                    | (3,619)       | -51.1%          |
| Operating Income %       | 4.2%                     | 7.8%                     |               | -3.6%           |

The Ingredients Group contributed \$82,544 in revenues for the year ended December 29, 2012, compared to \$91,074 for the year ended December 31, 2011, an \$8,530 or 9.4% decrease. The table below explains the decrease in revenue:

| <b>Ingredients Group Revenue Changes</b>  |                 |
|---|-----------------|
| Revenue for the year ended December 31, 2011  | \$91,074        |
| Decrease in customer demand for oat and soy fiber ingredients, as well as fruit ingredient products to the food service and industrial channels | (5,528)         |
| Transfer of non-dairy blended food ingredient business to the Grains and Foods Group  | (5,036)         |
| Decrease in fiber volumes due to a loss of a significant customer in the first quarter of 2011  | (1,160)         |
| Improved pricing for industrial and food service fruit ingredients, partially offset by reduced fiber pricing due to competitive pressures      | 1,777           |
| Increase in customer demand for starches and other blended food ingredients   | 1,417           |
| Revenue for the year ended December 29, 2012  | <b>\$82,544</b> |

Gross margin in the Ingredients Group decreased by \$4,353 to \$13,098 for the year ended December 29, 2012 compared to \$17,451 for the year ended December 31, 2011, and the gross margin percentage decreased by 3.3% to 15.9%. The decrease in gross margin as a percentage of revenue was due to higher raw material input costs, pricing pressures, and fiber plant inefficiencies due to lower utilization. Partially offsetting these margin rate decreases were improved efficiencies on higher production levels of 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 year ended December 31, 2011   | \$17,451        |
| Lower volume of fiber and fruit ingredient offerings and reduced efficiencies resulting from lower production volumes, combined with an increase in input costs including organic sugar and oat and soy hulls | (4,357)         |
| Loss of a significant customer in the first quarter of 2011 and reduced fiber pricing   | (700)           |
| Increased customer demand for starches and improved efficiencies on higher production of starches and other blended food ingredients, partially offset by lower pricing on other blended food ingredients     | 704             |
| Gross Margin for the year ended December 29, 2012   | <b>\$13,098</b> |

Operating income in the Ingredients Group decreased by \$3,619, or 51.1%, to \$3,464 for the year ended December 29, 2012, compared to \$7,083 for the year ended December 31, 2011. The table below explains the decrease in operating income:

| <b>Ingredients Group Operating Income Changes</b>   |                |
|---|----------------|
| Operating Income for the year ended December 31, 2011   | \$7,083        |
| Decrease in gross margin, as explained above  | (4,353)        |
| Increase in selling costs related to the exploration of sales opportunities in international markets, partially offset by a decrease in research and development costs related to new product offerings combined with a decrease in general office spending | (110)          |
| Decrease in compensation costs, primarily due to headcount rationalization that occurred in the first quarter of 2012   | 564            |
| Decrease in corporate cost allocations  | 280            |
| Operating Income for the year ended December 29, 2012   | <b>\$3,464</b> |

Looking forward, we intend 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 the volume lost early in 2011 as a result of a significant customer changing to an alternative fiber product. We intend to continue to introduce alternative fiber offerings of our own and have recently introduced both rice and cellulose fibers. We also expect our new aseptic fruit ingredient line at our Southgate, California facility to expand our packaging capabilities and drive incremental volumes and cost savings. The focus of the Ingredients Group continues to revolve around a culture of innovation and 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.

| <b>Consumer Products Group</b> | <b>December 29, 2012</b> | <b>December 31, 2011</b> | <b>Change</b> | <b>% Change</b> |
|--------------------------------|--------------------------|--------------------------|---------------|-----------------|
| Revenue                        | 181,022                  | 165,239                  | 15,783        | 9.6%            |
| Gross Margin                   | 14,284                   | 11,336                   | 2,948         | 26.0%           |
| Gross Margin %                 | 7.9%                     | 6.9%                     |               | 1.0%            |
| Operating Loss                 | (982)                    | (3,978)                  | 2,996         | 75.3%           |
| Operating Loss %               | -0.5%                    | -2.4%                    |               | 1.9%            |

The Consumer Products Group contributed \$181,022 in revenues for the year ended December 29, 2012, compared to \$165,239 for the year ended December 31, 2011, a \$15,783 or 9.6% increase. The table below explains the increase in revenue:

| <b>Consumer Products Group Revenue Changes</b>   |                  |
|--|------------------|
| Revenue for the year ended December 31, 2011   | \$165,239        |
| Increased sales primarily from the launch of our flexible pouch filling lines on the U.S. west coast in the fourth quarter of 2011, as well as on the U.S. east coast in the third quarter of 2012 | 17,529           |
| Higher sales of healthy snacks led by increased demand for nutrition bar offerings   | 7,162            |
| Incremental revenue due to the acquisition of Lorton s on August 8, 2011   | 2,675            |
| Decreased volume due to rationalization of industrial and food service product lines in our frozen foods operation, partially offset by higher volumes on retail offerings                         | (11,583)         |
| Revenue for the year ended December 29, 2012   | <b>\$181,022</b> |

Gross margins in the Consumer Products Group increased by \$2,948 to \$14,284 for the year ended December 29, 2012 compared to \$11,336 for the year ended December 31, 2011, and the gross margin percentage increased by 1.0% to 7.9% . The increase in gross margin as a percentage of revenue was due to decreased storage and inventory rationalization costs at Frozen Foods, offset by negative contributions from Lorton s, pre-production costs related to our Allentown pouch filling operation, and higher production costs at our healthy snacks facilities. The table below explains the increase in gross margin:

| <b>Consumer Products Group Gross Margin Changes</b>  |                 |
|--|-----------------|
| Gross Margin for the year ended December 31, 2011  | \$11,336        |
| Higher volume and margin realized on retail format frozen food sales and decreased inventory rationalization and storage costs as a result of lower inventory levels | 8,509           |
| Increased margin due primarily to sales of flexible pouch offerings, offset partially by margin declines in other consumer packaged categories                       | 1,047           |
| Higher production costs as a result of plant inefficiencies and increased raw material costs at our healthy snacks   | (3,182)         |
| Incremental gross margin loss at Lorton s due to plant inefficiencies, transition costs and a product withdrawal   | (2,156)         |
| Facility start-up costs related to the expansion of consumer packaged processing capabilities on the U.S. east coast   | (1,270)         |
| Gross Margin for the year ended December 29, 2012  | <b>\$14,284</b> |



Operating loss in the Consumer Products Group decreased by \$2,996, or 75.3%, to a loss of \$982 for the year ended December 29, 2012, compared to a loss of \$3,978 for the year ended December 31, 2011. The table below explains the decrease in operating loss:

| <b>Consumer Products Group Operating Loss Changes</b>   |                |
|---|----------------|
| Operating Loss for the year ended December 31, 2011   | (\$3,978)      |
| Increase in gross margin, as explained above  | 2,948          |
| SG&A savings primarily due to reduced headcount at Frozen Foods and lower short-term incentives | 825            |
| Lower professional fees, travel and other office expenses                                       | 479            |
| Incremental SG&A expenses from the acquisition of Lorton s                                      | (674)          |
| Increase in corporate cost allocations  | (582)          |
| Operating Loss for the year ended December 29, 2012   | <b>(\$982)</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, while at the same time improving efficiencies and throughput at existing operations. Recently, these efforts have included the installation 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 at Allentown, which commenced operations in September 2012. We intend to continue to expand these capabilities with two more flexible pouch filling lines at Allentown, increasing our total filling capacity to approximately 150 million pouches by the third quarter of 2013. Continued new product development and innovation in Healthy Snacks 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**

| <b>For the year ended</b> | <b>December 29, 2012</b> | <b>December 31, 2011</b> | <b>Change</b> | <b>% Change</b> |
|---------------------------|--------------------------|--------------------------|---------------|-----------------|
| Revenue                   | 176,188                  | 191,243                  | (15,055)      | -7.9%           |
| Gross Margin              | 23,008                   | 25,712                   | (2,704)       | -10.5%          |
| Gross Margin %            | 13.1%                    | 13.4%                    |               | -0.3%           |
| Operating Income          | 7,633                    | 9,040                    | (1,407)       | -15.6%          |
| Operating Income %        | 4.3%                     | 4.7%                     |               | -0.4%           |

The International Foods Group contributed \$176,188 in revenues for the year ended December 29, 2012, compared to \$191,243 for the year ended December 31, 2011, a \$15,055 or a 7.9% decrease. The table below explains the decrease in revenue:

| <b>International Foods Group Revenue Changes</b>   |                  |
|--|------------------|
| Revenue for the year ended December 31, 2011   | \$191,243        |
| Unfavorable impact on revenues due to the weaker euro relative to the U.S. dollar  | (15,015)         |
| Lower volumes of organic commodities including coffee, cocoa, fruits, seeds, sesame and feed ingredients, primarily due to a weaker European economy | (5,643)          |
| Increased commodity prices for organic commodities including sweeteners, nuts and fruits   | 5,603            |
| Revenue for the year ended December 29, 2012   | <b>\$176,188</b> |

Gross margins in the International Foods Group decreased by \$2,704 to \$23,008 for the year ended December 29, 2012 compared to \$25,712 for the year ended December 31, 2011, and the gross margin percentage decreased by 0.3% to 13.1%. Gross margin as a percentage of revenues was lower due to unfavorable margins realized on coffee, partially offset by improved margins on sweeteners. The table below explains the decrease in gross margin:

| <b>International Foods Group Gross Margin Changes</b>   |                 |
|---|-----------------|
| Gross Margin for the year ended December 31, 2011   | \$25,712        |
| Unfavorable impact on gross margin due to the weaker euro relative to the U.S. dollar   | (1,951)         |
| Lower margins realized on coffee due to declining market prices combined with reduced sales volumes of other organic ingredients, partially offset by favorable margins on sweeteners due to a carryover of inventory from 2011 at favorable prices | (753)           |
| Gross Margin for the year ended December 29, 2012   | <b>\$23,008</b> |

Operating income in the International Foods Group decreased by \$1,407, or 15.6%, to \$7,633 for the year ended December 29, 2012, compared to earnings of \$9,040 for the year ended December 31, 2011. The table below explains the decrease in operating income:

| <b>International Foods Group Operating Income Changes</b>   |                |
|---|----------------|
| Operating Income for the year ended December 31, 2011   | \$9,040        |
| Decrease in gross margin, as explained above  | (2,704)        |
| Increase in corporate cost allocations  | (430)          |
| Favorable impact on euro borne SG&A spending due to the weaker euro relative to the U.S. dollar         | 1,152          |
| Increased foreign exchange gains  | 503            |
| Reduced SG&A expenses primarily due to lower short-term incentive, partially offset by higher headcount | 72             |
| <b>Operating Income for the year ended December 29, 2012</b>  | <b>\$7,633</b> |

Looking forward, the International Foods Group is focused on leveraging its sourcing, supply and processing 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 strategic sourcing, pricing and product development strategies. We intend to leverage the Group's sourcing and supply capabilities and forward and backward integrate where opportunities exist, expanding our processing expertise and increasing our value-added capabilities. In addition, we expect our new cocoa processing facility to be located in the Netherlands will increase our ability to grow our organic and specialty cocoa business, once commissioned in the third quarter of 2013. The Group also added an integrated grains handling and processing facility in Bulgaria in early fiscal 2013, which is expected to diversify and expand our sourcing and processing capabilities in this region. 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.

| <b>Opta Minerals</b> | <b>December 29, 2012</b> | <b>December 31, 2011</b> | <b>Change</b> | <b>% Change</b> |
|----------------------|--------------------------|--------------------------|---------------|-----------------|
| Revenue              | 126,651                  | 93,120                   | 33,531        | 36.0%           |
| Gross Margin         | 26,705                   | 20,746                   | 5,959         | 28.7%           |
| Gross Margin %       | 21.1%                    | 22.3%                    |               | -1.2%           |
| Operating Income     | 10,062                   | 7,577                    | 2,485         | 32.8%           |
| Operating Income %   | 7.9%                     | 8.1%                     |               | -0.2%           |

Opta Minerals contributed \$126,651 in revenues for the year ended December 29, 2012, compared to \$93,120 for the year ended December 31, 2011, a \$33,531 or 36.0% increase. The table below explains the increase in revenue:

| <b>Opta Minerals Revenue Changes</b>   |                  |
|--|------------------|
| Revenue for the year ended December 31, 2011   | \$93,120         |
| Incremental revenue due to the acquisitions of WGI on August 29, 2012, Babco on February 10, 2012 and Inland on November 10, 2011  | 23,680           |
| Increased volumes of mill and foundry products as a result of increased demand for magnesium, chromite and lime blends, partially offset by a slowdown in the steel industry | 6,132            |
| Increased volumes of abrasive and other industrial mineral products and services   | 3,719            |
| Revenue for the year ended December 29, 2012   | <b>\$126,651</b> |

Gross margin for Opta Minerals increased by \$5,959 to \$26,705 for the year ended December 29, 2012 compared to \$20,746 for the year ended December 31, 2011, and the gross margin percentage decreased by 1.2% to 21.1%. The decrease in gross margin as a percentage of revenue was driven by changes to product mix, an increase in plant costs and higher labor costs related to higher sales volume. The table below explains the increase in gross margin:

| <b>Opta Minerals Gross Margin Changes</b>  |                 |
|--|-----------------|
| Gross Margin for the year ended December 31, 2011  | \$20,746        |
| Incremental gross margin due to the acquisitions of WGI, Babco and Inland  | 6,400           |
| Margin impact of higher sales volume of abrasive and other industrial mineral products combined with lower plant costs | 632             |
| Unfavourable gross margin impact due to the sales mix of mill and foundry products                                     | (1,073)         |
| Gross Margin for the year ended December 29, 2012  | <b>\$26,705</b> |

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Operating income for Opta Minerals increased by \$2,485, or 32.8%, to \$10,062 for the year ended December 29, 2012, compared to \$7,577 for the year ended December 31, 2011. The table below explains the increase in operating income:

| <b>Opta Minerals Operating Income Changes</b>  |                 |
|--|-----------------|
| Operating Income for the year ended December 31, 2011  | \$7,577         |
| Increase in gross margin, as explained above   | 5,959           |
| Increase in foreign exchange gains   | 490             |
| Incremental SG&A due to the acquisitions of WGI, Babco and Inland  | (2,703)         |
| Increased bad debt expense due mainly to the bankruptcy of a steel products customer in the second quarter of 2012 | (979)           |
| Increase in professional fees and other SG&A expenses, to support continued growth of the business                 | (282)           |
| Operating Income for the year ended December 29, 2012  | <b>\$10,062</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 66.1% 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.

| <b>Corporate Services</b> | <b>December 29, 2012</b> | <b>December 31, 2011</b> | <b>Change</b> | <b>% Change</b> |
|---------------------------|--------------------------|--------------------------|---------------|-----------------|
| Operating Loss            | (6,001)                  | (8,766)                  | 2,765         | 31.5%           |

Operating loss at Corporate Services decreased by \$2,765 to \$6,001 for the year ended December 29, 2012, from a loss of \$8,766 for the year ended December 31, 2011. The table below explains the decrease in operating loss:

| <b>Corporate Services Operating Loss Changes</b>  |                  |
|---|------------------|
| Operating Loss for the year ended December 31, 2011   | (\$8,766)        |
| Increase in foreign exchange gains  | 1,798            |
| Increase in corporate management fees that are allocated to SunOpta operating groups  | 1,214            |
| Decrease in SG&A costs due to the weakened Canadian dollar causing Canadian borne expenses to be less costly when translated to U.S. dollar, as well as lower general office spending | 161              |
| Increase in stock based compensation , partially offset by headcount rationalizations that occurred in the first quarter of 2012 and lower short-term incentive accruals              | (408)            |
| Operating Loss for the year ended December 29, 2012   | <b>(\$6,001)</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.



## Results of Fiscal 2011 Operations Compared With Results of Fiscal 2010 Operations

|   | December 31, 2011 | January 1, 2011 | Change          | Change        |
|---|-------------------|-----------------|-----------------|---------------|
|   | \$                | \$              | \$              | %             |
| <b>Revenue</b>  |                   |                 |                 |               |
| SunOpta Foods   | 926,751           | 750,809         | 175,942         | 23.4%         |
| Opta Minerals   | 93,120            | 80,868          | 12,252          | 15.2%         |
| <b>Total Revenue</b>  | <b>1,019,871</b>  | <b>831,677</b>  | <b>188,194</b>  | <b>22.6%</b>  |
| <b>Gross Profit</b>   |                   |                 |                 |               |
| SunOpta Foods   | 100,498           | 109,465         | (8,967)         | -8.2%         |
| Opta Minerals   | 20,746            | 20,037          | 709             | 3.5%          |
| <b>Total Gross Profit</b>                                       | <b>121,244</b>    | <b>129,502</b>  | <b>(8,258)</b>  | <b>-6.4%</b>  |
| <b>Segment Operating Income (Loss)<sup>(1)</sup></b>            |                   |                 |                 |               |
| SunOpta Foods   | 34,958            | 49,549          | (14,591)        | -29.4%        |
| Opta Minerals   | 7,577             | 7,753           | (176)           | -2.3%         |
| Corporate Services  | (8,766)           | (12,118)        | 3,352           | 27.7%         |
| <b>Total Segment Operating Income</b>                           | <b>33,769</b>     | <b>45,184</b>   | <b>(11,415)</b> | <b>-25.3%</b> |
| Other (income) expense, net                                     | (2,832)           | 10,309          | (13,141)        | -127.5%       |
| <b>Earnings from continuing operations before the following</b> |                   |                 |                 |               |
|   | 36,601            | 34,875          | 1,726           | 4.9%          |
| Interest expense, net   | 8,839             | 9,749           | (910)           | -9.3%         |
| Provision for income taxes                                      | 9,896             | 7,123           | 2,773           | 38.9%         |
| Earnings from continuing operations                             | 17,866            | 18,003          | (137)           | -0.8%         |
| Earnings attributable to non-controlling interests              | 1,636             | 1,368           | 268             | 19.6%         |
| Loss from discontinued operations, net of taxes                 | (11,005)          | (18,519)        | 7,514           | 40.6%         |
| Gain on sale of discontinued operations, net of taxes           | 71                | 62,950          | (62,879)        | -99.9%        |
| <b>Earnings attributable to SunOpta Inc.</b>                    | <b>5,296</b>      | <b>61,066</b>   | <b>(55,770)</b> | <b>-91.3%</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 note (1) to the Results of Fiscal 2012 Operations Compared With Results of Fiscal 2011 Operations table regarding the use of non-GAAP measures).

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|   | Grains<br>and Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | Consol-<br>idated<br>\$ |
|---|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|------------------------|------------------------|-----------------------------|-------------------------|
| <b>December 31, 2011</b>  |                                    |                            |                                     |                                       |                        |                        |                             |                         |
| Segment operating income (loss)                                 | 22,813                             | 7,083                      | (3,978)                             | 9,040                                 | 34,958                 | 7,577                  | (8,766)                     | 33,769                  |
| Other income (expense), net                                     | 114                                | (54)                       | 2,887                               | -                                     | 2,947                  | -                      | (115)                       | 2,832                   |
| Earnings (loss) from continuing operations before the following | 22,927                             | 7,029                      | (1,091)                             | 9,040                                 | 37,905                 | 7,577                  | (8,881)                     | 36,601                  |
| <b>January 1, 2011</b>  |                                    |                            |                                     |                                       |                        |                        |                             |                         |
| Segment operating income (loss)                                 | 28,003                             | 18,870                     | (1,302)                             | 3,978                                 | 49,549                 | 7,753                  | (12,118)                    | 45,184                  |
| Other expense, net  | (118)                              | (163)                      | (9,153)                             | -                                     | (9,434)                | (435)                  | (440)                       | (10,309)                |
| Earnings (loss) from continuing operations before the following | 27,885                             | 18,707                     | (10,455)                            | 3,978                                 | 40,115                 | 7,318                  | (12,558)                    | 34,875                  |

Revenues for the year ended December 31, 2011 increased by 22.6% to \$1,019,871 from \$831,677 for the year ended January 1, 2011. Revenues in SunOpta Foods increased by 23.4% to \$926,751 and revenues in Opta Minerals increased by 15.2% to \$93,120. Excluding the impact of acquisitions made late in fiscal 2010 and in the third quarter of 2011, revenues increased 13.1% compared to the prior year. The acquisitions of Dahlgren, Edner and Lorton s added incremental revenues of \$80,921. The underlying base growth rate for the business was approximately 8% after accounting for changes including movements in foreign exchange and commodity prices. The increase in revenue was due primarily to the changes in sales volume and pricing described below in Segmented Operations Information .

Gross profit decreased \$8,258, or 6.4%, for the year ended December 31, 2011 to \$121,244 from \$129,502 for the year ended January 1, 2011. As a percentage of revenues, gross profit for the year ended December 31, 2011 was 11.9% compared to 15.6% for the year ended January 1, 2011, a decrease of 3.7% . Within SunOpta Foods, gross profit was negatively impacted by decreased demand and unfavorable commodity prices in our sunflower operations, due mainly to competition in the international marketplace. In addition, volume declines at our frozen foods operation, and fiber and fruit ingredients operations all contributed to the decline in gross profit compared to the prior year.

Partially offsetting these negative impacts were a combination of higher volumes and improved efficiencies at our aseptic, healthy snacks and international foods operations. In addition, the acquisitions of Dahlgren, Edner and Lorton s contributed incremental gross profit of \$3,280.

SG&A costs including intangible asset amortization decreased \$354 to \$86,237 for the year ended December 31, 2011 compared to \$85,883 for the year ended January 1, 2011. The acquisitions of Dahlgren, Edner and Lorton s added an incremental \$4,176 of SG&A costs, and the stronger Canadian dollar and euro relative to the U.S. dollar led to a \$1,328 increase in foreign denominated SG&A costs compared to the prior year. Excluding these impacts, SG&A spending within our base business decreased \$5,150, reflecting lower overall compensation costs due in part to headcount reductions at our frozen foods operation in 2010 and reductions in stock-based compensation, bonuses and professional fees. Offsetting these decreases were headcount increases in our international foods and healthy snacks operations in support of business growth. As a percentage of revenues, SG&A costs and intangible asset amortization costs were 8.5% for the year ended December 31, 2011 compared to 10.3% for the year ended January 1, 2011.

Foreign exchange losses were \$1,238 for the year ended December 31, 2011 as compared to gains of \$1,565 for the year ended January 1, 2011. The decrease was primarily due to unfavorable exchange rate movements for the Canadian dollar and euro relative to the U.S. dollar.

Total segment operating income for the year ended December 31, 2011 decreased by \$11,415 to \$33,769 compared to total segment operating income of \$45,184 for the year ended January 1, 2011 due to the factors noted above. As a percentage of revenue, total segment operating income was 3.3% for the year ended December 31, 2011, compared to 5.4% for the year ended January 1, 2011. Further details on revenue, gross margins and segment operating income variances are provided below under Segmented Operations Information .

Other income for the year ended December 31, 2011 of \$2,832 reflected a gain recognized on the sale of frozen foods assets located in Mexico, and a reduction in accrued contingent consideration relating to the acquisition of Dahlgren. Other expense for the year ended January 1, 2011 of \$10,309 included long-lived asset impairment and severance charges of \$7,549 and \$1,169, respectively, primarily related to rationalization efforts at our frozen food operations.



Interest expense for the year ended December 31, 2011 was \$8,839 compared to \$9,749 for the year ended January 1, 2011, a \$910 decrease. Borrowing costs were lower for the year ended December 31, 2011 due to lower debt levels outstanding on our former real estate and machinery and equipment term loan facilities, a lower base interest rate on borrowed funds as compared to the prior year, and a reduction of non-cash amortization of deferred financing fees, partially offset by higher borrowings on our other credit lines.

Income tax provision for the year ended December 31, 2011 was \$9,896 compared to a provision of \$7,123 for the year ended January 1, 2011. The increase in income taxes was due to an increase in the valuation allowance in the year ended December 31, 2011 against current year losses that may not be realized in the future, as compared to a decrease in the valuation allowance in the year ended January 1, 2011 due to the Canadian Food Distribution asset sale and the disposition of SunOpta BioProcess. We also recognized the benefit of certain state and federal tax credits in the U.S. in the year ended December 31, 2011, which reduced the income tax provision.

Earnings from continuing operations decreased \$137 to \$17,866 for the year ended December 31, 2011, compared to \$18,003 for the year ended January 1, 2011. Basic and diluted earnings per share from continuing operations were \$0.25 and \$0.24, respectively, for the year ended December 31, 2011, compared to \$0.26 and \$0.25, respectively, for the year ended January 1, 2011.

Earnings attributable to non-controlling interest for the year ended December 31, 2011 were \$1,636 compared to earnings of \$1,368 for the year ended January 1, 2011. The \$268 increase is due to higher net earnings in our less than wholly-owned subsidiaries.

Losses from discontinued operations, net of income taxes of \$11,005 for the year ended December 31, 2011 reflects the results of operations from Purity and CSOP, including the pre-tax arbitration charge of \$5,246. Loss from discontinued operations, net of income taxes for the year ended January 1, 2011, reflect the results of operations from the Canadian Food Distribution business and SunOpta BioProcess.

A gain on the sale of discontinued operations of \$71 was realized on the disposal of our interest in CSOP. Gain on sale of discontinued operations, net of taxes of \$62,950 for the year ended January 1, 2011 represented the gains realized on the sale of the Canadian Food Distribution assets and the disposition of SunOpta BioProcess.

On a consolidated basis, earnings and basic and diluted earnings per share were \$5,296, \$0.08 and \$0.08, respectively, for the year ended December 31, 2011, compared to \$61,066, \$0.94 and \$0.92, respectively, for the year ended January 1, 2011.

**Adjusted Earnings from Continuing Operations**

During the year ended December 31, 2011, we recognized certain charges and gains against earnings that we do not believe are reflective of normal business operations. As a result, we believe it is useful to eliminate these charges and gains to compute an Adjusted earnings from continuing operations<sup>(1)</sup> amount for the year ended December 31, 2011, which we believe is more reflective of normal business operations.

Following is a calculation of our Adjusted earnings from continuing operations<sup>(1)</sup> and Adjusted earnings from continuing operations per diluted share<sup>(1)</sup> for the year ended December 31, 2011:

|  |    |         | Per Diluted<br>Share <sup>(2)</sup> |
|--|----|---------|-------------------------------------|
| Earnings attributable to SunOpta Inc.  | \$ | 5,296   | \$ 0.08                             |
| Loss from discontinued operations, net of taxes  |    | 10,934  | 0.16                                |
| Earnings from continuing operations attributable to SunOpta Inc.   | \$ | 16,230  | \$ 0.24                             |
| Adjusted for:  |    |         |                                     |
| Other severance, rationalization and acquisition-related costs, net of taxes of \$424  |    | 1,179   | 0.02                                |
| Costs to curtail and retrofit facilities in the Ingredients Group, as well as integration costs at Lorton s, net of taxes of \$1,103                             |    | 1,952   | 0.03                                |
| Write-down of certain inventory and long-lived assets at our frozen foods operation, offset by gains on sale of Mexican processing assets, net of taxes of \$859 |    | 1,235   | 0.02                                |
| Costs to fill expeller pressed oil contracts at a loss due to dispute with Colorado Mills, net of taxes of \$486   |    | 861     | 0.01                                |
| Reduction of fair value of contingent consideration liability for Dahlgren and Edner   |    | (1,235) | (0.02)                              |
| Adjusted earnings from continuing operations <sup>(1)</sup>  | \$ | 20,222  | \$ 0.30                             |

During the year ended December 31, 2011, we incurred severance and rationalization costs as we reduced headcount at certain operations as well as professional, legal and other costs related to our acquisition of Lorton s and Inland. Due to the loss of a significant customer and new product development efforts in the Ingredients Group, we incurred costs to curtail and retrofit certain of our manufacturing facilities throughout 2011. In addition, we incurred business integration costs related to our acquisition of Lorton s. As part of our rationalization of our frozen foods operation, we recorded a non-cash write-down on certain inventories where the carrying value was less than net realizable value, and wrote off long-lived assets that could not be recovered through future cash flows. Partially offsetting these rationalization charges was a gain realized on the sale of land, building and processing assets located in Mexico. We also incurred excessive raw material and crushing costs in order to fulfil expeller pressed oil contracts at negative gross margins. Non-cash gains were recorded due to a decrease in the estimated fair value of contingent consideration liabilities owing to the former owners of Dahlgren and Edner, as predetermined targets to achieve the contingent consideration were not attained. We believe that Earnings from continuing operations attributable to SunOpta Inc. is the performance measure calculated and presented in accordance with U.S. GAAP that is most directly comparable to Adjusted earnings from continuing operations<sup>(1)</sup>, and that Earnings per share from continuing operations attributable to SunOpta Inc. is the performance measure calculated and presented in accordance with U.S. GAAP that is most directly comparable to Adjusted earnings per share from continuing operations<sup>(1)</sup>.

The table above reconciles Earnings from continuing operations attributable to SunOpta Inc. to Adjusted earnings from continuing operations<sup>(1)</sup> and reconciles Earnings per share from continuing operations attributable to SunOpta Inc. to Adjusted earnings per share from continuing operations<sup>(1)</sup>, in each case for the year ended December 31, 2011.

(1)

Adjusted earnings from continuing operations and Adjusted earnings per share from continuing operations are non-GAAP financial measures. We believe these non-GAAP measures, which have been adjusted for the impact of the items listed in the table above, assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. Adjusted earnings from continuing operations and Adjusted earnings per share from continuing operations should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP.

- (2) The diluted weighted-average number of shares outstanding for the year ended December 31, 2011 is 66,583,149 (see Note 16 of the Consolidated Financial Statements).

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

| For the year ended | December 31, 2011 | January 1, 2011 | Change   | % Change |
|--------------------|-------------------|-----------------|----------|----------|
| Revenue            | 926,751           | 750,809         | 175,942  | 23.4%    |
| Gross Margin       | 100,498           | 109,465         | (8,967)  | -8.2%    |
| Gross Margin %     | 10.8%             | 14.6%           |          | -3.8%    |
| Operating Income   | 34,958            | 49,549          | (14,591) | -29.4%   |
| Operating Income % | 3.8%              | 6.6%            |          | -2.8%    |

SunOpta Foods contributed \$926,751 or 90.9% of consolidated revenue for the year ended December 31, 2011 compared to \$750,809 or 90.3% of consolidated revenues for the year ended January 1, 2011, an increase of \$175,942. The increase in revenue reflects internal growth of 14.9% and acquisition related revenues of \$80,921. Internal growth includes growth on the base business plus growth on acquisitions from the date of acquisition over the previous year in addition to the impact of foreign exchange movements on the translation of foreign denominated revenues to U.S. dollars and commodity related price movements. Excluding the impact of foreign exchange and commodity related price movements, revenue in SunOpta Foods increased approximately 8% over the prior year. The table below explains the increase in revenue by group:

| <b>SunOpta Foods Revenue Changes</b>         |                  |
|--|------------------|
| Revenue for the year ended January 1, 2011   | \$750,809        |
| Increase in the Grains and Foods Group       | 114,290          |
| Decrease in the Ingredients Group            | (25,455)         |
| Increase in the Consumer Products Group      | 30,471           |
| Increase in the International Foods Group    | 56,636           |
| Revenue for the year ended December 31, 2011 | <b>\$926,751</b> |

Gross margin in SunOpta Foods decreased by \$8,967 for the year ended December 31, 2011 to \$100,498, or 10.8% of revenues, compared to \$109,465, or 14.6% of revenues for the year ended January 1, 2011. The table below explains the decrease in gross margin by group:

| <b>SunOpta Foods Gross Margin Changes</b>         |                  |
|---|------------------|
| Gross Margin for the year ended January 1, 2011   | \$109,465        |
| Decrease in the Grains and Foods Group            | (1,102)          |
| Decrease in the Ingredients Group                 | (13,170)         |
| Decrease in the Consumer Products Group           | (3,623)          |
| Increase in the International Foods Group         | 8,928            |
| Gross Margin for the year ended December 31, 2011 | <b>\$100,498</b> |

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Operating income in SunOpta Foods decreased by \$14,591 for the year ended December 31, 2011 to \$34,958 or 3.8% of revenues, compared to \$49,549 or 6.6% of revenues for the year ended January 1, 2011. The table below explains the decrease in operating income:

| <b>SunOpta Foods Operating Income Changes</b>         |                 |
|---|-----------------|
| Operating Income for the year ended January 1, 2011   | \$49,549        |
| Decrease in gross margin, as noted above              | (\$8,967)       |
| Decrease in foreign exchange gains                    | (498)           |
| Increase in SG&A costs                                | (5,126)         |
| Operating Income for the year ended December 31, 2011 | <b>\$34,958</b> |

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

| <b>Grains and Foods Group</b> | <b>December 31, 2011</b> | <b>January 1, 2011</b> | <b>Change</b> | <b>% Change</b> |
|-------------------------------|--------------------------|------------------------|---------------|-----------------|
| Revenue                       | 479,195                  | 364,905                | 114,290       | 31.3%           |
| Gross Margin                  | 45,999                   | 47,101                 | (1,102)       | -2.3%           |
| Gross Margin %                | 9.6%                     | 12.9%                  |               | -3.3%           |
| Operating Income              | 22,813                   | 28,003                 | (5,190)       | -18.5%          |
| Operating Income %            | 4.8%                     | 7.7%                   |               | -2.9%           |

The Grains and Foods Group contributed \$479,195 in revenues for the year ended December 31, 2011, compared to \$364,905 for the year ended January 1, 2011, an \$114,290 or 31.3% increase. The table below explains the increase in revenue:

| <b>Grains and Foods Group Revenue Changes</b>   |                  |
|---|------------------|
| Revenue for the year ended January 1, 2011  | \$364,905        |
| Incremental revenue from the acquisition of Dahlgren on November 8, 2010  | 65,052           |
| Increase in price for commodity corn and soy, as well as organic grains, partially offset by lower price for grain-based food ingredients   | 35,397           |
| Increased volume and pricing from aseptically packaged soymilk and alternative beverages due to new product launches, new customer contracts and continued growth from existing customers                         | 11,796           |
| Higher volume due primarily to commodity corn, grain-based food ingredients and organic grains, partially offset by lower volumes of commodity soy  | 10,690           |
| Incremental revenue generated from our South African soy base operation   | 395              |
| Decrease in volume and price for in-shell sunflower products, combined with lower demand for bakery kernel and other sunflower based products, partially offset by higher pricing for bakery kernel and bird seed | (9,040)          |
| Revenue for the year ended December 31, 2011  | <b>\$479,195</b> |

Gross margin in the Grains and Foods Group decreased by \$1,102 to \$45,999 for the year ended December 31, 2011 compared to \$47,101 for the year ended January 1, 2011, and the gross margin percentage decreased by 3.3% to 9.6% .. The decrease in gross margin as a percentage of revenue is primarily due to unfavorable pricing in the sunflower market caused by increasing commodity costs and a large, low-cost supply of sunflower coming out of South America and decreased plant efficiencies due to lower bakery kernel and in-shell volumes, partially offset by efficiencies at our

aseptic processing and packaging facilities and roasted grains operation due in part to increased volumes. The table below explains the decrease in gross margin:

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| <b>Grains and Foods Group Gross Margin Changes</b>  |                 |
|---|-----------------|
| Gross Margin for the year ended January 1, 2011   | \$47,101        |
| Decreased demand for in-shell, bakery kernel and other sunflower products, combined with decreased plant efficiencies and pricing pressure for in-shell and kernel products in international markets, partially offset by improved pricing on bird seed | (6,612)         |
| Increased raw material and crushing costs for specialty sunflower oils  | (958)           |
| Incremental gross margin from the acquisition of Dahlgren on November 8, 2010, partially offset by higher cost of raw materials   | 3,043           |
| Increased customer demand for aseptically packaged soymilk and alternative beverage products, as well as improved plant efficiencies  | 2,861           |
| Increased volumes of grain-based food ingredients and organic grains, higher margins in our south African operation and improved efficiencies in our roasted grain operation  | 564             |
| Gross Margin for the year ended December 31, 2011   | <b>\$45,999</b> |

Operating income in the Grains and Foods Group decreased by \$5,190 or 18.5% to \$22,813 for the year ended December 31, 2011, compared to \$28,003 for the year ended January 1, 2011. The table below explains the decrease in operating income:

| <b>Grains and Foods Group Operating Income Changes</b>  |                 |
|---|-----------------|
| Operating Income for the year ended January 1, 2011   | \$28,003        |
| Decrease in gross margin, as explained above  | (1,102)         |
| Incremental SG&A from the acquisition of Dahlgren on November 8, 2010   | (2,980)         |
| Increased corporate allocations due primarily to Dahlgren acquisition   | (1,924)         |
| Decrease in compensation costs, primarily due to lower bonus and benefit costs, combined with lower professional fees, partially offset by higher spending on utilities, insurance and general office costs | 377             |
| Higher foreign exchange gains   | 439             |
| Operating Income for the year ended December 31, 2011   | <b>\$22,813</b> |

| <b>Ingredients Group</b> | <b>December 31, 2011</b> | <b>January 1, 2011</b> | <b>Change</b> | <b>% Change</b> |
|--------------------------|--------------------------|------------------------|---------------|-----------------|
| Revenue                  | 91,074                   | 116,529                | (25,455)      | -21.8%          |
| Gross Margin             | 17,451                   | 30,621                 | (13,170)      | -43.0%          |
| Gross Margin %           | 19.2%                    | 26.3%                  |               | -7.1%           |
| Operating Income         | 7,083                    | 18,870                 | (11,787)      | -62.5%          |
| Operating Income %       | 7.8%                     | 16.2%                  |               | -8.4%           |

The Ingredients Group contributed \$91,074 in revenues for the year ended December 31, 2011, compared to \$116,529 for the year ended January 1, 2011, a \$25,455 or 21.8% decrease. The table below explains the decrease in revenue:

| <b>Ingredients Group Revenue Changes</b>  |                 |
|---|-----------------|
| Revenue for the year ended January 1, 2011  | \$116,529       |
| Lower volume of industrial fruit ingredients due primarily to decreased demand and the loss of a significant customer   | (13,448)        |
| Lower customer demand for oat and soy fiber, primarily due to the loss of a significant customer in the first quarter of 2011, as well as pricing reductions due to competitive pressures | (11,541)        |
| Lower customer demand for blended food ingredients, partially offset by improved pricing on dairy blends and bran products, as well as increased customer demand for starches and brans   | (346)           |
| Lower volume in contract manufacturing, partially offset by higher pricing  | (120)           |
| Revenue for the year ended December 31, 2011  | <b>\$91,074</b> |

Gross margin in the Ingredients Group decreased by \$13,170 to \$17,451 for the year ended December 31, 2011 compared to \$30,621 for the year ended January 1, 2011, and the gross margin percentage decreased by 7.1% to 19.2%. The decrease in gross margin as a percentage of revenue was due to lower customer demand, primarily as a result of the loss of two significant customers, and the resultant decrease in efficiencies from lower production levels. The table below explains the decrease in gross margin:

| <b>Ingredients Group Gross Margin Changes</b>  |                 |
|--|-----------------|
| Gross Margin for the year ended January 1, 2011  | \$30,621        |
| Lower customer demand for oat and soy fiber products and reduced selling prices in response to market pressures, combined with plant inefficiencies due to lower production volumes, increased raw materials and input costs | (7,557)         |
| Reduced volume at our fruit ingredients operation due in part to the loss of a significant customer  | (3,765)         |
| Costs associated with the idling of fiber manufacturing facilities during 2011   | (1,199)         |
| Decrease in customer demand for blended food ingredients, as well as an increase in raw material costs and lower manufacturing costs absorbed  | (522)           |
| Lower contribution due to lower sales volumes on contract manufacturing, partially offset by higher production volumes and costs absorbed  | (127)           |
| Gross Margin for the year ended December 31, 2011  | <b>\$17,451</b> |



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Operating income in the Ingredients Group decreased by \$11,787, or 62.5%, to \$7,083 for the year ended December 31, 2011, compared to \$18,870 for the year ended January 1, 2011. The table below explains the decrease in operating income:

| <b>Ingredients Group Operating Income Changes</b>   |                |
|---|----------------|
| Operating Income for the year ended January 1, 2011   | \$18,870       |
| Decrease in gross margin, as explained above  | (13,170)       |
| Increased spending on research and development projects and higher bad debt expense on a customer bankruptcy, partially offset by lower spending on professional fees | (318)          |
| Decrease in compensation costs, primarily bonus expense   | 1,165          |
| Reduced consulting and product development costs in our fruit ingredients operation   | 536            |
| Operating Income for the year ended December 31, 2011   | <b>\$7,083</b> |

| <b>Consumer Products Group</b> | <b>December 31, 2011</b> | <b>January 1, 2011</b> | <b>Change</b> | <b>% Change</b> |
|--------------------------------|--------------------------|------------------------|---------------|-----------------|
| Revenue                        | 165,239                  | 134,768                | 30,471        | 22.6%           |
| Gross Margin                   | 11,336                   | 14,959                 | (3,623)       | -24.2%          |
| Gross Margin %                 | 6.9%                     | 11.1%                  |               | -4.2%           |
| Operating Income               | (3,978)                  | (1,302)                | (2,676)       | -205.5%         |
| Operating Income %             | -2.4%                    | -1.0%                  |               | -1.4%           |

The Consumer Products Group contributed \$165,239 in revenues for the year ended December 31, 2011, compared to \$134,768 for the year ended January 1, 2011, a \$30,471 or 22.6% increase. The table below explains the increase in revenue:

| <b>Consumer Products Group Revenue Changes</b>   |                  |
|--|------------------|
| Revenue for the year ended January 1, 2011   | \$134,768        |
| Incremental revenue from the acquisition of Edner on December 14, 2010   | 13,419           |
| Increased volume of consumer packaged products driven primarily by our beverage category including low-calorie lemonade, electrolyte water and orange juice                        | 11,232           |
| Higher volume as a result of new customers, increased demand and improved sales efforts in our healthy snacks operation, partially offset by reduced pricing to drive volume gains | 8,128            |
| Incremental revenue due to the acquisition of Lorton s on August 8, 2011   | 2,450            |
| Lower volumes of retail, industrial and food service offerings in our frozen foods operation, partially offset by improved pricing on retail offerings                             | (4,389)          |
| Decrease in brokerage commissions due to lower volume  | (369)            |
| Revenue for the year ended December 31, 2011   | <b>\$165,239</b> |

Gross margins in the Consumer Products Group decreased by \$3,623 to \$11,336 for the year ended December 31, 2011 compared to \$14,959 for the year ended January 1, 2011, and the gross margin percentage decreased by 4.2% to 6.9%. The decrease in gross margin as a percentage of revenue was due to the rationalization of legacy industrial format inventory in our frozen foods operation, higher raw material and labor costs in our healthy snacks operation, higher material costs for consumer packaged products, and negative contribution from Lorton s, slightly offset by lower storage costs from lower inventory levels of frozen product. The table below explains the decrease in gross

margin:

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| <b>Consumer Products Group Gross Margin Changes</b>   |                 |
|---|-----------------|
| Gross Margin for the year ended January 1, 2011   | \$14,959        |
| Lower volumes, reduced plant efficiencies, and increased inventory rationalization costs, partially offset by lower storage, freight, and brokerage costs in our frozen foods operation | (6,737)         |
| Lower brokerage volumes and commissions   | (413)           |
| Incremental gross margin losses due to the acquisition of Lorton s on August 8, 2011  | (317)           |
| Higher contribution due to increased volumes in our healthy snacks operations   | 2,051           |
| Increased volume of consumer packaged products primarily in our beverage category   | 1,239           |
| Incremental gross margin from acquisition of Edner on December 14, 2010   | 554             |
| Gross Margin for the year ended December 31, 2011   | <b>\$11,336</b> |

Operating loss in the Consumer Products Group increased by \$2,676, or 205.5%, to \$3,978 for the year ended December 31, 2011, compared to \$1,302 for the year ended January 1, 2011. The table below explains the increase in operating loss:

| <b>Consumer Products Group Operating Loss Changes</b>  |                  |
|--|------------------|
| Operating Loss for the year ended January 1, 2011  | (\$1,302)        |
| Decrease in gross margin, as explained above   | (3,623)          |
| Incremental SG&A expense from the acquisition of Edner on December 14, 2010  | (747)            |
| Incremental SG&A expense from the acquisition of Lorton s on August 8, 2011  | (449)            |
| Decrease in SG&A due to the closure of the brokerage office located in Chicago, Illinois   | 1,087            |
| Lower compensation costs due to staff reductions in our frozen foods operation, partially offset by increased headcount and bonuses in our healthy snacks operations | 1,003            |
| Decrease in other SG&A spending  | 53               |
| Operating Loss for the year ended December 31, 2011  | <b>(\$3,978)</b> |

**International Foods Group**

| For the year ended | December 31, 2011 | January 1, 2011 | Change | % Change |
|--------------------|-------------------|-----------------|--------|----------|
| Revenue            | 191,243           | 134,607         | 56,636 | 42.1%    |
| Gross Margin       | 25,712            | 16,784          | 8,928  | 53.2%    |
| Gross Margin %     | 13.4%             | 12.5%           |        | 0.9%     |
| Operating Income   | 9,040             | 3,978           | 5,062  | 127.2%   |
| Operating Income % | 4.7%              | 3.0%            |        | 1.7%     |

The International Foods Group contributed \$191,243 in revenues for the year ended December 31, 2011, compared to \$134,607 for the year ended January 1, 2011, a \$56,636 or a 42.1% increase. The table below explains the increase in revenue:

| <b>International Foods Group Revenue Changes</b>   |                  |
|--|------------------|
| Revenue for the year ended January 1, 2011   | \$134,607        |
| Higher customer demand for natural and organic commodities such as fruits, vegetables, sweeteners, nuts and coffee beans | 39,965           |
| Favorable impact on revenues due to the stronger euro relative to the U.S. dollar  | 9,774            |
| Increased commodity prices for sweeteners, coffee beans, cocoa, seeds, nuts, fruits and vegetables                       | 6,897            |
| Revenue for the year ended December 31, 2011   | <b>\$191,243</b> |

Gross margins in the International Foods Group increased by \$8,928 to \$25,712 for the year ended December 31, 2011 compared to \$16,784 for the year ended January 1, 2011, and the percentage increased by 0.9% to 13.4%. The margin rate reflected improved commodity pricing for organic ingredients. The table below explains the increase in gross margin:

| <b>International Foods Group Gross Margin Changes</b>  |                 |
|--|-----------------|
| Gross Margin for the year ended January 1, 2011  | \$16,784        |
| Higher volumes and pricing for natural and organic commodities such as fruits, vegetables, sweeteners, nuts and coffee beans | 7,446           |
| Favorable impact on margin due to the stronger euro relative to the U.S. dollar  | 1,482           |
| Gross Margin for the year ended December 31, 2011  | <b>\$25,712</b> |

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Operating income in the International Foods Group increased by \$5,062, or 127.2%, to \$9,040 for the year ended December 31, 2011, compared to \$3,978 for the year ended January 1, 2011. The table below explains the increase in operating income:

| <b>International Foods Group Operating Income Changes</b>                                      |                |
|--|----------------|
| Operating Income for the year ended January 1, 2011  | \$3,978        |
| Increase in gross margin, as explained above   | 8,928          |
| Higher compensation expense primarily in our European operations                               | (1,604)        |
| Increased foreign exchange losses  | (763)          |
| Unfavorable impact of a stronger euro relative to the U.S. dollar, on foreign denominated SG&A | (759)          |
| Increase in corporate allocations  | (740)          |
| Operating Income for the year ended December 31, 2011  | <b>\$9,040</b> |

| <b>Opta Minerals</b> | <b>December 31, 2011</b> | <b>January 1, 2011</b> | <b>Change</b> | <b>% Change</b> |
|----------------------|--------------------------|------------------------|---------------|-----------------|
| Revenue              | 93,120                   | 80,868                 | 12,252        | 15.2%           |
| Gross Margin         | 20,746                   | 20,037                 | 709           | 3.5%            |
| Gross Margin %       | 22.3%                    | 24.8%                  |               | -2.5%           |
| Operating Income     | 7,577                    | 7,753                  | (176)         | -2.3%           |
| Operating Income %   | 8.1%                     | 9.6%                   |               | -1.5%           |

Opta Minerals contributed \$93,120 in revenues for the year ended December 31, 2011, compared to \$80,868 for the year ended January 1, 2011, a \$12,252 or 15.2% increase. The table below explains the increase in revenue:

| <b>Opta Minerals Revenue Changes</b>  |                 |
|---|-----------------|
| Revenue for the year ended January 1, 2011  | \$80,868        |
| Increased volume of mill and foundry products as a result of global increase in demand for steel and new customers and applications | 14,994          |
| Decreased volumes of abrasive products and other industrial mineral products and services   | (2,742)         |
| Revenue for the year ended December 31, 2011  | <b>\$93,120</b> |

Gross margin for Opta Minerals increased by \$709 to \$20,746 for the year ended December 31, 2011 compared to \$20,037 for the year ended January 1, 2011, and the gross margin percentage decreased by 2.5% to 22.3%. The decrease in gross margin as a percentage of revenue was driven by changes to product mix, an increase in plant costs and higher labor costs related to higher sales volume. The table below explains the increase in gross margin:

| <b>Opta Minerals Gross Margin Changes</b>   |                 |
|---|-----------------|
| Gross Margin for the year ended January 1, 2011   | \$20,037        |
| Increased contribution from steel and related products due to higher demand, partially offset by higher labor costs due to the increased volume | 2,788           |
| Impact of reduced volume and increased raw material and plant costs in abrasive products  | (2,079)         |
| Gross Margin for the year ended December 31, 2011   | <b>\$20,746</b> |



Operating income for Opta Minerals decreased by \$176, or 2.3%, to \$7,577 for the year ended December 31, 2011, compared to \$7,753 for the year ended January 1, 2011. The table below explains the decrease in operating income:

| <b>Opta Minerals Operating Income Changes</b>         |                |
|---|----------------|
| Operating Income for the year ended January 1, 2011   | \$7,753        |
| Increase in gross margin, as explained above          | 709            |
| Decrease in foreign exchange gains                    | (698)          |
| Increase in general office costs                      | (187)          |
| Operating Income for the year ended December 31, 2011 | <b>\$7,577</b> |

| <b>Corporate Services</b> | <b>December 31, 2011</b> | <b>January 1, 2011</b> | <b>Change</b> | <b>% Change</b> |
|---------------------------|--------------------------|------------------------|---------------|-----------------|
| Operating Loss            | (8,766)                  | (12,118)               | 3,352         | 27.7%           |

Operating loss at Corporate Services decreased by \$3,352 to \$8,766 for the year ended December 31, 2011, from a loss of \$12,118 for the year ended January 1, 2011. The table below explains the decrease in operating loss:

| <b>Corporate Services Operating Loss Changes</b>   |                  |
|--|------------------|
| Operating Loss for the year ended January 1, 2011  | (\$12,118)       |
| Increase in corporate management fees that are allocated to SunOpta operating groups   | 2,662            |
| Decrease in compensation expense, primarily due to lower bonus expense and stock-based compensation  | 1,226            |
| Decreased legal fees primarily due to a reduction in legal costs related to the restatement of financial statements included in the quarterly reports for the first three quarters of 2007 | 1,167            |
| Lower workers compensation costs due to expectation of claims to be settled  | 598              |
| Lower depreciation expense due to certain corporate assets reaching the end of their estimated useful lives  | 319              |
| Decrease in foreign exchange gains   | (1,616)          |
| Increase in SG&A costs due to the impact of a stronger Canadian dollar relative to the U.S. dollar   | (569)            |
| Increase in professional fees, primarily due to increased tax and information technology consulting, and higher recruitment fees, partially offset by reduction in general office costs    | (435)            |
| Operating Loss for the year ended December 31, 2011  | <b>(\$8,766)</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.

## 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 September 25, 2012, The Organic Corporation ( TOC ) and certain of its subsidiaries entered into a credit facilities agreement with two lenders, which provides for a €45,000 revolving credit facility covering working capital needs and a €3,000 pre-settlement facility covering currency hedging requirements. A portion of the new revolving credit facility was used to repay an existing €35,000 line of credit facility of TOC. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date, and the credit limit can be extended or adjusted based on the needs of the business and upon approval of the lenders. These facilities support the global sourcing, supply and processing capabilities of the International Foods Group.

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. These facilities replaced our previous line of credit facilities of Cdn \$10,000 and \$115,000, and refinanced non-revolving term facilities totaling approximately \$21,000, which were due to mature on October 30, 2012. These facilities support our core North American food operations.

On July 24, 2012, Opta Minerals amended and restated its credit agreement to include a Cdn \$15,000 revolving term credit facility 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 approximately Cdn \$938. The second tranche is for an amount of Cdn \$15,000 and was primarily used to fund the acquisition of WGI, with the principal repayable in equal quarterly installments of approximately Cdn \$375. 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. These facilities are specific to the operations of Opta Minerals, are standalone and separate from facilities used to finance our core food operations, and carry no cross default or other provisions.

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.

Our preference is to maintain a total debt to equity ratio of 0.50 - 0.70 to 1.00. As at December 29, 2012, our total debt to equity ratio was 0.58 to 1.00 (December 31, 2011 0.54 to 1.00).





**Cash Flows Fiscal 2012 Compared to Fiscal 2011**

Net cash and cash equivalents increased \$4,462 to \$6,840 as at December 29, 2012, compared with \$2,378 at December 31, 2011, which reflected the following sources of cash:

- long-term debt borrowings of \$41,180, mainly relating to the acquisitions of WGI and Babco by Opta Minerals, and financing on equipment for the cocoa processing facility under construction in the Netherlands;
- cash provided by continuing operating activities of \$31,035; and
- net proceeds from the sale of Purity of \$12,189.

Mostly offset by the following uses of cash:

- net cash consideration paid by Opta Minerals to acquire WGI and Babco of \$30,044 in the aggregate;
- capital expenditures of \$24,251, with significant spending related to the expansion of our aseptic beverage processing and packaging capacity and other manufacturing capabilities, including construction of the cocoa processing facility; and
- net repayments of borrowings under our credit facilities of \$16,155.

Cash provided by operating activities from continuing operations was \$31,035 in fiscal 2012, compared with cash used of \$3,990 in fiscal 2011, an increase of \$35,025, reflecting the improved operating performance in SunOpta Foods, and a decrease in cash used to fund working capital, in particular inventories. The reduction in cash used to fund inventory reflects a decision to carry over greater quantities of certain grains from 2011 into 2012, and contract less acres in 2012 in order to realize the benefit from rising commodity prices. In addition, this reduction reflected reduced purchases of fruit-based commodities due to product rationalization efforts at our frozen foods operation. Those increases were partially offset by a decrease related to changes in accounts receivable reflecting higher sales in the fourth quarter of 2012, compared with the corresponding period of 2011.

Cash used in investing activities of continuing operations was \$61,881 in fiscal 2012, compared with \$19,393 in fiscal 2011, an increase of \$42,488, reflecting net cash paid by Opta Minerals to acquire WGI and Babco of \$30,044 in the aggregate, and an increase in capital expenditures of \$7,031 in fiscal 2012, compared with cash paid of \$5,461 related to the purchase of businesses and proceeds of \$4,528 from the sale of frozen food assets in Mexico in fiscal 2011. Cash provided by investing activities relating to discontinued operations of \$12,134 in fiscal 2012, primarily reflected the net proceeds from the sale of Purity of \$12,189.

Cash provided by financing activities of continuing operations was \$23,167 in fiscal 2012, compared with cash provided by financing activities of \$25,245 in fiscal 2011, a decrease of \$2,078, primarily due to a \$41,180 increase in long-term debt mainly related to the WGI and Babco acquisitions by Opta Minerals, and financing fees paid of \$2,564 related to the amendments to our various credit facilities, partially offset by net repayments of borrowings under our credit facilities of \$16,155 in fiscal 2012, reflecting higher operating cash flows and proceeds from the sale of Purity, compared with net borrowings of \$23,360 in fiscal 2011, mainly to fund working capital, capital expenditures and business acquisitions.

**Cash Flows Fiscal 2011 Compared to Fiscal 2010**

Net cash and cash equivalents increased \$43 to \$2,378 as at December 29, 2012, compared with \$2,335 at December 31, 2011, which reflected the following sources of cash:

- net borrowings of \$23,360, under our credit facilities; and
- net proceeds from the sale of frozen food assets in Mexico of \$4,528.

Mostly offset by the following uses of cash:

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- capital expenditures of \$17,220, including expansion of our aseptic and ingredients facilities and frozen foods packaging capabilities;
- cash paid related to business acquisitions of \$5,461, including the purchases of Lorton s and Inland; and
- cash used in continuing operating activities of \$3,990.

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Cash used in operating activities from continuing operations was \$3,990 in fiscal 2011, a decrease of \$13,978 compared with cash provided by operating activities from continuing operations of \$9,988 in fiscal 2010, reflecting an increase related to the timing and higher volume of purchases of crop inventories in fiscal 2011, and lower earnings from continuing operations compared with fiscal 2010.

Cash used in investing activities of continuing operations was \$19,393 in fiscal 2011, compared with \$64,529 in fiscal 2010, a decrease of \$45,136, reflecting net cash paid of \$5,461 in the aggregate to acquire businesses, including Lorton's and Inland, and proceeds of \$4,528 from the sale of the Mexican frozen food assets in fiscal 2011, compared with cash paid of \$43,671 to acquire Dahlgren and Edner in fiscal 2010. Cash provided by investing activities relating to discontinued operations of \$51,682 in fiscal 2010, reflected \$65,809 received on the sale of the Canadian Food Distribution assets, offset by \$12,142 of cash sold in the divestiture of SunOpta BioProcess.

Cash provided by financing activities of continuing operations was \$25,245 in fiscal 2011, compared with cash used in financing activities of \$6,806 in fiscal 2010, an increase of \$32,051, primarily due to net borrowings of \$23,360 to fund working capital, capital expenditures and business acquisitions in fiscal 2011, compared to net repayments of borrowings of \$7,878 in fiscal 2010, primarily from the proceeds received on the sale of the Canadian Food Distribution assets.

## **Business and Financial Outlook**

The purpose of this Business and Financial Outlook section is to provide shareholders, prospective investors and other readers of the Form 10-K with information regarding management's current plans and expectations including expectations regarding future revenues and earnings. This Outlook has been prepared for this purpose only and readers are cautioned that it may not be appropriate for any other purpose. Readers are also cautioned that this Outlook is subject to the assumptions, risks and uncertainties discussed below and elsewhere in the Form 10-K, that actual results may vary from those presented and therefore they should not place undue reliance on it. This Outlook reflects our current expectations and judgments based on circumstances existing as of March 6, 2013. We disclaim any intention or obligation to update or revise this Business and Financial Outlook, whether as a result of new information, future events or otherwise, except as required by law. The statements in this Outlook are forward-looking statements. See [Forward-Looking Statements](#).

Management believes that consumer demand for high quality natural, organic and specialty foods has grown rapidly over the past decade as global awareness of the benefits of healthy eating continues to proliferate. The global market for organic products was valued at \$59 billion in 2010 according to the Organic Monitor, a specialist research firm focusing on the organic industry, with historical growth rates between 10% and 20% depending on product line and country. We believe long-term trends for growth remain in place. While a large number of companies compete within specific segments of the market, we believe there are relatively few companies as well positioned as SunOpta to take advantage of this growing market. We believe that our integrated field to table business model built over the past 13 years has positioned SunOpta as a global leader in the natural and organic foods and natural health products markets.

For 2013, we believe we will realize revenue and unit growth compared to 2012, resulting from new product offerings, new and expanding customer relationships and incremental sales of natural and organic raw materials, ingredients and nutritious portable consumer packaged products in a variety of formats including flexible resealable pouch and aseptically packaged beverages. We believe that consumers will continue to focus on health conscious natural, organic and specialty foods as concerns over disease, obesity and well-being are center of mind and we feel SunOpta is well positioned to meet the needs of these growing markets.

We believe that our net earnings for 2013 should improve versus 2012 as a result of improved volumes, pricing and product mix; increased capacity and capabilities, cost reduction and streamlining initiatives; and fixed cost leverage both in our plants and back office. Our primary focus for 2013 remains the improvement of operating margins and returns on assets employed towards our established goals of 8% operating income as a percentage of revenues and

15% return on net assets, within three years time. Consistent with 2012, we have decided to take a cautious and responsible approach with regard to providing guidance, and in doing so, will not provide specific revenue and earnings guidance for 2013 at this time.

**SUNOPTA INC.**

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We have defined a three-pronged strategic framework from which key initiatives and near-term action plans are developed, helping to create focus and a high degree of accountability for our businesses and employees. The framework is as follows:

- Become a pure play natural and organic foods company. This includes evaluating our existing product portfolio, integrating strategically-aligned acquisitions, and divesting non-core assets to focus on key market categories and geographies.
- Aggressively grow our value-added packaged foods and ingredients portfolios. This includes enhancing innovation through shared research and development capabilities, and the addition of new sourcing and processing capabilities to achieve higher gross margins from the introduction of new products, packaging and processes to the market.
- Leverage the integrated platform we have built. This includes optimizing our supply chain capabilities, available production capacity, and consolidated back-office functions to achieve synergies and cost improvements.

Our overall objective of realizing profitable growth through an effective balance of internal growth and acquisitions in support of our integrated field to table strategy remains unchanged. Growth via existing customers, and the addition of new customers, is a fundamental objective and we are enhancing our key account and customer loyalty activities to support this. In addition, we continue to look for ways to exploit strategic synergies across SunOpta Foods, integrating wherever possible. Initiatives to improve the productivity of operations include our continuous improvement programs, product rationalization, plant and warehouse rationalization programs, continued training and development of employees, consolidated procurement, supply chain and internal services programs and consolidated information and accounting systems to provide better analysis and timely decision-making. A more fulsome discussion of key strategies is included in Item 1 of the Form 10-K.

Maintaining liquidity and having available sources of cash will be imperative to continue our growth. As at December 29, 2012, we had \$6,840 in cash, of which \$3,966 may only be used by the operations of Opta Minerals. We also had approximately \$67,191 in unused bank lines for a total of \$74,031 in cash and borrowings available. Our remaining cash and unused lines plus cash generated from operations are expected to be sufficient to finance 2013 capital spending estimated to be \$30,000 to \$35,000, and payment of the current portion of long-term liabilities of \$1,471. We believe additional sources of cash could be obtained through a combination of additional bank or subordinated financing, a private or public offering, the issuance of shares or through a divestiture. However, there can be no assurance that such financing or transactions would be available or, if so, on terms that are acceptable to us.

## 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

The table below sets out our contractual obligations as at December 29, 2012:

|   | Total   | 2013    | Payments due by Period |           | Thereafter |
|---|---------|---------|------------------------|-----------|------------|
|   |         |         | 2014-2015              | 2016-2017 |            |
|   | \$      | \$      | \$                     | \$        | \$         |
| Bank indebtedness   | 131,061 | 131,061 | -                      | -         | -          |
| Long-term debt obligations                                      | 58,198  | 6,925   | 12,798                 | 12,534    | 25,941     |
| Interest on bank indebtedness and long-term debt <sup>(b)</sup> | 14,496  | 3,182   | 5,497                  | 3,977     | 1,840      |

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|   |         |         |        |        |        |
|---|---------|---------|--------|--------|--------|
| Grain purchase commitments                  | 70,295  | 70,295  | -      | -      | -      |
| Other purchase commitments                  | 12,384  | 12,384  | -      | -      | -      |
| Operating leases                            | 58,447  | 12,996  | 21,374 | 13,402 | 10,675 |
| Long-term liabilities                       | 7,015   | 1,471   | 5,544  | -      | -      |
| Commodity and foreign<br>exchange contracts | 1,993   | 1,950   | 43     | -      | -      |
| Interest rate swaps                         | 396     | 396     | -      | -      | -      |
|   | 354,285 | 240,660 | 45,256 | 29,913 | 38,456 |

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- (a) This table does not include certain contingent consideration related to acquisitions completed prior to December 31, 2008 that may become payable if predetermined financial targets are achieved. The estimated fair value of contingent consideration liabilities related to acquisitions completed after January 1, 2009 is reflected in long-term liabilities in the table above.
- (b) Interest is calculated based on scheduled repayments over the periods as indicated, using existing interest rates at December 29, 2012, as disclosed in notes 11 to the Consolidated Financial Statements.

**Item 7A. Quantitative and Qualitative Disclosures about Market Risk**

All financial numbers presented in this Item 7A. Quantitative and Qualitative Disclosures about Market Risk are expressed in thousands of U.S. dollars, unless otherwise noted.

**Interest rate risk**

Variable and fixed rate borrowings carry different types of interest rate risk. Variable rate debt gives less predictability to earnings and cash flows as interest rates change, while the fair value of fixed rate debt is affected by changes in interest rates. As at December 29, 2012, we had \$181,336 and \$7,923 principal amount of variable and fixed rate debt, respectively, with weighted-average interest rates of 3.4% and 6.1%, respectively. Opta Minerals utilizes interest rate swaps to manage its exposure to changes in interest rates on a portion of its variable rate debt. As at December 29, 2012, it held an interest rate swap with a notional amount of Cdn \$32,200 to fix its effective interest rate on this amount at 1.85% plus a margin based on certain financial ratios, until February 2017. A 100 basis-point change in interest rates would have an after-tax effect of \$925 on our earnings and cash flows, based on current outstanding borrowings and effective interest rates on our variable rate debt, taking into account interest rate hedging activities. A 100 basis-point change in interest rates would not have material effect on the fair value of our fixed rate debt, based on the amount currently borrowed.

**Foreign currency risk**

All of our U.S. subsidiaries use the U.S. dollar as their functional currency, and the U.S. dollar is also our reporting currency. In addition, the functional currency of the Canadian corporate office is the U.S. dollar. The functional currency of our operations located in Europe is principally the euro. For these operations, gains (losses) on translation of net assets to U.S. dollars on consolidation are recorded in accumulated other comprehensive income within shareholders' equity. We are exposed to foreign exchange rate fluctuations as the financial results of our European subsidiaries are translated into U.S. dollars on consolidation. A 10% change in the exchange rates for the euro would affect the fair value of our net assets by \$2,597, with a corresponding impact to accumulated other comprehensive income.

The reporting currency of Opta Minerals is the U.S. dollar. Opta Minerals operates on an international basis. The functional currencies of its Canadian and European subsidiaries are the Canadian dollar and euro, respectively. For these operations, all transaction gains or losses in relation to the U.S. dollar are recorded as foreign exchange gain (loss) in the consolidated statements of operations, while gains (losses) on translation of net assets to U.S. dollars on consolidation are recorded in accumulated other comprehensive income within shareholders' equity. A 10% movement in foreign currency exchange rates would affect the fair value of our net assets by \$2,508 as at December 29, 2012, with a corresponding impact to accumulated other comprehensive income.

The euro appreciated against the U.S. dollar during 2012, with closing rates moving from \$1.2972 at December 31, 2011 to \$1.3216 at December 29, 2012. The Canadian dollar appreciated relative to the U.S. dollar in 2011, with closing rates moving from Cdn \$1.0170 at December 31, 2011 to Cdn \$0.9965 at December 29, 2012 for each U.S. dollar.



SunOpta Foods' operations based in the U.S. have limited exposure to other currencies since almost all sales and purchases are made in U.S. dollars. The European operations are exposed to various currencies as they purchase product from a wide variety of countries in several currencies and primarily sell into the European market. It is our intention to hold excess funds in the currency in which the funds are likely to be used, which will from time to time potentially expose us to exchange rate fluctuations when converted into U.S. dollars. In addition, we enter into forward foreign exchange contracts to reduce exposure to fluctuations in foreign currency exchange rates. Open forward foreign exchange contracts were marked-to-market at December 29, 2012, resulting in a loss of \$327 (December 31, 2011 - loss of \$149), which is included in foreign exchange on the consolidated statements of operations. We attempt to reduce exposure to foreign currency exchange rates by entering into forward foreign exchange contracts. The net effect of all exchange-based transactions including realized foreign exchange contracts, unrealized open contracts and all other foreign exchange transactions are recorded in foreign exchange on our consolidated statements of operations. For the year ended December 29, 2012, we recorded a gain of \$1,046 (December 31, 2011 - a loss of \$1,238).

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## **Commodity risk**

SunOpta Foods enters into exchange-traded commodity futures and options contracts to hedge its exposure to price fluctuations on grain and certain other commodity transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for hedging purposes are purchased and sold through regulated commodity exchanges. Inventories, however, may not be completely hedged, due in part to our assessment of our exposure from expected price fluctuations. Exchange purchase and sales contracts may expose us to risk in the event that the counterparty to a transaction is unable to fulfill its contractual obligation. We manage our risk by entering into purchase contracts with pre-approved growers.

We have a risk of loss from hedging activities if a grower does not deliver as scheduled. Sales contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures transactions are marked to market. Gains and losses on futures transactions related to grain inventories are included in cost of goods sold. As at December 29, 2012, we owned 290,028 (December 31, 2011 - 230,737) bushels of corn with a weighted-average price of \$6.85 (December 31, 2011 - \$6.11) and 502,256 (December 31, 2011 - 678,100) bushels of soy beans with a weighted-average price of \$17.36 (December 31, 2011 - \$12.85). As at December 29, 2012, we had a net short position on corn of 14,340 (December 31, 2011 - long position of 57,701) bushels and a net long position on soybeans of 18,677 (December 31, 2011 - 794). An increase or decrease in commodity prices of either soy or corn of 10% would result in an increase (decrease) in carrying value of these commodities by \$23 (December 31, 2011 - \$36). In addition, the International Foods Group hedges its purchases of cocoa to minimize price fluctuations.

## **Item 8. Financial Statements and Supplementary Data**

Our Consolidated Financial Statements required by this item are set forth immediately following the signature page to this Form 10-K beginning on page F1 and are incorporated herein by reference.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A - 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 annual 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 December 29, 2012.

## **Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control framework and processes are designed to provide reasonable assurance to management and our Board of Directors regarding the reliability of financial reporting and the preparation of our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 29, 2012. In making this assessment, management used the criteria set forth by the Committee on Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework*.

Based on its assessment, our management concluded that, as of December 29, 2012, our internal control over financial reporting is effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 29, 2012 has been audited by Deloitte LLP, Independent Registered Chartered Accountants that also audited the Company's Consolidated Financial Statements for the year ended December 29, 2012, as stated in their report which appears herein.

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

There were no changes in our internal control over financial reporting during the fourth quarter of 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**SUNOPTA INC.**

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**Report of Independent Registered Chartered Accountants**

To the Board of Directors and Shareholders of SunOpta Inc.:

We have audited the internal control over financial reporting of SunOpta Inc. and subsidiaries (the Company) as of December 29, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2012, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Financial Statements as of and for the year ended December 29, 2012 of the Company and our report dated March 6, 2013 expressed an unqualified opinion on those financial statements.

*/s/ Deloitte LLP*

Independent Registered Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
March 6, 2013

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**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required under this item is incorporated herein by reference to our Definitive Proxy Statement for the Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission not later than 120 days after December 29, 2012 (the 2013 Proxy Statement ).

**Item 11. Executive Compensation**

The information required under this item is incorporated herein by reference from the 2013 Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required under this item is incorporated herein by reference from the 2013 Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required under this item is incorporated herein by reference from the 2013 Proxy Statement.

**Item 14. Principal Accounting Fees and Services**

The information required under this item is incorporated herein by reference from the 2013 Proxy Statement.

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**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are being filed as part of this annual report.

1. Financial Statements. See Index to Consolidated Financial Statements set forth on page F1.
2. Financial Statement Schedules. All schedules for which provision is made in the applicable accounting requirements of the Securities and Exchange Commission are not required or the required information has been included within the financial statements or the notes thereto.
3. Exhibits. The list of exhibits in the Exhibit Index included in this annual report is incorporated herein by reference.

**EXHIBIT INDEX**

**Exhibits Description**

|      |   |
|------|---|
| 2.1+ | Asset Purchase Agreement, dated as of May 10, 2010, by and among United Natural Foods, Inc., UNFI Canada, Inc., SunOpta Inc. and Drive Organics Corp. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 12, 2010).   |
| 2.2+ | Amendment No. 1 to Asset Purchase Agreement, dated as of June 4, 2010, by and among United Natural Foods, Inc., UNFI Canada, Inc., SunOpta Inc. and Drive Organics Corp. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 10, 2010).   |
| 2.3+ | Share Purchase Agreement, dated as of August 31, 2010, among SunOpta Inc., SunOpta BioProcess Inc., the Vendors (as defined therein), Mascoma Corporation, and Mascoma Canada, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 7, 2010).  |
| 2.4+ | Purchase Agreement, dated as of November 8, 2010, by and among Sunrich LLC, Thomas Miller, Charles Considine and Timothy Egeland (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 10, 2010).   |
| 2.5+ | Asset Purchase Agreement, dated as of May 24, 2012, between SunOpta Inc. and Purity Life Health Products LP. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on May 30, 2012).  |
| 3.1  | Amalgamation of Stake Technology Ltd. and 3754481 Canada Ltd. (formerly George F. Pettinos (Canada) Limited) (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2000).   |
| 3.2  | Certificate of Amendment, dated October 31, 2003, to change the Company's name from Stake Technology Ltd. to SunOpta Inc. (incorporated by reference to Exhibit 3i(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).  |
| 3.3  | Articles of Amalgamation of SunOpta Inc. and Sunrich Valley Inc., Integrated Drying Systems Inc., Kettle Valley Dried Fruits Ltd., Pro Organics Marketing Inc., Pro Organics Marketing (East) Inc., 4157648 Canada Inc. and 4198000 Canada Ltd., dated January 1, 2004 (incorporated by reference to Exhibit 3i(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2003). |

3.4 Articles of Amalgamation of SunOpta Inc. and 6319734 Canada Inc., 4157656 Canada Inc. Kofman-Barenholtz Foods Limited, dated January 1, 2005 (incorporated by reference to Exhibit 3i(d) to the Company's Annual Report on Form 10-K for the year ended December 31, 2004).

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**Exhibits** **Description**

- 3.5 Articles of Amalgamation of SunOpta Inc. and 4307623 Canada Inc., dated January 1, 2006 (incorporated by reference to Exhibit 3i(e) to the Company's Annual Report on Form 10-K for the year ended December 31, 2005).
- 3.6 Articles of Amalgamation of SunOpta Inc., 4208862 SunOpta Food Ingredients Canada Ltd., 4406150 Canada Inc. and 4406168 Canada Inc., dated January 1, 2007 (incorporated by reference to Exhibit 3i(f) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
- 3.7 Articles of Amalgamation of SunOpta Inc. and 4460596 Canada Inc., dated January 1, 2008 (incorporated by reference to Exhibit 3i(g) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
- 3.8 Amended and Restated By-law No. 14, dated May 27, 2010 (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 29, 2010).
- 4.1 Form of Certificate representing Common Shares, no par value (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form 5-8 filed on September 2, 2011).
- 10.1\*\* Employee Stock Purchase Plan amended March 4, 2013.
- 10.2\* Retiring Allowance Agreement, dated March 8, 2011, between the Company and Jeremy Kendall which terminates and supersedes the Employment Agreement dated October 1, 2001 between the Company and Mr. Jeremy Kendall, as amended (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2010).
- 10.3\* Employment Agreement, dated February 1, 2007, between the Company and Mr. Steven Bromley (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007).
- 10.4\* SunOpta Inc. 2002 Stock Option Plan, Amended and Restated May 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 24, 2011).
- 10.5\* Letter Agreement, dated October 10, 2011, by and between SunOpta Inc. and Robert McKeracher (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 1, 2011).
- 10.6\* 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).
- 10.7\* 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).
- 10.8 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).

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**Exhibits**   **Description**

|               |   |
|---------------|---|
| 10.9          | Multipurpose Facilities Agreement, dated as of September 25, 2012, among The Organic Corporation B.V., Tradin Organic Agriculture B.V., SunOpta Foods Europe B.V., Tradin Organics USA Inc. and Trabocca B.V., as Borrowers, and ING Bank N.V. and ABN AMRO Bank N.V., as Lenders (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 1, 2012). |
| 10.10*        | Letter Agreement, dated January 10, 2013, by and between SunOpta Inc. and John Dietrich (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 15, 2013).  |
| <u>21**</u>   | <u>List of subsidiaries.</u>  |
| <u>23.1**</u> | <u>Consent of Deloitte LLP, Independent Registered Chartered Accountants.</u>   |
| <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>  |
| 101.INS       | XBRL Instance Document  |
| 101.SCH       | XBRL Taxonomy Extension Schema Document   |
| 101.CAL       | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF       | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB       | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE       | XBRL Taxonomy Extension Presentation Linkbase Document  |

+ 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.

\* Indicates management contract or compensatory plan or arrangement.

\*\* Filed herewith.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

/s/ Robert McKeracher

Robert McKeracher

Vice President and Chief Financial Officer

Date: March 6, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>Signature</b>                                  | <b>Title</b>   | <b>Date</b>   |
|---|--|---------------|
| <u>/s/ Steven R. Bromley</u><br>Steven R. Bromley | Chief Executive Officer and Director<br>(Principal Executive Officer)                      | March 5, 2013 |
| <u>/s/ Robert McKeracher</u><br>Robert McKeracher | Vice President and Chief Financial Officer<br>(Principal Financial and Accounting Officer) | March 5, 2013 |
| <u>/s/ Jeremy N. Kendall</u><br>Jeremy N. Kendall | Chairman and Director  | March 5, 2013 |
| <u>/s/ Cyril A. Ing</u><br>Cyril A. Ing           | Director   | March 5, 2013 |
| <u>/s/ Allan Routh</u><br>Allan Routh             | Director; President, Grains and Foods Group  | March 5, 2013 |
| <u>/s/ Katrina Houde</u><br>Katrina Houde         | Director   | March 5, 2013 |
| <u>/s/ Douglas Greene</u><br>Douglas Greene       | Director   | March 5, 2013 |
| <u>/s/ Victor Hepburn</u><br>Victor Hepburn       | Director   | March 5, 2013 |
| <u>/s/ Jay Amato</u><br>Jay Amato                 | Director   | March 5, 2013 |
| <u>/s/ Alan Murray</u><br>Alan Murray             | Director   | March 5, 2013 |
| <u>/s/ Peter Fraser</u><br>Peter Fraser           | Director   | March 5, 2013 |
|   |  |               |

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(expressed in thousands of U.S. dollars, unless otherwise noted)

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**Report of Independent Registered Chartered Accountants**

To the Board of Directors and Shareholders of SunOpta Inc.:

We have audited the accompanying consolidated balance sheets of SunOpta Inc. and subsidiaries (the "Company") as of December 29, 2012 and December 31, 2011, and the related consolidated statements of operations, comprehensive earnings, shareholders' equity, and cash flows for each of the three years in the period ended December 29, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of SunOpta Inc. and subsidiaries as of December 29, 2012 and December 31, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 29, 2012, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

*/s/ Deloitte LLP*

Independent Registered Chartered Accountants  
Licensed Public Accountants  
Toronto, Canada  
March 6, 2013

**SUNOPTA INC.**

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December 29, 2012 10-K

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**SunOpta Inc.**

## Consolidated Statements of Operations

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011

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

|  | <b>December 29, 2012</b> | December 31, 2011 | January 1, 2011 |
|--|--------------------------|-------------------|-----------------|
|  | \$                       | \$                | \$              |
|  |                          | (see note 1)      | (see note 1)    |
| <b>Revenues</b>  | <b>1,091,064</b>         | 1,019,871         | 831,677         |
| <b>Cost of goods sold</b>  | <b>957,327</b>           | 898,627           | 702,175         |
| <b>Gross profit</b>  | <b>133,737</b>           | 121,244           | 129,502         |
| Selling, general and administrative expenses                             | <b>82,878</b>            | 82,176            | 82,407          |
| Intangible asset amortization  | <b>4,933</b>             | 4,061             | 3,476           |
| Other expense (income), net (note 14)                                    | <b>2,194</b>             | (2,832)           | 10,309          |
| Foreign exchange (gain) loss   | <b>(1,046)</b>           | 1,238             | (1,565)         |
| <b>Earnings from continuing operations before the following</b>          | <b>44,778</b>            | 36,601            | 34,875          |
| Interest expense, net (note 11)  | <b>9,333</b>             | 8,839             | 9,749           |
| <b>Earnings from continuing operations before income taxes</b>           | <b>35,445</b>            | 27,762            | 25,126          |
| Provision for income taxes (note 15)                                     | <b>10,934</b>            | 9,896             | 7,123           |
| <b>Earnings from continuing operations</b>                               | <b>24,511</b>            | 17,866            | 18,003          |
| <b>Discontinued operations (note 3)</b>                                  |                          |                   |                 |
| Earnings (loss) from discontinued operations, net of income taxes        | <b>448</b>               | (11,005)          | (18,519)        |
| Gain on sale of discontinued operations, net of income taxes             | <b>808</b>               | 71                | 62,950          |
| <b>Earnings (loss) from discontinued operations, net of income taxes</b> | <b>1,256</b>             | (10,934)          | 44,431          |
| <b>Earnings</b>  | <b>25,767</b>            | 6,932             | 62,434          |
| Earnings attributable to non-controlling interests                       | <b>1,543</b>             | 1,636             | 1,368           |
| <b>Earnings attributable to SunOpta Inc.</b>                             | <b>24,224</b>            | 5,296             | 61,066          |
| <b>Earnings (loss) per share basic (note 16)</b>                         |                          |                   |                 |

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|  |             |        |      |
|--|-------------|--------|------|
| -from continuing operations                        | <b>0.35</b> | 0.25   | 0.26 |
| -from discontinued operations                      | <b>0.02</b> | (0.17) | 0.68 |
|  | <b>0.37</b> | 0.08   | 0.94 |
| <b>Earnings (loss) per share diluted</b> (note 16) |             |        |      |
| -from continuing operations                        | <b>0.34</b> | 0.24   | 0.25 |
| -from discontinued operations                      | <b>0.02</b> | (0.16) | 0.67 |
|  | <b>0.36</b> | 0.08   | 0.92 |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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December 29, 2012 10-K



**SunOpta Inc.**

## Consolidated Statements of Comprehensive Earnings

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011

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

|  | <b>December 29, 2012</b> | December 31, 2011 | January 1, 2011 |
|--|--------------------------|-------------------|-----------------|
|  | \$                       | \$                | \$              |
|  |                          | (see note 1)      | (see note 1)    |
| <b>Earnings from continuing operations</b>                               | <b>24,511</b>            | 17,866            | 18,003          |
| Earnings (loss) from discontinued operations, net of income taxes        | <b>1,256</b>             | (10,934)          | 44,431          |
| <b>Earnings</b>  | <b>25,767</b>            | 6,932             | 62,434          |
| Currency translation adjustment  | <b>741</b>               | (796)             | (3,002)         |
| Change in fair value of interest rate swap, net of income taxes (note 4) | <b>(87)</b>              | 440               | 351             |
| Adjustments due to pensions  | -                        | -                 | 588             |
| <b>Other comprehensive earnings (loss), net of income taxes</b>          | <b>654</b>               | (356)             | (2,063)         |
| <b>Comprehensive earnings</b>  | <b>26,421</b>            | 6,576             | 60,371          |
| Comprehensive earnings attributable to non-controlling interests         | <b>1,683</b>             | 1,731             | 779             |
| <b>Comprehensive earnings attributable to SunOpta Inc.</b>               | <b>24,738</b>            | 4,845             | 59,592          |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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**SunOpta Inc.**

Consolidated Balance Sheets

As at December 29, 2012 and December 31, 2011

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

|  | December 29, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
|  | \$                | \$                |
|  |                   | (see note 1)      |
| <b>ASSETS</b>                                      |                   |                   |
| <b>Current assets</b>                              |                   |                   |
| Cash and cash equivalents (note 17)                | 6,840             | 2,378             |
| Restricted cash (note 11)                          | 6,595             | -                 |
| Accounts receivable (note 5)                       | 113,314           | 88,898            |
| Inventories (note 6)                               | 255,738           | 228,455           |
| Prepaid expenses and other current assets (note 4) | 20,538            | 21,378            |
| Current income taxes recoverable                   | 1,814             | 1,503             |
| Deferred income taxes (note 15)                    | 2,653             | 4,773             |
| Current assets held for sale (note 1)              | -                 | 17,923            |
|  | <b>407,492</b>    | <b>365,308</b>    |
| <b>Investments</b> (note 7)                        | <b>33,845</b>     | <b>33,845</b>     |
| <b>Property, plant and equipment</b> (note 8)      | <b>140,579</b>    | <b>120,584</b>    |
| <b>Goodwill</b> (note 9)                           | <b>57,414</b>     | <b>49,387</b>     |
| <b>Intangible assets</b> (note 9)                  | <b>52,885</b>     | <b>48,035</b>     |
| <b>Deferred income taxes</b> (note 15)             | <b>12,879</b>     | <b>11,751</b>     |
| <b>Other assets</b> (note 4)                       | <b>2,216</b>      | <b>1,854</b>      |
| <b>Non-current assets held for sale</b> (note 1)   | <b>-</b>          | <b>739</b>        |
|  | <b>707,310</b>    | <b>631,503</b>    |
| <b>LIABILITIES</b>                                 |                   |                   |
| <b>Current liabilities</b>                         |                   |                   |
| Bank indebtedness (note 11)                        | 131,061           | 109,718           |
| Accounts payable and accrued liabilities (note 10) | 128,544           | 114,308           |
| Customer and other deposits                        | 4,734             | 843               |
| Income taxes payable                               | 4,125             | 1,229             |
| Other current liabilities (note 4)                 | 2,660             | 1,419             |
| Current portion of long-term debt (note 11)        | 6,925             | 35,198            |
| Current portion of long-term liabilities           | 1,471             | 995               |
| Current liabilities held for sale (note 1)         | -                 | 5,920             |
|  | <b>279,520</b>    | <b>269,630</b>    |
| <b>Long-term debt</b> (note 11)                    | <b>51,273</b>     | <b>17,066</b>     |
| <b>Long-term liabilities</b> (note 4)              | <b>5,544</b>      | <b>5,586</b>      |
| <b>Deferred income taxes</b> (note 15)             | <b>27,438</b>     | <b>24,273</b>     |
|  | <b>363,775</b>    | <b>316,555</b>    |
| <b>EQUITY</b>                                      |                   |                   |

|   |                |         |
|---|----------------|---------|
| <b>SunOpta Inc. shareholders equity</b>   |                |         |
| Common shares, no par value, unlimited shares authorized,<br>66,007,236 shares issued (December 31, 2011 - 65,796,398) (note<br>13) | <b>183,027</b> | 182,108 |
| Additional paid-in capital (note 13)  | <b>16,855</b>  | 14,134  |
| Retained earnings   | <b>124,732</b> | 100,508 |
| Accumulated other comprehensive income  | <b>1,537</b>   | 2,382   |
|   | <b>326,151</b> | 299,132 |
| <b>Non-controlling interest</b>   | <b>17,384</b>  | 15,816  |
| <b>Total equity</b>   | <b>343,535</b> | 314,948 |
|   | <b>707,310</b> | 631,503 |
| <b>Commitments and contingencies</b> (note 20)  |                |         |

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

Consolidated Statements of Shareholders' Equity

As at and for the years ended December 29, 2012, December 31, 2011 and January 1, 2011

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

|  | Common shares<br>000s | Common shares<br>\$ | Additional<br>paid-in<br>capital<br>\$ | Retained<br>earnings<br>\$ | Accumulated<br>other com-<br>prehensive<br>income<br>\$ | Non-<br>controlling<br>interest<br>\$ | Total<br>\$    |
|--|-----------------------|---------------------|--|----------------------------|---|---------------------------------------|----------------|
| <b>Balance at<br/>December 31,<br/>2009</b>                              | <b>64,983</b>         | <b>178,694</b>      | <b>7,934</b>                           | <b>34,146</b>              | <b>12,079</b>   | <b>13,658</b>                         | <b>246,511</b> |
| Employee share<br>purchase plan<br>and<br>compensation<br>grants         | 201                   | 760                 | -                                      | -                          | -   | -                                     | 760            |
| Exercise of<br>options   | 316                   | 1,207               | (84)                                   | -                          | -   | -                                     | 1,123          |
| Issuance of<br>warrants (note<br>13)                                     | -                     | -                   | 2,163                                  | -                          | -   | -                                     | 2,163          |
| Stock-based<br>compensation  | -                     | -                   | 2,323                                  | -                          | -   | -                                     | 2,323          |
| Earnings from<br>continuing<br>operations                                | -                     | -                   | -                                      | 16,635                     | -   | 1,368                                 | 18,003         |
| Earnings from<br>discontinued<br>operations net<br>of income taxes       | -                     | -                   | -                                      | 44,431                     | (7,772)   | (487)                                 | 36,172         |
| Currency<br>translation<br>adjustment                                    | -                     | -                   | -                                      | -                          | (2,295)   | (707)                                 | (3,002)        |
| Non-controlling<br>interest<br>contributions                             | -                     | -                   | -                                      | -                          | -   | 243                                   | 243            |
| Change in fair<br>value of interest<br>rate swap, net<br>of income taxes | -                     | -                   | -                                      | -                          | 233   | 118                                   | 351            |
| Non-current<br>liabilities held<br>for sale                              | -                     | -                   | -                                      | -                          | -   | (108)                                 | (108)          |
| Adjustment due<br>to pensions  | -                     | -                   | -                                      | -                          | 588   | -                                     | 588            |

| <b>Balance at<br/>January 1,<br/>2011</b>                       | <b>65,500</b> | <b>180,661</b> | <b>12,336</b> | <b>95,212</b>  | <b>2,833</b> | <b>14,085</b> | <b>305,127</b> |
|---|---------------|----------------|---------------|----------------|--------------|---------------|----------------|
| Employee stock purchase plan and compensation grants            | 119           | 626            | -             | -              | -            | -             | 626            |
| Exercise of options   | 177           | 821            | (292)         | -              | -            | -             | 529            |
| Stock-based compensation  | -             | -              | 2,090         | -              | -            | -             | 2,090          |
| Earnings from continuing operations                             | -             | -              | -             | 16,230         | -            | 1,636         | 17,866         |
| Loss from discontinued operations, net of income taxes          | -             | -              | -             | (10,934)       | -            | -             | (10,934)       |
| Currency translation adjustment                                 | -             | -              | -             | -              | (743)        | (53)          | (796)          |
| Change in fair value of interest rate swap, net of income taxes | -             | -              | -             | -              | 292          | 148           | 440            |
| <b>Balance at<br/>December 31,<br/>2011</b>                     | <b>65,796</b> | <b>182,108</b> | <b>14,134</b> | <b>100,508</b> | <b>2,382</b> | <b>15,816</b> | <b>314,948</b> |
| Employee stock purchase plan and compensation grants            | 111           | 546            | -             | -              | -            | -             | 546            |
| Exercise of options   | 100           | 373            | (132)         | -              | -            | -             | 241            |
| Stock-based compensation  | -             | -              | 2,853         | -              | -            | -             | 2,853          |
| Earnings from continuing operations                             | -             | -              | -             | 22,968         | -            | 1,543         | 24,511         |
| Earnings from discontinued operations, net of income taxes      | -             | -              | -             | 1,256          | (1,359)      | -             | (103)          |
| Currency translation  | -             | -              | -             | -              | 572          | 169           | 741            |

|   |               |                |               |                |              |               |                |
|---|---------------|----------------|---------------|----------------|--------------|---------------|----------------|
| adjustment  |               |                |               |                |              |               |                |
| Change in fair value of interest rate swap, net of income taxes | -             | -              | -             | -              | (58)         | (29)          | (87)           |
| Payment to non-controlling interests                            | -             | -              | -             | -              | -            | (115)         | (115)          |
| <b>Balance at December 29, 2012</b>                             | <b>66,007</b> | <b>183,027</b> | <b>16,855</b> | <b>124,732</b> | <b>1,537</b> | <b>17,384</b> | <b>343,535</b> |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011

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

|   | <b>December 29, 2012</b> | December 31, 2011 | January 1, 2011 |
|---|--------------------------|-------------------|-----------------|
|   | \$                       | \$                | \$              |
|   |                          | (see note 1)      | (see note 1)    |
| <b>CASH PROVIDED BY (USED IN)</b>   |                          |                   |                 |
| <b>Operating activities</b>   |                          |                   |                 |
| Earnings  | 25,767                   | 6,932             | 62,434          |
| Earnings (loss) from discontinued operations                              | 1,256                    | (10,934)          | 44,431          |
| Earnings from continuing operations                                       | 24,511                   | 17,866            | 18,003          |
| Items not affecting cash:   |                          |                   |                 |
| Depreciation and amortization   | 20,226                   | 17,809            | 16,471          |
| Unrealized gain on foreign exchange                                       | (169)                    | (268)             | (977)           |
| Deferred income taxes   | 1,981                    | 3,993             | 3,513           |
| Stock-based compensation  | 2,753                    | 2,090             | 2,764           |
| Impairment of long-lived assets (note 14)                                 | -                        | 358               | 7,984           |
| Unrealized (gain) loss on derivative instruments (note 4)                 | (695)                    | 839               | (1,503)         |
| Loss (gain) on sale of property, plant and equipment                      | 51                       | (3,201)           | 59              |
| Other   | 1,215                    | 693               | 24              |
| Changes in non-cash working capital, net of businesses acquired (note 17) | (18,838)                 | (44,169)          | (36,350)        |
| Net cash flows from operating activities - continuing operations          | 31,035                   | (3,990)           | 9,988           |
| Net cash flows from operating activities - discontinued operations        | (58)                     | (1,602)           | (8,680)         |
|   | 30,977                   | (5,592)           | 1,308           |
| <b>Investing activities</b>   |                          |                   |                 |
| Acquisitions of businesses, net of cash acquired (note 2)                 | (30,044)                 | (5,461)           | (43,761)        |
| Purchases of property, plant and equipment                                | (24,251)                 | (17,220)          | (19,183)        |
| Increase in restricted cash (note 11)                                     | (6,595)                  | -                 | -               |
| Proceeds from the sale of property, plant and equipment                   | 50                       | 4,528             | 36              |
| Purchases of intangible assets  | (128)                    | (58)              | (561)           |
| Payment of contingent consideration (note 4)                              | (477)                    | (233)             | (1,388)         |
| Other   | (436)                    | (949)             | 328             |
| Net cash flows from investing activities - continuing operations          | (61,881)                 | (19,393)          | (64,529)        |
| Net cash flows from investing activities - discontinued operations        | 12,134                   | (423)             | 51,682          |
|   | (49,747)                 | (19,816)          | (12,847)        |

| <b>Financing activities</b>                                      |                 |          |          |
|--|-----------------|----------|----------|
| Increase under line of credit facilities (note 11)               | <b>65,813</b>   | 36,503   | 14,328   |
| Repayment of line of credit facilities (note 11)                 | <b>(45,296)</b> | -        | -        |
| Borrowings under long-term debt (note 11)                        | <b>59,992</b>   | 4,825    | 30,217   |
| Repayment of long-term debt (note 11)                            | <b>(55,484)</b> | (17,968) | (52,423) |
| Financing costs  | <b>(2,564)</b>  | (186)    | (642)    |
| Proceeds from the issuance of common shares                      | <b>787</b>      | 1,155    | 1,883    |
| Other  | <b>(81)</b>     | 916      | (169)    |
| Net cash flows from financing activities - continuing operations | <b>23,167</b>   | 25,245   | (6,806)  |
| Foreign exchange gain (loss) on cash held in a foreign currency  | <b>65</b>       | (102)    | 265      |
| Increase in cash and cash equivalents during the year            | <b>4,462</b>    | (265)    | (18,080) |
| Discontinued operations cash activity included above:            |                 |          |          |
| Add: Balance included at beginning of year                       | -               | 308      | 18,971   |
| Less: Balance included at end of year                            | -               | -        | (308)    |
| Cash and cash equivalents - beginning of the year                | <b>2,378</b>    | 2,335    | 1,752    |
| Cash and cash equivalents - end of the year                      | <b>6,840</b>    | 2,378    | 2,335    |
| Supplemental cash flow information (notes 17)                    |                 |          |          |

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

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## **SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011

(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 food sectors and utilizes a number of integrated business models to bring cost-effective and quality products to market. In addition to SunOpta Foods, the Company owned approximately 66.1% of Opta Minerals Inc. (Opta Minerals) as at December 29, 2012 (December 31, 2011 - 66.2%). Opta Minerals is a vertically integrated provider of custom process solutions and industrial mineral products for use primarily in the steel, foundry, loose abrasive cleaning, and municipal water filtration industries. As at December 29, 2012 and December 31, 2011, the Company also had an 18.7% equity ownership position in Mascoma Corporation (Mascoma), an innovative biofuels company.

#### ***Basis of Presentation***

These consolidated financial statements have been prepared by the Company in United States (U.S.) dollars and in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The consolidated financial statements include the accounts of the Company and those of its wholly-owned and majority-owned subsidiaries, including Opta Minerals. In addition, the accounts of all variable interest entities (VIEs) for which the Company has been determined to be the primary beneficiary are included in these consolidated financial statements. All intercompany accounts and transactions have been eliminated on consolidation.

The Company's investment in Mascoma is being accounted for under the cost method of accounting, as the Company does not have the ability to exercise significant influence over the operating and financial policies of Mascoma.

#### ***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 years ended December 31, 2011 and January 1, 2011 have been reclassified to discontinued operations. In addition, the net assets of Purity have been reclassified and reported as held for sale on the consolidated balance sheet as at December 31, 2011.

#### ***Fiscal Year-End***

The fiscal year of the Company ends on the Saturday closest to December 31, based on a 52 week calendar, wherein every fiscal quarter is comprised of 13 weeks or 91 days. The fiscal year of Opta Minerals ends on December 31, and its quarterly periods end on March 31, June 30 and September 30.

#### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Areas involving significant estimates and assumptions include: inventory valuation reserves; income tax liabilities and assets, and related valuation allowances; allocation of the purchase price of acquired businesses; fair value of contingent consideration; useful lives of property, plant and equipment and intangible assets; expected future

cash flows used in evaluating intangible assets for impairment; evaluating recoverability of investments; and reporting unit fair values in testing goodwill for impairment. The estimates and assumptions made require judgment on the part of management and are based on the Company's historical experience and various other factors that are believed to be reasonable in the circumstances. Management continually evaluates the information that forms the basis of its estimates and assumptions as the business of the Company and the general business environment changes.

**SUNOPTA INC.**

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## **SunOpta Inc.**

Notes to Consolidated Financial Statements

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011

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### ***Business Acquisitions***

Acquired businesses are accounted for using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recorded at fair value, with limited exceptions. Any excess of the purchase price over the fair value of the net assets acquired is recorded as goodwill. Acquisition-related transaction costs are accounted for as an expense in the period in which the costs are incurred. Contingent consideration is measured at fair value and recognized as part of the consideration transferred in exchange for the acquired businesses. Contingent consideration liabilities are remeasured to fair value at each reporting date with the changes in fair value recognized in other expense (income) on the consolidated statements of operations.

### ***Variable Interest Entities***

The Company consolidates the financial results of VIEs in which it holds a controlling financial interest. The Company performs a qualitative analysis to determine whether it holds a controlling financial interest (i.e., is the primary beneficiary) in the VIE. The analysis identifies the primary beneficiary of a VIE as the entity that has both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE.

### ***Financial Instruments***

The Company's financial instruments recognized in the consolidated balance sheets and included in working capital consist of cash and cash equivalents, accounts receivable, inventories carried at market, derivative instruments, accounts payable and accrued liabilities, and customer and other deposits. The fair values of these instruments approximate their carrying values due to their short-term maturities. The fair values of long-term debt and long-term liabilities as at December 29, 2012 are considered not to be materially different from the carrying amounts.

The Company's financial instruments exposed to credit risk include cash equivalents and accounts receivable. The Company places its cash and cash equivalents with institutions of high creditworthiness. The Company's trade accounts receivable are not subject to a high concentration of credit risk. The Company routinely assesses the financial strength of its customers and believes that its accounts receivable credit risk exposure is limited. The Company maintains an allowance for losses based on the expected collectibility of the accounts receivable.

### ***Fair Value Measurements***

The Company has various financial assets and liabilities that are measured at fair value on a recurring basis, including certain inventories and derivatives, as well as contingent consideration. The Company also applies the provisions of fair value measurement to various non-recurring measurements for financial and non-financial assets and liabilities measured at fair value on a non-recurring basis.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Fair value measurements are estimated based on inputs categorized as follows:

- Level 1 inputs include quoted prices (unadjusted) for identical assets or liabilities in active markets that are observable.

- Level 2 inputs include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 includes unobservable inputs that reflect the Company's own assumptions about what factors market participants would use in pricing the asset or liability.

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When measuring fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

### ***Foreign Currency Translation***

The assets and liabilities of the Company's operations having a functional currency other than the U.S. dollar are translated into U.S. dollars at the exchange rate prevailing at the balance sheet date, and at the average rate for the reporting period for revenue and expense items. The cumulative currency translation adjustment is recorded as a component of accumulated other comprehensive income in shareholders' equity. Exchange gains and losses arising from foreign currency transactions are included in earnings.

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash and short-term deposits with an original maturity of 90 days or less. Certain cash and cash equivalents can only be used by subsidiaries and are consolidated for financial reporting purposes due to the Company's ownership (see note 17).

### ***Accounts Receivable***

Accounts receivable comprise trade receivables that are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is an estimate of the amount of probable credit losses in existing accounts receivable. Account balances are charged off against the allowance when the Company believes it is probable the receivable will not be recovered. As at December 29, 2012 and December 31, 2011, no customer's balance represented 10% or more of the Company's consolidated trade receivables balance.

### ***Inventories***

Inventories (excluding commodity grains) are valued at the lower of cost and market. Cost is principally determined on a weighted-average cost basis. Shipping and handling costs are included in cost of goods sold on the consolidated statements of operations.

Inventories of commodity grains, which include amounts acquired under deferred pricing contracts traded on the Chicago Board of Trade (CBoT), are valued at market. Grain inventory quantities at year-end are multiplied by the quoted price on the CBoT to reflect the market value of the inventory. This market value is then adjusted for a basis factor that represents differences in local markets, and broker and dealer quotes to arrive at market. Changes in CBoT prices or the basis factor are included in cost of goods sold on the consolidated statements of operations and comprehensive earnings.

SunOpta Foods economically hedges its commodity grain positions to protect gains and minimize losses due to market fluctuations. Futures contracts and purchase and sale contracts are adjusted to market price and resulting gains and losses from these transactions are included in cost of goods sold. As the Company has a risk of loss from hedge activity if the grower does not deliver the grain as scheduled, these transactions do not qualify as hedges under U.S. GAAP and, therefore, changes in market value are recorded in cost of goods sold on the consolidated statements of operations.

***Prepaid Expenses and Other Current Assets***

Prepaid expenses and other current assets include amounts paid in cash and recorded by the Company as a current asset prior to consumption.

***Property, Plant and Equipment***

Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is provided using the straight-line basis at rates reflecting the estimated useful lives of the assets.

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|                                |               |
|--------------------------------|---------------|
| Buildings                      | 20 - 40 years |
| Machinery and equipment        | 10 - 20 years |
| Enterprise software            | 5 years       |
| Office furniture and equipment | 3 - 7 years   |
| Vehicles                       | 5 years       |

***Goodwill***

Goodwill represents the excess of the purchase price over the estimated fair value of the identifiable net assets acquired. Goodwill is not amortized but is instead tested for impairment at least annually at the beginning of the fourth quarter, or whenever events or circumstances change between the annual impairment tests that would indicate the carrying amount of goodwill may be impaired. The Company performs a quantitative test for goodwill impairment by comparing the carrying amount of each reporting unit to its estimated fair value. If the carrying amount exceeds the reporting unit's fair value, there is a potential impairment in goodwill. Any impairment in goodwill is measured by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and comparing the notional goodwill from the fair value allocation to the carrying value of the goodwill.

***Intangible Assets***

The Company's finite-lived intangible assets consist of customer and other relationships, patents and trademarks and other intangible assets. These intangible assets are amortized on a straight-line basis over their estimated useful lives as follows:

|                                  |              |
|----------------------------------|--------------|
| Customer and other relationships | 2 - 25 years |
| Patents and trademarks           | 7 - 15 years |
| Other                            | 3 - 15 years |

***Impairment of Long-Lived Assets***

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable through undiscounted future cash flows. If impairment exists based on expected future undiscounted cash flows, a loss is recognized in income. The amount of the impairment loss is the excess of the carrying amount of the impaired asset over the fair value of the asset, typically based on discounted future cash flows.

***Other Assets***

Costs incurred in connection with obtaining financing are deferred and amortized over the term of the financing agreement, using the effective interest method.

***Derivative Instruments***

The Company is exposed to fluctuations in interest rates, commodities and foreign currency exchange. The Company utilizes certain derivative financial instruments to enhance its ability to manage these risks, including interest rate

swaps, exchange-traded commodity futures, commodity forward purchase and sale contracts and forward foreign exchange contracts. Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company does not enter into contracts for speculative purposes.

All derivative instruments are recognized on the consolidated balance sheets at fair value. Changes in the fair value of derivative instruments are recorded in earnings or other comprehensive earnings, based on whether the instrument is designated as part of a hedge transaction. Gains or losses on derivative instruments reported in accumulated other comprehensive income are reclassified to earnings in the period in which earnings are affected by the underlying hedged item. The ineffective portion of all hedges is recognized in earnings in the current period. As at December 29, 2012, the Company utilized the following derivative instruments:

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(a) Interest rate swaps

Opta Minerals utilizes interest rate swaps to manage its exposure to interest rate risks. The fair value of the interest rate swaps is included in accounts payable and accrued liabilities, with changes in the fair value included in accumulated other comprehensive income to the extent that the cash flow hedge continues to be effective. The amounts included in accumulated other comprehensive income are allocated to earnings in the same period in which the hedged item affects earnings. To the extent that the cash flow hedge is not considered to be effective by completely offsetting the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded immediately in earnings and is classified as interest expense on the consolidated statements of operations.

(b) Exchange-traded commodity futures and forward contracts

SunOpta Foods enters into exchange-traded commodity futures contracts to economically hedge its exposure to price fluctuations on grain and cocoa transactions to the extent considered practicable for minimizing risk from market price fluctuations. Futures contracts used for economical hedging purposes are purchased and sold through regulated commodity exchanges in the U.S. However, inventories may not be completely hedged, due in part to the Company's assessment of its exposure from expected price fluctuations. Forward purchase and sale contracts may expose the Company to risk in the event that a counterparty to a transaction is unable to fulfill its contractual obligation or if a grower does not deliver grain as scheduled. The Company manages its risk by entering into purchase contracts with pre-approved growers and sale contracts are entered into with organizations of acceptable creditworthiness, as internally evaluated. All futures and forward purchase and sale contracts are marked-to-market. Gains and losses on these transactions are included in cost of goods sold on the consolidated statements of operations.

(c) Forward foreign exchange contracts

The Company enters into forward foreign exchange contracts to minimize exchange rate fluctuations relating to foreign currency denominated sales contracts and accounts receivable. Forward foreign exchange contracts designated as hedges are marked-to-market with the effective portion of the gain or loss recognized in other comprehensive earnings and subsequently recognized in earnings in the same period the hedged item affects earnings. Gains and losses on forward exchange contracts not specifically designated as hedging instruments are included in foreign exchange (gain) loss on the consolidated statements of operations.

### ***Customer and Other Deposits***

Customer and other deposits include prepayments by customers of the Grains and Foods Group and the International Foods Group for merchandise inventory to be purchased at a future date.

### ***Income Taxes***

The Company follows the asset and liability method of accounting for income taxes whereby deferred income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and deferred income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes.

Deferred income tax assets are recognized only to the extent that management determines that it is more likely than not that the deferred income tax assets will be realized. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. The income tax expense or benefit is the income tax payable or recoverable for the year plus or minus the change in deferred income tax assets and liabilities during the year.

The Company is subject to ongoing tax exposures, examinations and assessments in various jurisdictions. Accordingly, the Company may incur additional income tax expense based upon the outcomes of such matters. In addition, when applicable, the Company adjusts income tax expense to reflect the Company's ongoing assessments of such matters, which requires

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judgment and can materially increase or decrease its effective rate as well as impact operating results. The evaluation of tax positions taken or expected to be taken in a tax return is a two-step process, whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position, and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the related tax authority.

### ***Defined Benefit Pension Plan***

The Company has a defined benefit pension plan covering certain European-based employees. The net periodic benefit cost, which is included in selling, general and administrative expenses on the consolidated statements of operations, represents the cost of benefits earned by employees as services are rendered. The cost reflects management's best estimates of the pension plan's expected investment returns, wage and salary escalation, mortality of members, terminations and the ages at which members will retire. Changes in these assumptions could impact future pension expense. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service lives of the members.

### ***Stock Option Plan***

The Company maintains a stock option plan under which incentive stock options may be granted to employees and non-employee directors. The Company recognizes stock-based compensation at fair value. The grant-date fair value of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized on a straight-line basis over the stock option vesting period of the entire award based on the estimated number of stock options that are expected to vest. When exercised, stock options are settled through the issuance of shares and are therefore treated as equity awards.

### ***Revenue Recognition***

The Company recognizes revenue at the time of delivery of the product or service and when all of the following have occurred: a sales agreement is in place, the price is fixed or determinable, and collection is reasonably assured. Details of specific recognition by industry group are as follows:

(a) SunOpta Foods

Grain revenues are recorded when title and possession of the product is transferred to the customer. Possession is transferred to the customer at the time of shipment from the Company's facility or at the time of delivery to a specified destination depending on the terms of the sale. All other SunOpta Foods revenues are recognized when title is transferred upon the shipment of product or at the time the service is provided to the customer. Consideration given to customers such as value incentives, rebates, early payment discounts and other discounts are recorded as reductions to revenues at the time of sale.

(b) Opta Minerals

Revenues from the sale of silica-free loose abrasives, industrial minerals, specialty sands and related products

are recognized on transfer of title upon delivery of goods to the customer or when goods are picked up by the customer. Revenue is measured net of returns, discounts and allowances.

***Earnings Per Share***

Basic earnings per share is computed by dividing the earnings available for common shareholders by the weighted-average number of common shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method whereby the weighted-average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the potential dilutive common shares had been issued at the beginning of the year.

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### *Recent Accounting Pronouncements*

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

- Amendments to fair value measurement and disclosure requirements.
- Guidance related to the presentation of net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements. The amendments did not change the components of other comprehensive income as reported in the Company's separate statement of comprehensive earnings.
- Guidance on the accounting for goodwill that provides the option of performing a qualitative assessment to determine the likelihood of a goodwill impairment charge. For purposes of its fiscal 2012 goodwill impairment testing, the Company opted to bypass the qualitative assessment and perform a quantitative test.

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

## 2. Business Acquisitions

### *Acquisitions in Fiscal 2012*

#### WGI Heavy Metals, Incorporated

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

The acquisition of WGI has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. The amounts recognized for current assets acquired and current liabilities assumed are provisional and adjustments may occur as a result of obtaining more information regarding the valuation of these items. The Company expects to finalize these amounts no later than one year from the acquisition date.

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|   | Provisional <sup>(1)</sup> | Adjusted <sup>(2)</sup> |
|---|----------------------------|-------------------------|
|   | \$                         | \$                      |
| Cash and cash equivalents                     | 2,454                      | 2,454                   |
| Accounts and other receivables <sup>(3)</sup> | 4,922                      | 4,922                   |
| Inventories                                   | 7,404                      | 7,329                   |
| Other current assets                          | 111                        | 111                     |
| Property, plant and equipment                 | 4,991                      | 5,386                   |
| Intangible assets                             | 630                        | -                       |
| Goodwill <sup>(4)</sup>                       | -                          | 217                     |
| Deferred income tax                           | 290                        | 383                     |
| Accounts payable and accrued liabilities      | (5,056)                    | (5,056)                 |
| Bank indebtedness and long-term debt          | (551)                      | (551)                   |
| Other long-term liabilities                   | (227)                      | (227)                   |
| Total consideration                           | 14,968                     | 14,968                  |

- (1) Reflects the provisional amounts previously reported by the Company in its consolidated financial statements for the quarter ended September 29, 2012.
- (2) Adjustments reflect additional information obtained in connection with the valuation of intangible assets and property, plant and equipment, as well as the consequential tax effects, as of the acquisition date. As these adjustments were not considered material to the Company's previously reported consolidated financial statements for the quarter ended September 29, 2012, the Company has not retrospectively adjusted those financial statements.
- (3) Includes trade accounts receivable with a fair value of \$4,365. The gross contractual amount of trade accounts receivable was \$5,097, of which \$732 is expected to be uncollectible.
- (4) 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 WGI, (ii) the value of the going-concern element of WGI's existing business (that is, the higher rate of return on the assembled net assets versus if Opta Minerals had acquired all of the net assets separately), and (iii) the value of WGI's assembled workforce that does not qualify for separate recognition as an intangible asset.

The acquired assets, assumed liabilities and results of operations of WGI have been included in the Opta Minerals operating segment since the date of acquisition. The revenues and earnings of WGI attributable to SunOpta Inc. that are included in the consolidated statement of operations for the period from the acquisition date to December 29, 2012 were \$10,225 and \$32, respectively.

**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 of Babco as of the acquisition date.

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|  | \$      |
|--|---------|
| Net assets acquired:                     |         |
| 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  |
| Consideration:                           |         |
| 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) Goodwill is calculated as the difference between the acquisition-date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents (i) synergies and economies of scale expected to result from combining the operations of Opta Minerals and Babco, (ii) the value of the going-concern element of Babco's existing business (that is, the higher rate of return on the assembled net assets versus if Opta Minerals had acquired all of the net assets separately), and (iii) the value of Babco's assembled workforce that does not qualify for separate recognition as an intangible asset.
- (3) Intangible assets consist of acquired customer relationships, which are being amortized over their estimated useful lives of approximately 15 years.
- (4) In conjunction with the acquisition, Opta Minerals fully repaid Babco's existing banking facilities.
- (5) Represents the fair value of contingent consideration payments of up to approximately \$1,300 if Babco achieves certain earnings before interest, taxes, depreciation and amortization ( EBITDA ) targets over the next five years. The fair value of the contingent consideration was measured using a discounted cash flow analysis based on level 3 inputs, which included a forecasted EBITDA growth rate of 2.5% and a risk-adjusted discount rate of 18.0%.

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, 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 year ended December 29, 2012.

The acquired assets (including goodwill), assumed liabilities and results of operations of Babco have been included in the Opta Minerals operating segment since the date of acquisition. The revenues and earnings of Babco attributable to SunOpta Inc. that are included in the consolidated statement of operations for the period from the acquisition date to December 29, 2012 were \$12,082 and \$2,223, respectively.

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**Acquisitions in Fiscal 2011**

On November 10, 2011, Opta Minerals acquired the outstanding members' interest of Inland RC, LLC ( Inland ), a manufacturer of pre-cast refractory shapes, injection lances, stirring lances and electric furnace deltas. Inland's results of operations have been included in the Opta Minerals operating segment since the date of acquisition. During fiscal 2012, Opta Minerals finalized the acquisition accounting for Inland. As the adjustments to the provisional amounts recorded as of the acquisition date were not considered material to the Company's previously reported consolidated financial statements, the Company has not retrospectively adjusted those financial statements.

On August 5, 2011, the Company acquired the assets and business of Lorton's Fresh Squeezed Juices, Inc. ( Lorton's ), an integrated producer of a variety of citrus-based products in both industrial and packaged formats. Lorton's results of operations have been included in the Consumer Products Group since the date of acquisition.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, as well as the consideration transferred to effect the acquisitions of Inland and Lorton's, as of the respective acquisition dates.

|                                  | Provisional<br>\$ | Inland<br>Final<br>\$ | Lorton's<br>\$ |
|----------------------------------|-------------------|-----------------------|----------------|
| Net assets acquired:             |                   |                       |                |
| Current assets                   | 470               | 470                   | 1,672          |
| Property, plant and equipment    | 508               | 508                   | 1,221          |
| Goodwill <sup>(1)</sup>          | 661               | 410                   | 572            |
| Intangible assets <sup>(2)</sup> | 249               | 249                   | 469            |
| Current liabilities              | (560)             | (635)                 | (923)          |
| Deferred income tax liability    | (130)             | -                     | -              |
|                                  | 1,198             | 1,002                 | 3,011          |
| Consideration:                   |                   |                       |                |
| Cash consideration               | 658               | 658                   | 2,500          |
| Contingent consideration         | 540               | 344                   | 511            |
|                                  | 1,198             | 1,002                 | 3,011          |

(1) The goodwill recognized is attributable primarily to expected synergies and assembled workforces of Inland and Lorton's. None of the goodwill is expected to be deductible for tax purposes.

(2) Intangible assets consist of acquired customer relationships of Inland and Lorton's, which are being amortized over their estimated useful lives of approximately 15 years and seven years, respectively.

**Acquisitions in Fiscal 2010**

On December 14, 2010, the Company acquired the operating assets of Edner of Nevada, Inc. ( Edner ), a producer of nutritious portable foods such as nutrition bars and grains-based snack bars. Edner's results of operations have been included in the Consumer Products Group since the acquisition date.

On November 8, 2010, the Company acquired 100% of the outstanding shares of Dahlgren & Company, Inc.

( Dahlgren ), an integrated processor and global supplier of confection sunflower seed products including in-shell and kernel products, roasted sunflower and soy seeds, bird food, hybrid seed and other products. Dahlgren s results of operations have been included in the Grains and Foods Group since the acquisition date.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, as well as the consideration transferred to effect the acquisitions of Edner and Dahlgren, as of the respective acquisition dates.

|                                  | Edner<br>\$ | Dahlgren<br>\$ |
|----------------------------------|-------------|----------------|
| <b>Net assets acquired:</b>      |             |                |
| Cash and cash equivalents        | -           | 4,239          |
| Current assets                   | 2,376       | 23,231         |
| Property, plant and equipment    | 1,418       | 12,402         |
| Goodwill <sup>(1)</sup>          | 2,346       | 15,940         |
| Intangible assets <sup>(2)</sup> | 1,823       | 11,013         |
| Other long-term assets           | -           | 624            |
| Current liabilities              | (647)       | (12,288)       |
| Deferred income tax liability    | -           | (7,670)        |
|                                  | 7,316       | 47,491         |
| <b>Consideration:</b>            |             |                |
| Cash consideration               | 4,000       | 46,303         |
| Contingent consideration         | 3,316       | 1,188          |
|                                  | 7,316       | 47,491         |

- (1) The goodwill recognized is attributable primarily to expected synergies and assembled workforces of Edner and Dahlgren. None of the goodwill is expected to be deductible for tax purposes.
- (2) Intangible assets consist principally of acquired customer relationships of Edner and Dahlgren, which are being amortized over their estimated useful lives of approximately seven years and 12 years, respectively.

**Pro Forma Consolidated Results of Operations (Unaudited)**

The following table presents unaudited pro forma consolidated results of operations for the years ended December 29, 2012 and December 31, 2011, as if the acquisitions of WGI and Babco had occurred as of January 2, 2011, and the Inland and Lorton's acquisitions had occurred as of January 1, 2010.

|   | December 29, 2012<br>\$ | December 31, 2011<br>\$ |
|---|-------------------------|-------------------------|
| Pro forma revenue                               | 1,113,598               | 1,078,574               |
| Pro forma earnings attributable to SunOpta Inc. | 22,667                  | 5,584                   |
| <b>Pro forma earnings per share</b>             |                         |                         |
| Basic   | 0.34                    | 0.09                    |
| Diluted   | 0.34                    | 0.08                    |

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 the respective acquired businesses. 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 directly used to finance the acquisitions;  
and
- consequential tax effects of the preceding adjustments.

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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 WGI and Babco acquisitions and the Inland and Lorton's acquisitions been completed on January 2, 2011 and January 1, 2010, respectively, nor does it purport to project the future results of operations of the Company.

### 3. Discontinued Operations

#### *Divestiture in Fiscal 2012*

##### 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 of Purity 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>                                |    | 199     |
| Gain on sale of discontinued operations, net of income taxes           | \$ | 808     |

(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.

Included in the loss before income taxes from discontinued operations for the year ended December 31, 2011, are impairment charges of \$6,025 and \$1,485 related to the write-down of intangible assets and property, plant and equipment, respectively, of Purity.

#### *Divestiture in Fiscal 2011*

##### Colorado Sun Oil Processing LLC

Colorado Sun Oil Processing LLC ( CSOP ) was organized in 2008 under the terms of a joint venture agreement with Colorado Mills, LLC ( Colorado Mills ) to construct and operate a vegetable oil refinery adjacent to Colorado Mills sunflower crush plant. On August 12, 2011, the U.S. Bankruptcy Court, District of Colorado, accepted an asset purchase agreement submitted by Colorado Mills for CSOP and rejected an asset purchase agreement submitted by

the Company. Based on the bankruptcy court ruling, the Company disposed of its interest in the CSOP joint venture, which was previously consolidated as a VIE as part of the Grains and Foods Group, and recognized a gain on sale of discontinued operations of \$71. The operating results of CSOP for the years ended December 29, 2012 and December 31, 2011, include legal fees and interest costs incurred in connection with arbitration proceedings related to the joint venture agreement, which are included within earnings (loss) from discontinued operations, net of income taxes. In addition, included in the loss before income taxes from discontinued operations for the year ended December 31, 2011, is a pre-tax charge of \$5,246 related to an arbitration ruling against the Company in favor of Colorado Mills (see note 20).

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***Divestitures in Fiscal 2010******SunOpta BioProcess Inc.***

On August 31, 2010, the Company sold 100% of its ownership interest in SunOpta BioProcess Inc. ( SunOpta BioProcess ) to Mascoma in exchange for an equity ownership position in Mascoma, consisting of preferred stock, common stock and warrants to purchase common stock of Mascoma. The fair value of the non-cash consideration received was estimated to be \$33,345 as of the date of sale. The Company recognized a gain on sale, net of income taxes, of \$50,154 in discontinued operations, after taking account of the net liabilities of SunOpta BioProcess transferred to Mascoma and the release of additional paid-in capital in connection with the accelerated vesting of stock options related to certain SunOpta BioProcess employees. In addition, included in loss before income taxes from discontinued operations for the year ended January 1, 2011 is \$15,280, of stock-based and other compensation awards that were triggered upon the change in control of SunOpta BioProcess. SunOpta BioProcess represented the Company's former SunOpta BioProcess operating segment.

***Canadian Food Distribution***

On June 11, 2010, the Company sold its Canadian Food Distribution assets for cash consideration of \$65,809, and recognized a gain on sale, net of income taxes, of \$12,796 in discontinued operations. Canadian Food Distribution was formerly part of the Company's former Distribution Group operating segment.

***Operating Results Reported in Discontinued Operations***

The following table presents the aggregate operating results of Purity, CSOP, Canadian Food Distribution and SunOpta BioProcess reported in earnings (loss) from discontinued operations:

|   | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|---|-------------------|-------------------|-----------------|
|   | \$                | \$                | \$              |
| Revenues  | 26,914            | 62,205            | 154,118         |
| Earnings (loss) before income taxes                               | 528               | (15,724)          | (20,401)        |
| Recovery of (provision for) income taxes                          | (80)              | 4,465             | 1,395           |
| Loss allocated to non-controlling interests                       | -                 | 254               | 487             |
| Earnings (loss) from discontinued operations, net of income taxes | 448               | (11,005)          | (18,519)        |

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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 December 29, 2012 and December 31, 2011:

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

|  | Fair value<br>asset<br>(liability)<br>\$ | December 31, 2011 |         |         |
|--|--|-------------------|---------|---------|
|  |  | Level 1           | Level 2 | Level 3 |
|  |  | \$                | \$      | \$      |
| (a) Commodity futures and forward contracts <sup>(1)</sup> |  |                   |         |         |
| Unrealized short-term derivative asset                     | 2,125                                    | 34                | 2,091   | -       |
| Unrealized long-term derivative asset                      | 271                                      | -                 | 271     | -       |
| Unrealized short-term derivative liability                 | (1,410)                                  | -                 | (1,410) | -       |
| Unrealized long-term derivative liability                  | (70)                                     | -                 | (70)    | -       |
| (b) Inventories carried at market <sup>(2)</sup>           | 12,685                                   | -                 | 12,685  | -       |
| (c) Interest rate swap <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 asset is included in prepaid expenses and other current assets, unrealized long-term derivative asset is included in other assets, unrealized short-term derivative liability is included in other current liabilities and unrealized long-term derivative liability is included in long-term liabilities on the consolidated balance sheets.
- (2) Inventories carried at market are included in inventories on the consolidated balance sheets.
- (3) The interest rate swap is 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, as well as the price of cocoa. These derivative instruments are not designated as hedges for accounting purposes. A \$695 gain for the year ended December 29, 2012 and a loss of \$839 for the year ended December 31, 2011 were recorded in cost of goods sold on the consolidated statements of operations related to changes in the fair value of these derivatives.

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

|                                      | Number of bushels |          |
|--------------------------------------|-------------------|----------|
|                                      | Corn              | Soybeans |
| Forward commodity purchase contracts | 886               | 448      |
| Forward commodity sale contracts     | (709)             | (675)    |
| Commodity futures contracts          | (481)             | (256)    |

In addition, as at December 29, 2012, the Company had open forward contracts to sell 64 lots of cocoa.

## (b) Inventories carried at market

Grains inventory carried at fair value is determined using quoted market prices from the 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. At December 29, 2012, the Company had 290,028 bushels of commodity corn and 502,256 bushels of commodity soybeans in inventories carried at market.

## (c) Interest rate swap

As at December 29, 2012, Opta Minerals held an interest rate swap with a notional value of Cdn \$32,200 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, until February 2017. The net notional value decreases in accordance with the quarterly principal repayments on the Opta Minerals' non-revolving term credit facility (see note 11).

At each period end, the Company calculates the mark-to-market fair value of the interest rate swap using a valuation technique using quoted observable prices for similar instruments as the primary input. Based on this valuation, the previously recorded fair value is adjusted to the current marked-to-market position. The marked-to-market gain or loss is placed in level 2 of the fair value hierarchy. As the interest rate swap is designated as a cash flow hedge for accounting purposes, gains and losses on changes in the fair value of this derivative instrument is included on the consolidated statements of comprehensive earnings. For the year ended December 29, 2012, a \$140 loss (December 31, 2011 gain of \$635; January 1, 2011 gain of \$496), net of income tax benefits of \$53 (December 31, 2011 income tax expense of \$195; January 1, 2011 income tax

expense of \$145), was recorded in other comprehensive earnings.

(d) Foreign forward currency contracts

As part of its risk management strategy, the Company enters into forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. For any open forward foreign exchange contracts at period end, the contract rate is compared to the forward rate, and a gain or loss is recorded. These contracts are placed in level 2 of the fair value hierarchy, as the inputs used in making the fair value determination are derived from and are corroborated by observable market data. While these forward foreign exchange contracts typically represent economic hedges that are not designated as hedging instruments, certain of these contracts may be designated as hedges. At December 29, 2012 the Company had open forward foreign exchange contracts with a notional value of €5,197 and \$7,116 that resulted in an unrealized loss of \$327, which is included in foreign exchange gain on the consolidated statements of operations.

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**(e) Contingent consideration**

The fair value measurement of contingent consideration arising from business acquisitions (see note 2) 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 year ended December 29, 2012, the change in the fair value of the contingent consideration liability reflected the net addition related to the acquisition-date fair values of the contingent consideration arising from the acquisitions of Babco and Inland of \$421 in the aggregate (see note 2) and the payment of \$477 in the aggregate to the former owners of Edner and Dahlgren.

**5. Accounts Receivable**

|                                 | December 29, 2012 | December 31, 2011 |
|---------------------------------|-------------------|-------------------|
|                                 | \$                | \$                |
| Trade receivables               | 115,737           | 90,494            |
| Allowance for doubtful accounts | (2,423)           | (1,596)           |
|                                 | 113,314           | 88,898            |

The change in the allowance for doubtful accounts provision for the years ended December 29, 2012 and December 31, 2011 is comprised as follows:

|  | December 29, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Balance, beginning of year                         | 1,596             | 1,449             |
| Net additions to provision                         | 1,639             | 870               |
| Accounts receivable written off, net of recoveries | (844)             | (629)             |
| Effects of foreign exchange rate differences       | 32                | (94)              |
| Balance, end of year                               | 2,423             | 1,596             |

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**6. Inventories**

|                                   | December 29, 2012 | December 31, 2011 |
|-----------------------------------|-------------------|-------------------|
|                                   | \$                | \$                |
| Raw materials and work-in-process | 169,269           | 147,051           |
| Finished goods                    | 63,621            | 70,358            |
| Company-owned grain               | 27,335            | 17,351            |
| Inventory reserve                 | (4,487)           | (6,305)           |
|                                   | 255,738           | 228,455           |

The change in the inventory reserve for the years ended December 29, 2012 and December 31, 2011 is comprised as follows:

|  | December 29, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Balance, beginning of year                                   | 6,305             | 3,764             |
| Additions to reserve during the year                         | 3,458             | 6,905             |
| Reserves applied and inventories written off during the year | (5,268)           | (4,338)           |
| Effect of foreign exchange rate differences                  | (8)               | (26)              |
| Balance, end of year   | 4,487             | 6,305             |

**7. Investments*****Mascoma Corporation***

As at December 29, 2012 and December 31, 2011, the Company held an 18.7% 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 to Mascoma in exchange for its equity ownership position in Mascoma (see note 3), with a carrying value of \$33,345. In addition, on August 3, 2011, the Company purchased a \$500 convertible subordinated note issued by Mascoma. The Company is accounting for its total 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 and its ability to secure additional sources of funding as required. On the basis of its overall assessment, the Company has not estimated the fair value of its investment in Mascoma as at December 29, 2012, as no events or changes in circumstances were identified that may have a significant adverse effect on fair value of the investment.



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**8. Property, Plant and Equipment**

|                                | December 29, 2012 |                             |                |
|--------------------------------|-------------------|-----------------------------|----------------|
|                                | Cost              | Accumulated<br>depreciation | Net book value |
|                                | \$                | \$                          | \$             |
| Land                           | 7,659             | -                           | 7,659          |
| Buildings                      | 59,388            | 15,793                      | 43,595         |
| Machinery and equipment        | 153,204           | 69,841                      | 83,363         |
| Enterprise software            | 7,164             | 5,878                       | 1,286          |
| Office furniture and equipment | 7,581             | 4,897                       | 2,684          |
| Vehicles                       | 6,028             | 4,036                       | 1,992          |
|                                | 241,024           | 100,445                     | 140,579        |

|                                | December 31, 2011 |                             |                |
|--------------------------------|-------------------|-----------------------------|----------------|
|                                | Cost              | Accumulated<br>depreciation | Net book value |
|                                | \$                | \$                          | \$             |
| Land                           | 6,256             | -                           | 6,256          |
| Buildings                      | 47,498            | 13,044                      | 34,454         |
| Machinery and equipment        | 135,542           | 61,325                      | 74,217         |
| Enterprise software            | 6,818             | 5,220                       | 1,598          |
| Office furniture and equipment | 6,238             | 4,163                       | 2,075          |
| Vehicles                       | 5,352             | 3,368                       | 1,984          |
|                                | 207,704           | 87,120                      | 120,584        |

Included in machinery and equipment as at December 29, 2012 is \$13,475 (December 31, 2011 - \$8,016) representing construction in process assets which were not being depreciated as they had not yet reached the stage of commercial viability. Also included in machinery and equipment as at December 29, 2012 is equipment under capital leases with a cost of \$1,132 (December 31, 2011 - \$1,266) and a net book value of \$994 (December 31, 2011 - \$956). In addition, machinery and equipment includes \$2,913 (December 31, 2011 - \$2,618) of spare parts inventory.

Total depreciation expense included in cost of goods sold and selling, general and administrative expense on the consolidated statements of operations related to property, plant and equipment for the year ended December 29, 2012 was \$15,293 (December 31, 2011 - \$13,935; January 1, 2011 - \$13,167).

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**9. Goodwill and Intangible Assets**

|  | December 29, 2012 | December 31, 2011 |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Goodwill   | 57,414            | 49,387            |
| Intangible assets with a finite life at cost, less accumulated amortization of \$24,300 (December 31, 2011 - \$19,198) | 52,885            | 48,035            |

The following is a summary of changes in goodwill:

|  | \$     |
|--|--------|
| Balance at January 1, 2011               | 48,174 |
| Acquisitions during the year             | 1,233  |
| Additions during the year <sup>(1)</sup> | 249    |
| Impact of foreign exchange               | (269)  |
| Balance at December 31, 2011             | 49,387 |
| Acquisitions during the year             | 7,892  |
| Additions during the year <sup>(1)</sup> | 250    |
| Reduction during the year <sup>(2)</sup> | (251)  |
| Impact of foreign exchange               | 136    |
| Balance at December 29, 2012             | 57,414 |

- (1) During the years ended December 29, 2012 and December 31, 2011, the Company recorded contingent consideration payments of \$250 and \$249, respectively, as an increase to goodwill relating to business combinations that occurred prior to January 1, 2009.
- (2) Reduction during the year ended December 29, 2012 related to an adjustment to the final purchase price allocation in connection with the acquisition of Inland (see note 2).

There was no indication of goodwill impairment based on the testing done for the years ended December 29, 2012 and December 31, 2011.

For the year ended January 1, 2011, the Company determined that the carrying value of goodwill in the former Natural Health Products reporting unit exceeded its fair value. As a result, the Company recorded a non-cash goodwill impairment charge of \$1,654, which has been reclassified to discontinued operations as a result of the divestiture of Purity (see note 3). The following table summarizes the critical assumptions that were used in estimating fair value of the former Natural Health Products reporting unit:

|  |       |
|--|-------|
| Estimated cumulative average operating income growth (2011 - 2015) | 47.4% |
| Projected long-term annual operating income growth <sup>(1)</sup>  | 2.5%  |
| Weighted-average discount rate <sup>(2)</sup>                      | 15.0% |

- (1) Represents the operating income growth rate used to determine terminal value.
- (2) Represents the targeted weighted-average discount rate of 11% plus the impact of a specific reporting unit risk premium to account for the estimated additional uncertainty associated with future cash flows.

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The following is a summary of changes in intangible assets:

|                              | Customer and other<br>relationships | Patents and<br>trademarks | Other | Total   |
|------------------------------|-------------------------------------|---------------------------|-------|---------|
|                              | \$                                  | \$                        | \$    | \$      |
| Balance at January 1, 2011   | 48,763                              | 649                       | 2,999 | 52,411  |
| Acquisitions (see note 2)    | 718                                 | -                         | -     | 718     |
| Additions                    | -                                   | -                         | 81    | 81      |
| Impairments (see note 14)    | -                                   | -                         | (270) | (270)   |
| Amortization                 | (3,674)                             | (103)                     | (679) | (4,456) |
| Impact of foreign exchange   | (438)                               | -                         | (11)  | (449)   |
| Balance at December 31, 2011 | 45,369                              | 546                       | 2,120 | 48,035  |
| Acquisitions (see note 2)    | 9,347                               | -                         | -     | 9,347   |
| Additions                    | -                                   | -                         | 128   | 128     |
| Amortization                 | (4,163)                             | (101)                     | (669) | (4,933) |
| Impact of foreign exchange   | 295                                 | -                         | 13    | 308     |
| Balance at December 29, 2012 | 50,848                              | 445                       | 1,592 | 52,885  |

The Company estimates that the aggregate future amortization expense associated with finite-life intangible assets in each of the next five fiscal years and thereafter will be as follows:

|            | \$     |
|------------|--------|
| 2013       | 4,980  |
| 2014       | 4,851  |
| 2015       | 4,630  |
| 2016       | 4,354  |
| 2017       | 4,354  |
| Thereafter | 29,716 |
|            | 52,885 |

**10. Accounts Payable and Accrued Liabilities**

|                           | December 29, 2012 | December 31, 2011 |
|---------------------------|-------------------|-------------------|
|                           | \$                | \$                |
| Accounts payable          | 86,297            | 78,151            |
| Payroll and commissions   | 10,389            | 9,362             |
| Accrued grain liabilities | 20,931            | 14,616            |
| Other accruals            | 10,927            | 12,179            |
|                           | 128,544           | 114,308           |

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**11. Bank Indebtedness and Long-Term Debt**

|  | December 29, 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>                        | 75,700            | 51,617            |
| European credit facilities <sup>(2)</sup>                          | 44,611            | -                 |
| TOC line of credit facilities <sup>(2)</sup>                       | -                 | 50,310            |
| Opta Minerals revolving term credit facility <sup>(3)</sup>        | 10,750            | -                 |
| Opta Minerals Canadian line of credit facility <sup>(3)</sup>      | -                 | 7,765             |
|  | 131,061           | 109,718           |
| <b>Long-term debt:</b>   |                   |                   |
| Non-revolving real estate term facility <sup>(1)</sup>             | -                 | 12,133            |
| Non-revolving machinery and equipment term facility <sup>(1)</sup> | -                 | 11,078            |
| Opta Minerals non-revolving term credit facility <sup>(3)</sup>    | 50,315            | -                 |
| Opta Minerals term loan facility <sup>(3)</sup>                    | -                 | 6,392             |
| Opta Minerals revolving acquisition facility <sup>(3)</sup>        | -                 | 12,420            |
| Lease obligations <sup>(4)</sup>                                   | 7,219             | 786               |
| Promissory notes <sup>(5)</sup>                                    | -                 | 8,744             |
| Other  | 664               | 711               |
|  | 58,198            | 52,264            |
| Less: current portion  | 6,925             | 35,198            |
|  | 51,273            | 17,066            |

**(1) Syndicated credit facilities**

The syndicated credit facilities support the core North American food operations of the Company.

On July 27, 2012, the Company entered into an amended and restated credit agreement with a syndicate of lenders. The amended agreement provides secured revolving credit facilities of Cdn \$10,000 (or the equivalent U.S. dollar amount) and \$165,000, as well as an additional \$50,000 in availability upon the exercise of an uncommitted accordion feature. The maximum availability on these facilities is based on a borrowing base that includes certain accounts receivable and inventories of the Company's North American businesses as defined in the credit agreement. These facilities mature on July 27, 2016, with the outstanding principal amount repayable in full on the maturity date. The facilities replaced the Company's previous line of credit facilities of Cdn \$10,000 and \$115,000, and refinanced non-revolving term facilities totalling approximately \$21,000, which were due to mature on October 30, 2012.

Interest on borrowings under these facilities accrues based on various reference rates including LIBOR, plus an applicable margin of 1.75% to 2.50%, which is set quarterly based on average borrowing availability. As at December 29, 2012, the weighted-average interest rate on the facilities was 2.46%.

These facilities are collateralized by substantially all of the assets of the Company and its subsidiaries, excluding



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### (2) European credit facilities

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

On September 25, 2012, TOC and certain of its subsidiaries entered into a credit facilities agreement with two lenders, which provides for a €45,000 revolving credit facility covering working capital needs and a €3,000 pre-settlement facility covering currency hedging requirements. The revolving credit facility is secured by the working capital of TOC and certain of its subsidiaries. A portion of the revolving credit facility was used to repay an existing €35,000 line of credit facility of TOC, as well as an additional €5,000 in borrowings that were secured by a letter of credit drawn on the Company's syndicated credit facilities. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date, and the credit limit may be extended or adjusted upon approval of the lenders. Interest costs under the facilities accrue based on either a loan margin of 1.75% or an overdraft margin of 1.85% plus the cost of funds as set by each of the lenders on a periodic basis. The cost of funds as set by the lenders was 0.11% at December 29, 2012.

On March 26, 2012, TOC entered into a €4,990 credit facility to pre-finance the construction of equipment for a cocoa processing facility to be located in Middenmeer, the Netherlands. As of December 29, 2012, €3,493 of this facility had been utilized to fund the construction in process. Interest on borrowings under this facility accrues at 3.8%. Upon completion of the assets under construction, borrowings under this facility will be repaid through a long-term lease facility (as described below under (4)).

### (3) Opta Minerals credit facilities

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

On July 24, 2012, Opta Minerals amended its credit agreement dated May 18, 2012, to provide for a Cdn \$20,000 revolving term credit facility (reducing to Cdn \$15,000 on January 1, 2013) and a Cdn \$52,500 non-revolving term credit facility. The revolving term credit facility matures on August 14, 2013, with the outstanding principal amount repayable in full on the maturity date. The first tranche of the non-revolving term credit facility, in the amount of Cdn \$37,500, was used by Opta Minerals to refinance borrowings under its existing term loan and revolving acquisition facilities. The principal is repayable in equal quarterly installments of approximately Cdn \$938. The second tranche of Cdn \$15,000 was primarily used to fund the acquisition of WGI (see note 2), with the principal being repayable in equal quarterly installments of Cdn \$375. Opta Minerals may be required to make additional repayments on the non-revolving term credit facility if certain financial ratios are not met. The non-revolving term credit facility matures on May 18, 2017, with the remaining outstanding principal amount repayable in full on the maturity date.

Interest on the borrowings under these facilities accrue at the borrower's option based on various reference rates including LIBOR, plus an applicable margin of 2.00% to 3.50% based on certain financial ratios of Opta Minerals. Opta Minerals utilizes an interest rate swap to hedge the interest payments on a portion of the borrowings under the non-revolving term credit facility (see note 4). As at December 29, 2012, the weighted-average interest rate on the amended credit facilities was 5.5%, after taking into account the related interest rate hedging activities.

The credit facilities are collateralized by a first priority security interest on substantially all of the assets of Opta Minerals.

(4) Lease obligations

On October 1, 2012, TOC entered into a €4,990 (\$6,595) lease facility to provide for long-term financing on equipment for the cocoa processing facility in the Netherlands. Interest on this facility accrues at an effective rate of 5.9% and the facility matures on October 1, 2019. Principal and accrued interest is repayable in equal monthly installments of €73. Borrowings under this facility are recorded as restricted cash on the consolidated balance sheet at December 29, 2012, as this amount will be applied to the repayment of the credit facility used to pre-finance the construction of the equipment (as described above under (2)).

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The Company has other obligations under capital leases that are repayable over a weighted-average term of 3.5 years, with a weighted-average interest rate of 5.1%.

## (5) Promissory notes

The promissory notes were issued principally in connection with the Company's acquisition of TOC in April 2008. As at December 31, 2011, the weighted-average interest rate on the promissory notes was 5.4%. During the year ended December 29, 2012, the remaining balance owing on these notes, including accrued interest, was paid to the former shareholders of TOC.

Principal repayments of long-term debt are as follows:

|            | \$     |
|------------|--------|
| 2013       | 6,925  |
| 2014       | 6,557  |
| 2015       | 6,241  |
| 2016       | 6,251  |
| 2017       | 6,283  |
| Thereafter | 25,941 |
|            | 58,198 |

Interest expense (including standby fees and the amortization of deferred financing costs) and interest income are as follows:

|                       | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|-----------------------|-------------------|-------------------|-----------------|
|                       | \$                | \$                | \$              |
| Interest expense      | 9,602             | 9,086             | 9,950           |
| Interest income       | (269)             | (247)             | (201)           |
| Interest expense, net | 9,333             | 8,839             | 9,749           |

**12. Employee Future Benefits**

TOC maintains a defined benefit pension plan for its employees. Contributions made to the plan by TOC and its employees totaled \$327 and \$302 for the years ended December 29, 2012 and December 31, 2011, respectively. As at December 29, 2012, the fair value of the plan assets amounted to \$1,612 (December 31, 2011 - \$761) and the projected benefit obligation of the plan totaled \$2,136 (December 31, 2011 - \$1,267). As at December 29, 2012, the future service lives of plan participants was estimated to be 31 years. The net pension liabilities of \$524 and \$506 as of December 29, 2012 and December 31, 2011, respectively, are included in long-term liabilities on the consolidated balance sheets. The net periodic benefit cost of the plan amounted to \$289, \$217 and \$173 in the years ended December 29, 2012, December 31, 2011 and January 1, 2011, respectively.

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### 13. Capital Stock

The Company is authorized to issue an unlimited number of common shares without par value and an unlimited number of special shares without par value (of which none are outstanding).

#### *Stock Option Plans*

Under the Company's 2002 Amended and Restated Stock Option Plan, the Company may issue up to 7,500,000 common shares on the exercise of stock options granted to employees and directors. As at December 29, 2012, 1,704,541 (December 31, 2011 - 2,838,241) options are remaining to be granted under this plan. Options granted in the year ended December 29, 2012 vest ratably on each of the first through fifth anniversaries of the grant date and expire on the tenth anniversary of the grant date. Options granted prior to January 1, 2012 generally vest ratably on each of the first through fifth anniversaries from the date of grant and expire on the sixth anniversary of the grant date.

Employee/director stock options granted by the Company contain an exercise price, which is equal to the closing market price of the shares on the day prior to the grant date. The Company uses reserved and unissued common shares to satisfy option exercises under the plan. Any consideration paid by employees/directors on exercise of stock options or purchase of stock is credited to capital stock.

Details of changes in employee/director stock options are as follows:

|                                  | Options   | Weighted-average exercise price | Weighted-average remaining contractual term (years) | Aggregate intrinsic value |
|----------------------------------|-----------|---------------------------------|---|---------------------------|
| Outstanding at beginning of year | 2,656,060 | \$ 5.51                         |   |                           |
| Granted                          | 1,375,500 | 5.56                            |   |                           |
| Exercised                        | (99,760)  | 2.42                            |   |                           |
| Forfeited or expired             | (244,300) | 7.89                            |   |                           |
| Outstanding at end of year       | 3,687,500 | \$ 5.46                         | 4.5   | \$ 3,036                  |
| Exercisable at end of year       | 1,028,740 | \$ 5.55                         | 3.0   | \$ 1,414                  |

The weighted-average grant-date fair values of all stock options granted in the years ended December 29, 2012, December 31, 2011 and January 1, 2011 were \$3.41, \$4.36 and \$2.79, respectively. The weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the options granted in those years were as follows:

|   | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|---|-------------------|-------------------|-----------------|
| Dividend yield <sup>(1)</sup>                   | 0%                | 0%                | 0%              |
| Expected volatility <sup>(2)</sup>              | 65.8%             | 68.0%             | 68.2%           |
| Risk-free interest rate <sup>(3)</sup>          | 1.2%              | 1.8%              | 2.3%            |
| Expected life of options (years) <sup>(4)</sup> | 6.5               | 6.0               | 6.0             |

(1) Determined based on expected annual dividend yield at the time of grant.

(2) Determined based on historical volatility of the Company's common shares over the expected life of the option.



- (3) Determined based on the yield on U.S. Treasury zero-coupon issues with maturity dates equal to the expected life of the option.
- (4) For the year ended December 29, 2012, determined using simplified method, as the Company changed the term of its stock option grants from six years to 10 years and, as a result, historical exercise data may no longer provide a reasonable basis upon which to estimate expected life. For the years ended December 31, 2011 and January 1, 2011, determined based on historical exercise and forfeiture patterns.

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The fair value of the options is based on estimates of the number of options that management expects to vest, which is estimated to be 85% of the granted amounts.

Details of employee/director stock options outstanding as at December 29, 2012 are as follows:

| Expiry date | Exercise price range |          | Vested<br>outstanding<br>options | Weighted-<br>average price<br>(vested) | Total<br>outstanding<br>options | Weighted-<br>average price<br>(total) |
|-------------|----------------------|----------|----------------------------------|--|---------------------------------|---------------------------------------|
|             | Low                  | High     |                                  |  |                                 |                                       |
| 2013        | \$ 12.31             | \$ 13.75 | 155,500                          | \$ 12.57                               | 155,500                         | \$ 12.57                              |
| 2014        | 4.06                 | 13.35    | 228,800                          | 5.59                                   | 292,100                         | 5.59                                  |
| 2015        | 0.91                 | 1.92     | 297,940                          | 1.65                                   | 564,900                         | 1.66                                  |
| 2016        | 4.45                 | 5.62     | 182,900                          | 4.49                                   | 485,000                         | 4.49                                  |
| 2017        | 4.88                 | 7.72     | 163,600                          | 7.07                                   | 818,000                         | 7.07                                  |
| 2022        | 5.14                 | 5.73     | -                                | -                                      | 1,372,000                       | 5.56                                  |
|             |                      |          | 1,028,740                        | \$ 5.55                                | 3,687,500                       | \$ 5.46                               |

Earnings from continuing operations for the year ended December 29, 2012 included \$2,753 (December 31, 2011 - \$2,090; January 1, 2011 - \$2,136) of stock compensation expense related to the Company's stock-based compensation arrangements, including \$501 (December 31, 2011 - \$354; January 1, 2011 - \$777) in stock-based compensation for the options issued by Opta Minerals to its employees. In addition, the Company realized a cash tax benefit of \$12 (December 31, 2011 - \$86; January 1, 2011 - \$42) relating to options granted in prior years and exercised in the current year, which was recorded as an increase in additional paid-in capital. Total compensation costs related to non-vested awards not yet recognized as an expense is \$6,827 as at December 29, 2012, which will be amortized over a weighted-average remaining vesting period of 2.3 years.

***Employee Share Purchase Plan***

The Company maintains an employee share purchase plan whereby employees can purchase common shares through payroll deductions. In the year ended December 29, 2012, the Company's employees purchased 111,078 common shares (December 31, 2011 - 119,028; January 1, 2011 - 198,903) for total proceeds of \$546 (December 31, 2011 - \$626; January 1, 2011 - \$760). As at December 29, 2012, 1,443,986 (December 31, 2011 - 1,555,064) common shares are remaining to be granted under this plan.

***Warrants***

On February 5, 2010, the Company issued warrants exercisable for up to 250,000 common shares at an exercise price of \$3.25 per share as partial payment for general investment banking financial advisory services. On June 11, 2010, the Company issued warrants exercisable for up to 600,000 common shares at an exercise price of \$5.11 per share as partial payment for advisory services in connection with the sale of the Canadian Food Distribution assets (see note 3). A fair value of \$2,163 was assigned to these warrants, determined using the Black-Scholes option pricing model. The fair value of the warrants was expensed in full as of the dates of issuance, with the offset recorded as an increase to additional paid-in capital. As at December 29, 2012, none of the warrants have been exercised.

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**14. Other Expense (Income), Net**

|   | December 29,<br>2012<br>\$ | December 31,<br>2011<br>\$ | January 1,<br>2011<br>\$ |
|---|----------------------------|----------------------------|--------------------------|
| (a) Severance and other rationalization costs | 1,705                      | 505                        | 1,169                    |
| (b) Acquisition-related transaction costs     | 671                        | 467                        | 547                      |
| (c) Long-lived asset impairment charges       | -                          | 358                        | 7,549                    |
| (d) Gain on sale of assets                    | (376)                      | (2,872)                    | -                        |
| (e) Fair value of contingent consideration    | -                          | (1,235)                    | -                        |
| (f) Legal settlements                         | -                          | (512)                      | -                        |
| (g) Wind-up of defined benefit pension plan   | -                          | -                          | 588                      |
| Other   | 194                        | 457                        | 456                      |
|   | 2,194                      | (2,832)                    | 10,309                   |

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

For the year ended December 29, 2012, the Company recorded employee severance and other costs in connection with the rationalization of a number of operations and functions in an effort to streamline operations. The Company incurred severance costs of \$500 in total as a result of a reduction in its salaried workforce of approximately 6%, and the Company accrued \$795 of severance payable to a former executive officer over a period of 15 months. In addition, Opta Minerals recorded severance costs of \$410 in connection with the acquisition of WGI.

For the year ended December 31, 2011, the Company recorded employee severance and other rationalization costs mainly in connection with the divestiture of fruit processing operations in Mexico and California. For the year ended January 1, 2011, these costs were related to the rationalization of operations at the Frozen Foods operations and the closure of the Company's brokerage operation in Chicago, Illinois.

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

Represents transaction costs incurred in connection with the fiscal 2012 acquisitions of WGI and Babco, the fiscal 2011 acquisitions of Inland and Lorton's, and the fiscal 2010 acquisitions of Edner and Dahlgren (see note 2).

**(c) Long-lived asset impairment charges**

For the year ended December 31, 2011, the Company wrote off certain long-lived tangible and intangible assets of the frozen food operation of the Consumer Products Group in the amounts of \$88 and \$270, respectively.

For the year ended January 1, 2011, the Company recorded an asset impairment charge of \$4,224 against the carrying value of property, plant and equipment within the Mexican and California fruit processing operations. Following management's decision to rationalize these operations, the carrying value of the property, plant and equipment was written down to its fair value. A supplier relationship intangible asset in the amount of \$454 was

also written off, as the rationalization plan impaired all future value of the relationship. In addition, the Company identified and wrote off \$516 of obsolete equipment at its healthy snacks operation. The Company also recorded an intangible assets impairment charge of \$2,355 in connection with the closure of its Chicago-based brokerage operation. All of these impairments charges were related to the Consumer Products Group and totaled \$7,549.

(d) Gain on sale of assets

For the year ended December 29, 2012, the gain on sale of assets comprises an insurance recovery that was in excess of the carrying amount of the insured assets.

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For the year ended December 31, 2011, the Company completed the sale of land, buildings and processing equipment located in Mexico for proceeds of \$5,650. The Company recorded a gain on sale of \$2,872, after deducting the carrying value of the assets and related transaction costs.

(e) Fair value of contingent consideration

For the year ended December 31, 2011, the Company remeasured the fair value of the contingent consideration related to the acquisitions of Edner and Dahlgren, which resulted in a \$1,235 reduction in the related contingent consideration liabilities.

(f) Legal settlements

For the year ended December 31, 2011, the Company recorded a recovery of \$512 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.

(g) Wind-up of defined benefit pension plan

As a result of the wind-up of a defined benefit plan of its former Mexican operations in fiscal 2010, the Company recognized a non-cash charge of \$588 that was previously recorded in accumulated other comprehensive income on the consolidated balance sheet.

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**15. Income Taxes**

The provision for income taxes from continuing operations differs from the amount that would have resulted by applying the combined Canadian federal and provincial statutory income tax rate to earnings before income taxes due to the following:

|  | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|--|-------------------|-------------------|-----------------|
|  | \$                | \$                | \$              |
| Income tax provision at combined statutory rate                                      | 9,392             | 7,773             | 7,925           |
| Income (decrease) by the effects of:   |                   |                   |                 |
| Impact of foreign exchange   | 18                | 194               | (138)           |
| Change in valuation allowance  | (1,354)           | (1,054)           | (3,708)         |
| Foreign tax rate differential  | 2,820             | 824               | 849             |
| Impact of substantively enacted tax rates  | (406)             | 1,036             | (298)           |
| Benefits of intercompany financing structures  | (210)             | (1,231)           | (1,483)         |
| Impact of capital gains and losses   | -                 | -                 | 2,227           |
| Impact of goodwill and intangible asset impairments                                  | -                 | 109               | (8)             |
| Change in unrecognized tax benefits  | 180               | -                 | (549)           |
| SRED and other ITCs carried forward in the year                                      | -                 | 606               | 264             |
| Expiring non-capital losses and R&D credits plus a change in Canadian capital losses | -                 | 2,002             | -               |
| Other  | 494               | (363)             | 2,042           |
| Provision for income taxes   | 10,934            | 9,896             | 7,123           |

The components of earnings (loss) from continuing operations before income taxes are shown below:

|        | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|--------|-------------------|-------------------|-----------------|
|        | \$                | \$                | \$              |
| Canada | 9,070             | (1,559)           | (5,013)         |
| U.S.   | 15,416            | 17,136            | 24,645          |
| Other  | 10,959            | 12,185            | 5,494           |
|        | 35,445            | 27,762            | 25,126          |

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The components of the provision (recovery) of income taxes are shown below:

|  | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|--|-------------------|-------------------|-----------------|
|  | \$                | \$                | \$              |
| <b>Current income tax provision (recovery):</b>  |                   |                   |                 |
| Canada   | 250               | (468)             | 2,546           |
| U.S.   | 3,123             | 3,534             | 1               |
| Other  | 3,041             | 2,724             | 1,103           |
|  | 6,414             | 5,790             | 3,650           |
| <b>Deferred income tax provision (recovery):</b> |                   |                   |                 |
| Canada   | 889               | 613               | (3,070)         |
| U.S.   | 3,648             | 3,121             | 7,802           |
| Other  | (17)              | 372               | (1,259)         |
|  | 4,520             | 4,106             | 3,473           |
| Provision for income taxes                       | 10,934            | 9,896             | 7,123           |

Deferred income taxes of the Company are comprised of the following:

|  | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|--|-------------------|-------------------|-----------------|
|  | \$                | \$                | \$              |
| Differences in property, plant and equipment and intangible assets | (33,476)          | (29,088)          | (30,998)        |
| Capital and non-capital losses                                     | 16,076            | 16,240            | 26,651          |
| Tax benefit of scientific research expenditures                    | 5,086             | 4,908             | 3,513           |
| Tax benefit of costs incurred during share issuances               | 368               | 191               | (2,072)         |
| Inventory basis differences  | 1,944             | 2,423             | 3,020           |
| Other accrued reserves   | 1,241             | 2,124             | (2,283)         |
|  | (8,761)           | (3,202)           | (2,169)         |
| Less: valuation allowance  | 3,145             | 4,547             | 5,880           |
| Net deferred income tax liability                                  | (11,906)          | (7,749)           | (8,049)         |

The components of the deferred income tax asset (liability) are shown below:

|        | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|--------|-------------------|-------------------|-----------------|
|        | \$                | \$                | \$              |
| Canada | 7,848             | 11,278            | 10,451          |
| U.S.   | (16,721)          | (16,009)          | (16,136)        |
| Other  | (3,033)           | (3,018)           | (2,364)         |
|        | (11,906)          | (7,749)           | (8,049)         |

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The components of the deferred income tax valuation allowance are as follows:

|   | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|---|-------------------|-------------------|-----------------|
|   | \$                | \$                | \$              |
| Balance, beginning of year  | 4,547             | 5,880             | 7,178           |
| Decrease in valuation allowance   | (1,354)           | (1,054)           | (3,708)         |
| Adjustments to valuation allowance as a result of acquisitions and foreign exchange | (48)              | (279)             | 2,410           |
| Balance, end of year  | 3,145             | 4,547             | 5,880           |

The Company has approximately \$10,847 (December 31, 2011 - \$10,628) in Canadian scientific expenditures, which can be carried forward indefinitely to reduce future years taxable income. The Company also has approximately \$958 and \$71 (December 31, 2011 - \$1,003 and \$390) in Canadian and U.S. scientific research investment tax credits and \$166 (December 31, 2011 - \$166) in Massachusetts research and development tax credits, which will expire in varying amounts up to 2029.

The Company has Canadian and U.S. federal non-capital loss carry-forwards of approximately \$28,821 and \$11,517, respectively, as at December 29, 2012 (December 31, 2011 - \$25,790 and \$7,743, respectively). The Company also has state loss carry-forwards of approximately \$11,311 as at December 29, 2012 (December 31, 2011 - \$8,842). The amounts are available to reduce future federal and provincial/state income taxes. Non-capital loss carry-forwards attributable to Canada and the U.S. expire in varying amounts over the next 20 years.

The Company has Canadian capital losses of approximately \$845 as at December 29, 2012 (December 31, 2011 - \$655) for which a full valuation allowance exists. These amounts are available to reduce future capital gains and do not expire.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. Based on this evaluation, a valuation allowance of \$3,145 (December 31, 2011 - \$4,547) has been recorded against certain assets to reduce the net benefit recorded in the consolidated financial statements.

The Company has not provided Canadian deferred taxes on cumulative earnings of non-Canadian affiliates and associated companies that have been reinvested indefinitely. Deferred taxes are provided for earnings of non-Canadian affiliates and associated companies when the Company determines that such earnings are no longer indefinitely reinvested.

The Company believes it has adequately examined its tax positions taken or expected to be taken in a tax return; however, amounts asserted by taxing authorities could differ from the Company's positions. Accordingly, additional provisions on federal, provincial, state and foreign tax-related matters could be recorded in the future as revised estimates are made or the underlying matters are settled or otherwise resolved. A reconciliation of the beginning and ending amount of unrecognized tax benefits (excluding interest and penalties) is presented below.

|                            | December 29, 2012 | December 31, 2011 |
|----------------------------|-------------------|-------------------|
|                            | \$                | \$                |
| Balance, beginning of year | 2,568             | 2,568             |



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|  |       |       |
|--|-------|-------|
| Additions based on tax positions related to the current year | 189   | -     |
| Balance, end of year   | 2,757 | 2,568 |

The Company's unrecognized tax benefits largely include a possible reduction to prior year losses for U.S. exposures relating to the deductibility of certain interest amount accrued. The Company believes that it is reasonably possible that a decrease in unrecognized tax benefits related to tax exposures in the U.S. may be necessary as statute limitations lapse beginning in 2015.

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Consistent with its historical financial reporting, the Company has classified interest and penalties related to income tax liabilities, when applicable, as part of interest expense in its consolidated statements of operations. The Company recognized \$nil in potential interest and penalties associated with unrecognized tax benefits for the year ended December 29, 2012 (December 31, 2011 - \$nil). The unrecognized tax benefits have been recorded as a reduction of long-term deferred tax assets. All of the unrecognized tax benefits could impact the Company's effective tax rate if recognized.

The number of years with open tax audits varies depending on the tax jurisdiction. The Company's major taxing jurisdictions include Canada, Ontario, the U.S. (including multiple states), and the Netherlands. The Company's 2007 through 2011 tax years (and any tax year for which available non-capital loss carry-forwards were generated up to the amount of non-capital loss carry-forward) remain subject to examination by the Internal Revenue Service for U.S. federal tax purposes, and the 2005 through 2011 tax years remain subject to examination by the appropriate governmental agencies for Canadian federal tax purposes. There are other ongoing audits in various other jurisdictions that are not considered material to the Company's consolidated financial statements.

**16. Earnings (Loss) Per Share**

Earnings (loss) per share were calculated as follows:

|  | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|--|-------------------|-------------------|-----------------|
| Earnings from continuing operations attributable to SunOpta Inc. | \$ 22,968         | \$ 16,230         | \$ 16,635       |
| Earnings (loss) from discontinued operations, net of taxes       | 1,256             | (10,934)          | 44,431          |
| Earnings attributable to SunOpta Inc.                            | \$ 24,224         | \$ 5,296          | \$ 61,066       |
| Basic weighted-average number of shares outstanding              | 65,897,969        | 65,644,372        | 65,179,067      |
| Dilutive potential of the following:                             |                   |                   |                 |
| Employee/director stock options                                  | 551,723           | 705,332           | 663,506         |
| Warrants   | 161,705           | 233,445           | 185,705         |
| Diluted weighted-average number of shares outstanding            | 66,611,397        | 66,583,149        | 66,028,278      |
| Earnings (loss) per share - basic:                               |                   |                   |                 |
| - from continuing operations                                     | \$ 0.35           | \$ 0.25           | \$ 0.26         |
| - from discontinued operations                                   | 0.02              | (0.17)            | 0.68            |
|  | \$ 0.37           | \$ 0.08           | \$ 0.94         |
| Earnings (loss) per share - diluted:                             |                   |                   |                 |
| - from continuing operations                                     | \$ 0.34           | \$ 0.24           | \$ 0.25         |
| - from discontinued operations                                   | 0.02              | (0.16)            | 0.67            |
|  | \$ 0.36           | \$ 0.08           | \$ 0.92         |

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011, options to purchase 2,045,200, 1,355,700 and 837,900 common shares, respectively, have been excluded from the calculations of diluted earnings per

share due to their anti-dilutive effect.

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

**17. Supplemental Cash Flow Information**

|  | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|--|-------------------|-------------------|-----------------|
|  | \$                | \$                | \$              |
| Changes in non-cash working capital, net of businesses acquired: |                   |                   |                 |
| Accounts receivable  | (18,904)          | 4,632             | (9,303)         |
| Inventories  | (19,180)          | (39,687)          | (38,334)        |
| Income tax recoverable   | 2,395             | (1,249)           | 1,201           |
| Prepaid expenses and other current assets                        | 3,409             | 4,532             | (10,456)        |
| Accounts payable and accrued liabilities                         | 9,541             | (10,254)          | 18,726          |
| Customer and other deposits                                      | 3,901             | (2,143)           | 1,816           |
|  | (18,838)          | (44,169)          | (36,350)        |
| Cash paid for:   |                   |                   |                 |
| Interest   | 8,541             | 7,632             | 8,993           |
| Income taxes   | 6,304             | 7,256             | 2,105           |

As at December 29, 2012, cash and cash equivalents included \$3,966 (December 31, 2011 - \$698) that is specific to Opta Minerals and cannot be utilized by the Company for general corporate purposes.

**18. Related Party Transactions and Balances**

The following table summarizes related party transactions and balances not disclosed elsewhere in these consolidated financial statements:

|   | December 29, 2012 | December 31, 2011 | January 1, 2011 |
|---|-------------------|-------------------|-----------------|
|   | \$                | \$                | \$              |
| Transactions:                                   |                   |                   |                 |
| (a) Purchases and sales at market prices:       |                   |                   |                 |
| President of Grains and Foods Group - purchases | 172               | 469               | 502             |
| President of Grains and Foods Group - sales     | 316               | 174               | 104             |
| Employees of Grains and Foods Group - purchases | 365               | 1,352             | 823             |
| Employees of Grains and Foods Group - sales     | 1,170             | 335               | 217             |
| (b) Sales of coffee beans at market prices      | 871               | 700               | 381             |
| (c) Rent paid at market rates                   | 498               | 512               | 430             |
| (d) Interest paid on promissory notes           | 112               | 225               | 320             |
| Balances:                                       |                   |                   |                 |
| (e) Amount due under employment contract        | 215               | 248               | 380             |
| (f) Contingent consideration obligations        | 62                | 233               | 447             |

(a) Represents purchases of agronomy products from the Company at market prices, as well as the sale of organic

corn and soybeans at market prices to the Company, which are included in revenues and cost of goods sold, respectively, on the consolidated statements of operations.

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For the years ended December 29, 2012, December 31, 2011 and January 1, 2011

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- (b) Represents the sale of coffee beans at market prices from TOC to a company that is owned by the non-controlling shareholder of Trabocca B.V., a less-than-wholly-owned subsidiary of TOC. These sales are included in revenues on the consolidated statement of operations.
- (c) Represents rental payments at market rates for the lease of production, warehouse and/or office facilities from former owners or shareholders of acquired businesses who remain employed by the Company. These payments are included in selling, general and administrative expenses on the consolidated statements of operations.
- (d) Represents interest payments on promissory notes issued to former shareholders of TOC (see note 11), who remained in senior management positions with TOC. These payments are included in interest expense, net on the consolidated statements of operations.
- (e) Represents the amount owed under an employment contract with the Company's former Chief Executive Officer ( CEO ), who remains Chairman of the Board. This contract provides for annual consulting fees to be paid until 2020, regardless of whether the former CEO continues to provide services to the Company. The remaining amount due is included in long-term liabilities on the consolidated balance sheets.
- (f) Represents contingent consideration obligations payable by Opta Minerals to former owners or shareholders of acquired businesses who remain employed by, or have been appointed directors of Opta Minerals. These obligations are included in long-term liabilities on the consolidated balance sheets.

**19. Variable Interest Entity**

TOC holds an investment in a joint venture in Ethiopia related to hulling of organic sesame seeds. TOC purchases all of the output from the joint venture, and sells the product through its existing sales and marketing channels. TOC holds 35% of the voting common shares and consolidates its variable interest in the joint venture, as it has been determined to be the primary beneficiary.

The liabilities of the VIE consolidated by the Company represent claims against the specific assets of the VIE, and not additional claims on the Company's general assets. There is no recourse available to the creditors of the VIE against the Company. The impact of consolidating the investment in the joint venture on the consolidated balance sheet is as follows:

|                               | December 29, 2012 | December 31, 2011 |
|-------------------------------|-------------------|-------------------|
|                               | \$                | \$                |
| Current assets                | 1,330             | 718               |
| Property, plant and equipment | 1,320             | 1,361             |
| Current liabilities           | (482)             | (414)             |
| Long-term debt                | (664)             | (711)             |
| Long-term liabilities         | (271)             | (330)             |
| Non-controlling interest      | 429               | 36                |
| Net investment by the Company | 1,662             | 660               |

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Notes to Consolidated Financial Statements

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011

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### 20. Commitments and contingencies

(a) Colorado Sun Oil Processors, LLC dispute

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

The parties initiated a dispute resolution process as set forth in the joint venture agreement, which Colorado Mills aborted prematurely through the initiation of suit in Prowers County District Court, Colorado on March 16, 2010. Subsequent to the filing of that suit, Colorado Mills acted with an outside creditor of the joint venture to involuntarily place the joint venture into bankruptcy. In August 2011, as part of the bankruptcy proceeding initiated in June 2010 in the U.S. Bankruptcy Court, District of Colorado, Colorado Mills purchased substantially all of the assets of the joint venture (see note 3).

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. On August 20, 2012, the Company appealed the judgment to the Colorado Court of Appeals. Oral Argument for the appeal has not yet been scheduled. Although management believes the claims asserted by Colorado Mills are baseless, that the arbitrator committed prejudicial error, and that vacatur of the award is warranted, management cannot predict whether the prospect of an unfavorable outcome in this matter is probable. As of December 29, 2012 and December 31, 2011, the Company accrued the full value of the award, together with accrued interest, pending the outcome of post-arbitration judicial proceedings.

(b) Other claims

In addition, various claims and potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that these claims or potential claims are without merit and 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.

(c) Environmental laws

The Company believes that, with respect to both its operations and real property, it is in material compliance with current environmental laws. Based on known existing conditions and the Company's experience in complying with emerging environmental issues, the Company is of the view that future costs relating to environmental compliance will not have a material adverse effect on its consolidated financial position, but there can be no assurance that unforeseen changes in the laws or enforcement policies of relevant governmental bodies, the discovery of changed conditions on the Company's real property or in its operations, or changes in the use of such properties and any related site restoration requirements, will not result in the incurrence of significant costs.

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

## (d) Grain, sunflower and other commitments

As at December 29, 2012, the Company held grain for the benefit of others in the amount of \$6,879 (December 31, 2011 - \$5,306). The Company is liable for any deficiencies of grade or shortage of quantity that may arise in connection with such grain. As at December 29, 2012, the Company also has commitments to purchase \$70,295 (December 31, 2011 - \$46,190) of grains and sunflowers in the normal course of business. In addition, the Company has other supplier and purchase commitments in the amount of \$12,384 as at December 29, 2012 (December 31, 2011 - \$2,720).

## (e) Letters of credit

The Company has outstanding letters of credit at December 29, 2012 totaling \$4,998 (December 31, 2011 - \$15,189).

## (f) Real property lease commitments

The Company has entered into various leasing arrangements, which have fixed monthly rents that are adjusted annually each year for inflation.

Minimum commitments under operating leases, principally for processing facilities, warehouse and distribution facilities, and equipment for the next five fiscal years and thereafter are as follows:

|            | \$     |
|------------|--------|
| 2013       | 12,996 |
| 2014       | 11,583 |
| 2015       | 9,791  |
| 2016       | 7,427  |
| 2017       | 5,975  |
| Thereafter | 10,675 |
|            | 58,447 |

In the years ended December 29, 2012, December 31, 2011 and January 1, 2011, net minimum rents, including contingent rents and sublease rental income, were \$10,704, \$10,211 and \$9,102, respectively.

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### 21. 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 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 the following business segments:

- (a) **SunOpta Foods** sources, processes, packages and markets a wide range of natural, organic and specialty raw materials, ingredients and packaged food products, with a focus on soy, corn, sunflower, fruit, fiber and other natural and organic food products. There are four operating segments within SunOpta Foods:
  - i. Grains and Foods Group is focused on vertically integrated sourcing, processing, packaging and marketing of grains, grain-based ingredients and packaged products;
  - ii. Ingredients Group is focused primarily on insoluble oat and soy fiber products, and specialty fruit ingredients, and works closely with its customers to identify product formulation, cost and productivity opportunities aimed at transforming raw materials into value-added food ingredient solutions;
  - iii. Consumer Products Group provides natural and organic consumer packaged food products to major global food manufacturers, distributors and supermarket chains with a variety of branded and private label products; and
  - iv. International Foods Group includes European and North American based operations that source and supply raw material ingredients and trade organic commodities.
- (b) **Opta Minerals** processes, distributes and recycles industrial minerals, silica-free abrasives, and specialty sands for use in the steel, foundry, loose abrasive cleaning, and municipal water filtration industries.
- (c) **Corporate Services** provide a variety of management, financial, information technology, treasury and administration services to the operating segments from the head office in Brampton, Ontario, and information technology and shared services from its office in Edina, Minnesota.

The Company's assets, operations and employees are principally located in the U.S., Canada, Europe, China and Ethiopia. Revenues are allocated based on the location of the customer.

Other expense (income), interest expense (income), and provision for income taxes are not allocated to operating segments.

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

The following segmented information for the years ended December 29, 2012, December 31, 2011 and January 1, 2011 is provided on the basis of the Company's new operating segments alignment and the divestiture of Purity (see note 3):

|   | December 29, 2012      |                        |                             |                    |
|---|------------------------|------------------------|-----------------------------|--------------------|
|   | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | Consolidated<br>\$ |
| External revenues by market:                  |                        |                        |                             |                    |
| U.S.  | 775,373                | 75,799                 | -                           | 851,172            |
| Canada  | 30,370                 | 29,243                 | -                           | 59,613             |
| Europe and other                              | 158,670                | 21,609                 | -                           | 180,279            |
| Total revenues from external customers        | 964,413                | 126,651                | -                           | 1,091,064          |
| Segment operating income (loss)               | 42,911                 | 10,062                 | (6,001)                     | 46,972             |
| Other expense, net                            |                        |                        |                             | 2,194              |
| Interest expense, net                         |                        |                        |                             | 9,333              |
| Provision for income taxes                    |                        |                        |                             | 10,934             |
| Earnings from continuing operations           |                        |                        |                             | 24,511             |
| Identifiable assets                           | 515,175                | 141,418                | 50,717                      | 707,310            |
| Depreciation and amortization                 | 13,677                 | 5,731                  | 818                         | 20,226             |
| Goodwill                                      | 42,497                 | 14,917                 | -                           | 57,414             |
| Expenditures on property, plant and equipment | 21,232                 | 2,504                  | 812                         | 24,548             |

|  | December 29, 2012                  |                            |                                     |                                       |                        |
|--|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|------------------------|
|  | Grains and<br>Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | SunOpta<br>Foods<br>\$ |
| External revenues by market:           |                                    |                            |                                     |                                       |                        |
| U.S.                                   | 456,804                            | 74,176                     | 178,121                             | 66,272                                | 775,373                |
| Canada                                 | 14,695                             | 5,325                      | 1,579                               | 8,771                                 | 30,370                 |
| Europe and other                       | 53,160                             | 3,043                      | 1,322                               | 101,145                               | 158,670                |
| Total revenues from external customers | 524,659                            | 82,544                     | 181,022                             | 176,188                               | 964,413                |

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|   |         |        |        |         |         |
|---|---------|--------|--------|---------|---------|
| Segment operating income (loss)               | 32,796  | 3,464  | (982)  | 7,633   | 42,911  |
| Identifiable assets                           | 253,624 | 54,198 | 80,097 | 127,256 | 515,175 |
| Depreciation and amortization                 | 7,283   | 2,613  | 2,744  | 1,037   | 13,677  |
| Goodwill                                      | 19,066  | 12,030 | 2,934  | 8,467   | 42,497  |
| Expenditures on property, plant and equipment | 7,755   | 2,114  | 4,033  | 7,330   | 21,232  |

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|   | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | December 31, 2011<br>Consolidated<br>\$ |
|---|------------------------|------------------------|-----------------------------|---|
| External revenues by market:                  |                        |                        |                             |   |
| U.S.  | 704,179                | 63,708                 | -                           | 767,887                                 |
| Canada  | 33,494                 | 15,277                 | -                           | 48,771                                  |
| Europe and other                              | 189,078                | 14,135                 | -                           | 203,213                                 |
| Total revenues from external customers        | 926,751                | 93,120                 | -                           | 1,019,871                               |
| Segment operating income (loss)               | 34,958                 | 7,577                  | (8,766)                     | 33,769                                  |
| Other income, net                             |                        |                        |                             | (2,832)                                 |
| Interest expense, net                         |                        |                        |                             | 8,839                                   |
| Provision for income taxes                    |                        |                        |                             | 9,896                                   |
| Earnings from continuing operations           |                        |                        |                             | 17,866                                  |
| Identifiable assets                           | 465,523                | 92,812                 | 54,506                      | 612,841                                 |
| Depreciation and amortization                 | 12,827                 | 4,207                  | 775                         | 17,809                                  |
| Goodwill                                      | 42,161                 | 7,226                  | -                           | 49,387                                  |
| Expenditures on property, plant and equipment | 14,377                 | 4,901                  | 636                         | 19,914                                  |

Other expense for the year ended December 31, 2011 includes impairments of long-lived assets in the Consumer Products Group of \$358 (see note 14).

|  | Grains and<br>Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | December 31, 2011<br>SunOpta<br>Foods<br>\$ |
|--|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|---|
| External revenues by market:           |                                    |                            |                                     |                                       |   |
| U.S.                                   | 396,279                            | 80,861                     | 161,339                             | 65,700                                | 704,179                                     |
| Canada                                 | 14,167                             | 6,957                      | 3,057                               | 9,313                                 | 33,494                                      |
| Europe and other                       | 68,749                             | 3,256                      | 843                                 | 116,230                               | 189,078                                     |
| Total revenues from external customers | 479,195                            | 91,074                     | 165,239                             | 191,243                               | 926,751                                     |

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|   |         |        |         |         |         |
|---|---------|--------|---------|---------|---------|
| Segment operating income (loss)               | 22,813  | 7,083  | (3,978) | 9,040   | 34,958  |
| Identifiable assets                           | 235,563 | 61,426 | 64,818  | 103,716 | 465,523 |
| Depreciation and amortization                 | 6,894   | 2,454  | 2,478   | 1,001   | 12,827  |
| Goodwill                                      | 19,066  | 12,030 | 2,934   | 8,131   | 42,161  |
| Expenditures on property, plant and equipment | 9,182   | 1,985  | 2,940   | 270     | 14,377  |

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|   | SunOpta<br>Foods<br>\$ | Opta<br>Minerals<br>\$ | Corporate<br>Services<br>\$ | January 1, 2011<br>Consolidated<br>\$ |
|---|------------------------|------------------------|-----------------------------|---------------------------------------|
| External revenues by market:                  |                        |                        |                             |                                       |
| U.S.  | 582,945                | 54,713                 | -                           | 637,658                               |
| Canada  | 21,557                 | 14,867                 | -                           | 36,424                                |
| Europe and other                              | 146,307                | 11,288                 | -                           | 157,595                               |
| Total revenues from external customers        | 750,809                | 80,868                 | -                           | 831,677                               |
| Segment operating income (loss)               | 49,549                 | 7,753                  | (12,118)                    | 45,184                                |
| Other expense, net                            |                        |                        |                             | 10,309                                |
| Interest expense, net                         |                        |                        |                             | 9,749                                 |
| Provision for income taxes                    |                        |                        |                             | 7,123                                 |
| Earnings from continuing operations           |                        |                        |                             | 18,003                                |
| Identifiable assets                           | 449,884                | 87,853                 | 48,974                      | 586,711                               |
| Depreciation and amortization                 | 11,271                 | 4,099                  | 1,101                       | 16,471                                |
| Goodwill                                      | 41,842                 | 6,332                  | -                           | 48,174                                |
| Expenditures on property, plant and equipment | 15,025                 | 1,580                  | 856                         | 17,461                                |

Other expense for the year ended January 1, 2011 includes impairment of long-lived assets in the Consumer Products Group of \$7,549 (see note 14).

|  | Grains and<br>Foods<br>Group<br>\$ | Ingredients<br>Group<br>\$ | Consumer<br>Products<br>Group<br>\$ | International<br>Foods<br>Group<br>\$ | January 1, 2011<br>SunOpta<br>Foods<br>\$ |
|--|------------------------------------|----------------------------|-------------------------------------|---------------------------------------|---|
| External revenues by market:           |                                    |                            |                                     |                                       |   |
| U.S.                                   | 302,073                            | 104,745                    | 129,240                             | 46,887                                | 582,945                                   |
| Canada                                 | 6,474                              | 8,492                      | 4,551                               | 2,040                                 | 21,557                                    |
| Europe and other                       | 56,358                             | 3,292                      | 977                                 | 85,680                                | 146,307                                   |
| Total revenues from external customers | 364,905                            | 116,529                    | 134,768                             | 134,607                               | 750,809                                   |



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|   |         |        |         |        |         |
|---|---------|--------|---------|--------|---------|
| Segment operating income (loss)               | 28,003  | 18,870 | (1,302) | 3,978  | 49,549  |
| Identifiable assets                           | 234,522 | 59,846 | 71,307  | 84,209 | 449,884 |
| Depreciation and amortization                 | 4,894   | 2,159  | 3,291   | 927    | 11,271  |
| Goodwill                                      | 19,066  | 12,030 | 2,346   | 8,400  | 41,842  |
| Expenditures on property, plant and equipment | 6,038   | 7,754  | 939     | 294    | 15,025  |

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***Geographic Segments***

|                               | U.S.<br>\$ | Canada<br>\$ | Europe and Other <sup>(1)</sup><br>\$ | December 29, 2012<br>Total<br>\$ |
|-------------------------------|------------|--------------|---------------------------------------|----------------------------------|
| Property, plant and equipment | 114,614    | 13,326       | 12,639                                | 140,579                          |
| Goodwill                      | 41,281     | 7,666        | 8,467                                 | 57,414                           |
| Total assets                  | 285,017    | 250,501      | 171,792                               | 707,310                          |

|                               | U.S.<br>\$ | Canada<br>\$ | Europe and Other <sup>(1)</sup><br>\$ | December 31, 2011<br>Total<br>\$ |
|-------------------------------|------------|--------------|---------------------------------------|----------------------------------|
| Property, plant and equipment | 108,326    | 8,767        | 3,491                                 | 120,584                          |
| Goodwill                      | 41,256     | -            | 8,131                                 | 49,387                           |
| Total assets                  | 288,767    | 227,380      | 115,356                               | 631,503                          |

(1) Other includes operations in China and Ethiopia as part of the International Foods Group.

For the years ended December 29, 2012, December 31, 2011 and January 1, 2011, the Company did not have any customers that exceeded 10% of total revenues.

**22. Subsequent event*****Bulgarian Processing Operation***

On December 31, 2012, the Company acquired a grains handling and processing facility operated as the Organic Land Corporation OOD ( OLC ) and located in Silistra, Bulgaria. The purchase price was €3,200, plus an earn-out based on predetermined earnings targets over a three-year period. The facility is located near a protected and chemical free agricultural area, which produces organic products including sunflower, flax seed, corn, barley, and soybeans. This acquisition diversifies the Company's organic sunflower processing operations and should allow it to expand its capabilities into other organic products grown in the region. The Bulgarian processing operation is included in the International Foods Group.

This transaction will be accounted for as a business combination under the acquisition method of accounting. The acquired assets of OLC consist primarily of property, plant and equipment. The purchase price will be allocated to the identifiable net assets based on their estimated fair values as of the acquisition date. Due to the limited time since the closing of the transaction, the valuation efforts and related acquisition accounting are incomplete at the time of filing of these consolidated financial statements. As a result, the Company is unable to provide amounts recognized as of the acquisition date for the major classes of assets acquired and liabilities assumed, including any resulting goodwill.

**Supplemental financial information (unaudited)**

Summarized below is the Consolidated Statement of Operations for the quarters ended December 29, 2012, September 29, 2012, June 30, 2012 and March 31, 2012, as well as the fiscal 2011 quarterly comparatives.

|   | December 29, 2012 <sup>(1)</sup> | Quarter ended<br>December 31, 2011 <sup>(2),(3)</sup> |
|---|----------------------------------|---|
|   | \$                               | \$  |
| Revenues  | 270,089                          | 242,322   |
| Cost of goods sold  | 241,107                          | 215,711   |
| Gross profit  | 28,982                           | 26,611  |
| Selling, general and administrative expenses                                | 20,967                           | 20,679  |
| Intangible asset amortization   | 1,280                            | 983   |
| Other expense, net  | 188                              | 55  |
| Foreign exchange (gain) loss  | (417)                            | 62  |
| Earnings from continuing operations before the following                    | 6,964                            | 4,832   |
| Interest expense, net   | 1,853                            | 2,302   |
| Earnings from continuing operations before income taxes                     | 5,111                            | 2,530   |
| Provision for income taxes  | 632                              | 1,021   |
| Earnings from continuing operations   | 4,479                            | 1,509   |
| Discontinued operations   |                                  |   |
| Loss from discontinued operations, net of income taxes <sup>(4)</sup>       | (69)                             | (8,948)   |
| Gain on sale of discontinued operations, net of income taxes <sup>(5)</sup> | 132                              | -   |
| Earnings (loss) from discontinued operations, net of income taxes           | 63                               | (8,948)   |
| Earnings (loss)   | 4,542                            | (7,439)   |
| Earnings attributable to non-controlling interests                          | 159                              | 113   |
| Earnings (loss) attributable to SunOpta Inc.                                | 4,383                            | (7,552)   |
| Earnings (loss) per share - basic   |                                  |   |
| -from continuing operations   | 0.07                             | 0.02  |
| -from discontinued operations   | -                                | (0.14)  |
|   | 0.07                             | (0.11)  |
| Earnings (loss) per share - diluted   |                                  |   |

|                               |             |        |
|-------------------------------|-------------|--------|
| -from continuing operations   | <b>0.06</b> | 0.02   |
| -from discontinued operations | -           | (0.13) |
|                               | <b>0.07</b> | (0.11) |

- (1) Includes the results of operations of Babco Industrial Corp. ( Babco ), acquired February 2012, and WGI Heavy Metals, Inc. ( WGI ), acquired August 2012.
- (2) Includes the results of operations of Inland RC, LLC from November 2011 date of acquisition, and Lorton s Fresh Squeezed Juices, Inc. ( Lorton s ) acquired August 2011.
- (3) Reflects the reclassification of revenues and expenses of Purity Life Natural Health Products ( Purity ) (sold June 2012) to discontinued operations.
- (4) Fourth quarter of 2011 reflects results of operations of Purity, including a pre-tax charge of \$7,510 for the impairment of long-lived assets, and results of operations of Colorado Sun Oil Processing LLC ( CSOP ), sold August 2011, including a pre-tax charge of \$5,246 in connection with an arbitration ruling.
- (5) Fourth quarter of 2012 reflects results of operations and final recognition of gain on sale of Purity Life Natural Health Products ( Purity ), sold June 2012.

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|  | September 29, 2012 <sup>(1)</sup> | Quarter ended<br>October 1, 2011 <sup>(2),(3)</sup> |
|--|-----------------------------------|---|
|  | \$                                | \$  |
| Revenues   | 279,339                           | 257,011   |
| Cost of goods sold   | 246,158                           | 226,990   |
| Gross profit   | 33,181                            | 30,021  |
| Selling, general and administrative expenses                         | 19,395                            | 20,591  |
| Intangible asset amortization  | 1,225                             | 1,045   |
| Other expense, net   | 264                               | 7   |
| Foreign exchange (gain) loss   | (130)                             | 1,022   |
| Earnings from continuing operations before the following             | 12,427                            | 7,356   |
| Interest expense, net  | 2,339                             | 2,033   |
| Earnings from continuing operations before income taxes              | 10,088                            | 5,323   |
| Provision for income taxes   | 3,947                             | 1,451   |
| Earnings from continuing operations                                  | 6,141                             | 3,872   |
| Discontinued operations  |                                   |   |
| Earnings (loss) from discontinued operations, net of taxes           | 112                               | (433)   |
| Gain on sale of discontinued operations, net of taxes <sup>(4)</sup> | -                                 | 71  |
| Earnings (loss) from discontinued operations, net of taxes           | 112                               | (362)   |
| Earnings   | 6,253                             | 3,510   |
| Earnings attributable to non-controlling interests                   | 449                               | 144   |
| Earnings attributable to SunOpta Inc.                                | 5,804                             | 3,366   |
| Earnings (loss) per share - basic                                    |                                   |   |
| -from continuing operations  | 0.09                              | 0.06  |
| -from discontinued operations  | -                                 | (0.01)  |
|  | 0.09                              | 0.05  |
| Earnings (loss) per share - diluted                                  |                                   |   |
| -from continuing operations  | 0.09                              | 0.06  |
| -from discontinued operations  | -                                 | (0.01)  |
|  | 0.09                              | 0.05  |

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- (1) Includes the results of operations of Babco, acquired February 2012, and WGI from August 2012 date of acquisition.
- (2) Includes the results of operations of Lorton s from August 2011 date of acquisition.
- (3) Reflects the reclassification of revenues and expenses of Purity (sold June 2012) to discontinued operations.
- (4) Third quarter of 2011 reflects gain on sale of CSOP in August 2011.

**SUNOPTA INC.**

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|  | June 30, 2012 <sup>(1)</sup> | Quarter ended<br>July 2, 2011 <sup>(2)</sup> |
|--|------------------------------|--|
|  | \$                           | \$   |
| Revenues   | 282,308                      | 275,188                                      |
| Cost of goods sold   | 245,220                      | 243,209                                      |
| Gross profit   | 37,088                       | 31,979                                       |
| Selling, general and administrative expenses                         | 22,086                       | 21,163                                       |
| Intangible asset amortization  | 1,235                        | 1,017  |
| Other expense (income), net  | 1,378                        | (3,256)                                      |
| Foreign exchange (gain) loss   | (581)                        | 19   |
| Earnings from continuing operations before the following             | 12,970                       | 13,036                                       |
| Interest expense, net  | 2,558                        | 2,520  |
| Earnings from continuing operations before income taxes              | 10,412                       | 10,516                                       |
| Provision for income taxes   | 2,769                        | 4,170  |
| Earnings from continuing operations                                  | 7,643                        | 6,346  |
| Discontinued operations  |                              |  |
| Earnings (loss) from discontinued operations, net of taxes           | 214                          | (1,233)                                      |
| Gain on sale of discontinued operations, net of taxes <sup>(3)</sup> | 676                          | -  |
| Earnings (loss) from discontinued operations, net of taxes           | 890                          | (1,233)                                      |
| Earnings   | 8,533                        | 5,113  |
| Earnings attributable to non-controlling interests                   | 388                          | 712  |
| Earnings attributable to SunOpta Inc.                                | 8,145                        | 4,401  |
| Earnings (loss) per share - basic                                    |                              |  |
| -from continuing operations  | 0.11                         | 0.09   |
| -from discontinued operations  | 0.01                         | (0.02)                                       |
|  | 0.12                         | 0.07   |
| Earnings (loss) per share - diluted                                  |                              |  |
| -from continuing operations  | 0.11                         | 0.08   |
| -from discontinued operations  | 0.01                         | (0.02)                                       |
|  | 0.12                         | 0.07   |

(1) Includes the results of operations of Babco, acquired February 2012.

(2) Reflects the reclassification of revenues and expenses of Purity (sold June 2012) to discontinued operations.

(3) Second quarter of 2012 reflects recognition of preliminary gain on the sale of Purity in June 2012.





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|  | March 31, 2012 <sup>(1),(2)</sup> | Quarter ended<br>April 2, 2011 <sup>(2)</sup> |
|--|-----------------------------------|---|
|  | \$                                | \$  |
| Revenues   | 259,328                           | 245,350                                       |
| Cost of goods sold   | 224,842                           | 212,717                                       |
| Gross profit   | 34,486                            | 32,633  |
| Selling, general and administrative expenses               | 20,430                            | 19,743  |
| Intangible asset amortization                              | 1,193                             | 1,016   |
| Other expense, net   | 364                               | 362   |
| Foreign exchange loss                                      | 82                                | 135   |
| Earnings from continuing operations before the following   | 12,417                            | 11,377  |
| Interest expense, net                                      | 2,583                             | 1,984   |
| Earnings from continuing operations before income taxes    | 9,834                             | 9,393   |
| Provision for income taxes                                 | 3,586                             | 3,253   |
| Earnings from continuing operations                        | 6,248                             | 6,140   |
| Earnings (loss) from discontinued operations, net of taxes | 191                               | (392)   |
| Earnings   | 6,439                             | 5,748   |
| Earnings attributable to non-controlling interests         | 547                               | 667   |
| Earnings attributable to SunOpta Inc.                      | 5,892                             | 5,081   |
| Earnings (loss) per share - basic                          |                                   |   |
| -from continuing operations                                | 0.09                              | 0.08  |
| -from discontinued operations                              | -                                 | (0.01)  |
|  | 0.09                              | 0.08  |
| Earnings (loss) per share - diluted                        |                                   |   |
| -from continuing operations                                | 0.09                              | 0.08  |
| -from discontinued operations                              | -                                 | (0.01)  |
|  | 0.09                              | 0.08  |

(1) Includes the results of operations of Babco from February 2012 date of acquisition.

(2) Reflects the reclassification of revenues and expenses of Purity (sold June 2012) to discontinued operations.