

SunOpta Inc.  
Form 10-Q  
August 10, 2016

---

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

**FORM 10-Q**

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

For the quarterly period ended **July 2, 2016**

OR

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

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

**Commission file number: 001-34198**

**SUNOPTA INC.**

(Exact name of registrant as specified in its charter)

**CANADA**

(State or other jurisdiction of incorporation or organization)

**Not Applicable**

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

**2233 Argentia Road**

**Mississauga, Ontario L5N 2X7, Canada**

(Address of principal executive offices)

**(905) 821-9669**

(Registrant's telephone number, including area code)

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

Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: SunOpta Inc. - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

The number of the registrant's common shares outstanding as of August 5, 2016 was 85,613,246.

---

**SUNOPTA INC.**  
**FORM 10-Q**  
**For the quarterly period ended July 2, 2016**

**TABLE OF CONTENTS**

<b>PART I FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements (unaudited)</b>	
<u>Consolidated Statements of Operations for the quarters and two quarters ended July 2, 2016 and July 4, 2015</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive Earnings for the quarters and two quarters ended July 2, 2016 and July 4, 2015</u>	<u>6</u>
<u>Consolidated Balance Sheets as at July 2, 2016 and January 2, 2016</u>	<u>7</u>
<u>Consolidated Statements of Shareholders' Equity as at and for the two quarters ended July 2, 2016 and July 4, 2015</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows for the quarters and two quarters ended July 2, 2016 and July 4, 2015</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>11</u>
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>31</b>
<b>Item 3. Quantitative and Qualitative Disclosures about Market Risk</b>	<b>52</b>
<b>Item 4. Controls and Procedures</b>	<b>53</b>
<b>PART II OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	<b>54</b>
<b>Item 1A. Risk Factors</b>	<b>54</b>
<b>Item 6. Exhibits</b>	<b>55</b>
<b>Basis of Presentation</b>	

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

In this report, all currency amounts are expressed in thousands of United States ( "U.S." ) dollars ( "\$" ), except per share amounts, unless otherwise stated. Amounts expressed in Canadian dollars are expressed in thousands of Canadian dollars and preceded by the symbol "Cdn \$", and amounts expressed in euros are expressed in thousands of euros and preceded by the symbol "€". As at July 2, 2016, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euros, were \$1.00 = Cdn \$1.2917 and \$1.00 = €0.9013. These rates are provided solely for convenience and do not necessarily reflect the rates used in the preparation of our financial statements.

### Forward-Looking Statements

This Form 10-Q contains forward-looking statements which are based on our current expectations and assumptions and involve a number of risks and uncertainties. Generally, forward-looking statements do not relate strictly to historical or current facts and are typically accompanied by words such as "anticipate", "estimate", "intend", "project", "potential", "continue", "believe", "expect", "could", "would", "should", "might", "plan", "will", "may", "predict", "estimate", and words and phrases of similar impact and include, but are not limited to references to our acquisition of Sunrise Holdings (Delaware) Inc. ( "Sunrise" ); business acquisition transaction values; future financial and operating results, plans, objectives, expectations and intentions, and other statements that are not historical facts; estimated losses and related insurance recoveries associated with the recall of certain roasted sunflower kernel products; 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 our business and global markets for our products. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on certain assumptions, expectations 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 circumstances

**SUNOPTA INC.**

2

July 2, 2016 10-Q

---

Whether actual results and developments will agree with and meet 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 successfully integrate the operations of Sunrise (as well as other recent acquisitions) into our business and, once integrated, the effects of this acquisition on our future financial condition, operating results, strategy and plans, including the impact of the substantial additional debt incurred to finance this acquisition and our ability to achieve the estimated synergies from this acquisition;
- our ability to retain key management and employees of acquired businesses;
- restrictions in our five-year revolving asset-based credit facility (the Global Credit Facility ) on how we may operate our business;
- our ability to meet the covenants of the Global Credit Facility or to obtain necessary waivers from our lenders;
- our ability to obtain additional capital as required to maintain current growth rates;
- our ability to successfully consummate possible future divestitures of businesses;
- our increased vulnerability to economic downturns and adverse industry conditions due to our level of indebtedness;
- that our customers may choose not to buy products from us;
- loss of one or more key customers;
- changes 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;
- technology failures that could disrupt our operations and negatively impact our business;
- the loss of service of our key management;
- labor shortages or increased labor costs;
- the effective management of our supply chain;
- volatility in the prices of raw materials and energy;
- the availability of organic and non-genetically modified ingredients;
- enactment of climate change laws;
- unfavorable growing and operating 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 we are subject;
- agricultural policies that influence our operations;
- product liability suits, recalls and threatened market withdrawals that may arise or be brought against us;
- food safety concerns and instances of food-borne illnesses that could harm our business;
- litigation and regulatory enforcement concerning marketing and labeling of food products;
- our exposure to our international operations;
- that we do not currently intend to, and are restricted in our ability to, pay any cash dividends on our common shares in the foreseeable future;
- fluctuations in exchange rates, interest rates and the prices of certain commodities;
- our ability to effectively manage our growth and integrate acquired companies; and
- the volatility of our operating results and share price.

All forward-looking statements made herein are qualified by these cautionary statements, and our actual results or the developments we anticipate may not be realized. We do not undertake any obligation to update our forward-looking statements after the date of this report for any reason, even if new information becomes available or other events occur in the future, except as may be required under applicable securities laws. The foregoing factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report and our Annual Report on Form 10-K for the fiscal year ended January 2, 2016. Additional information about these factors and about the material factors or assumptions underlying such forward-looking statements may be found under Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended January 2, 2016, under Item 1A. Risk Factors of this report, and in our other filings with the U.S. Securities and Exchange Commission and the Canadian Securities Administrators.

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

## Consolidated Statements of Operations

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

	July 2, 2016	Quarter ended July 4, 2015	July 2, 2016	Two quarters ended July 4, 2015
	\$	\$	\$	\$
		(note 1)		(note 1)
<b>Revenues</b>	348,146	277,594	700,460	551,543
<b>Cost of goods sold</b>	312,168	247,941	632,581	492,720
<b>Gross profit</b>	35,978	29,653	67,879	58,823
Selling, general and administrative expenses	24,489	19,314	48,761	40,011
Intangible asset amortization	2,824	694	5,646	1,319
Other expense, net (note 9)	8,433	637	12,411	741
Foreign exchange loss (gain)	(180)	653	1,992	(1,450)
<b>Earnings (loss) from continuing operations before the following</b>	412	8,355	(931)	18,202
Interest expense, net	11,548	1,141	22,570	2,068
<b>Earnings (loss) from continuing operations before income taxes</b>	(11,136)	7,214	(23,501)	16,134
Provision for (recovery of) income taxes (note 10)	(7,135)	2,385	(10,221)	5,406
<b>Earnings (loss) from continuing operations</b>	(4,001)	4,829	(13,280)	10,728
<b>Discontinued operations (note 3)</b>				
Loss from discontinued operations	-	(2,905)	(1,993)	(4,250)
Gain on classification as held for sale	-	-	560	-
Recovery of (provision for) income taxes	-	(1,153)	599	(889)
Loss from discontinued operations attributable to non-controlling interests	-	1,311	264	1,672

Edgar Filing: SunOpta Inc. - Form 10-Q

Loss from discontinued operations attributable to SunOpta Inc.	-	(2,747)	(570)	(3,467)
<b>Earnings (loss)</b>	(4,001)	2,082	(13,850)	7,261
Earnings (loss) attributable to non-controlling interests	123	33	507	(22)
<b>Earnings (loss) attributable to SunOpta Inc.</b>	(4,124)	2,049	(14,357)	7,283
<b>Earnings (loss) per share basic</b> (note 11)				
- from continuing operations	(0.05)	0.07	(0.16)	0.16
- from discontinued operations	-	(0.04)	(0.01)	(0.05)
	(0.05)	0.03	(0.17)	0.11
<b>Earnings (loss) per share diluted</b> (note 11)				
- from continuing operations	(0.05)	0.07	(0.16)	0.16
- from discontinued operations	-	(0.04)	(0.01)	(0.05)
	(0.05)	0.03	(0.17)	0.11

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

5

July 2, 2016 10-Q



**SunOpta Inc.**

## Consolidated Statements of Comprehensive Earnings

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

	July 2, 2016 \$	Quarter ended July 4, 2015 \$	July 2, 2016 \$	Two quarters ended July 4, 2015 \$
		(note 1)		(note 1)
<b>Earnings (loss) from continuing operations</b>	(4,001)	4,829	(13,280)	10,728
Loss from discontinued operations attributable to SunOpta Inc.	-	(2,747)	(570)	(3,467)
<b>Earnings (loss)</b>	(4,001)	2,082	(13,850)	7,261
Change in fair value of interest rate swap, net of taxes	-	67	-	(129)
Reclassification adjustment for loss included in earnings	-	339	-	339
Unrealized gain on interest rate swap, net	-	406	-	210
Currency translation adjustment	(2,346)	605	(407)	(3,832)
<b>Other comprehensive earnings (loss), net of income taxes</b>	(2,346)	1,011	(407)	(3,622)
<b>Comprehensive earnings (loss)</b>	(6,347)	3,093	(14,257)	3,639
Comprehensive loss attributable to non-controlling interest	(245)	(1,341)	(4)	(2,123)
<b>Comprehensive earnings (loss) attributable to SunOpta Inc.</b>	(6,102)	4,434	(14,253)	5,762

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

6

July 2, 2016 10-Q

**SunOpta Inc.**

Consolidated Balance Sheets

As at July 2, 2016 and January 2, 2016

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

	July 2, 2016	January 2, 2016
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,292	2,274
Accounts receivable	151,299	117,412
Inventories (note 6)	400,162	371,223
Prepaid expenses and other current assets	21,583	20,088
Current income taxes recoverable	20,588	21,728
Current assets held for sale (notes 1 and 3)	-	64,330
<b>Total current assets</b>	<b>597,924</b>	<b>597,055</b>
<b>Property, plant and equipment</b>	<b>171,758</b>	<b>176,513</b>
<b>Goodwill</b> (note 2)	<b>241,669</b>	<b>241,690</b>
<b>Intangible assets</b> (note 2)	<b>189,406</b>	<b>195,008</b>
<b>Deferred income taxes</b>	<b>952</b>	<b>958</b>
<b>Other assets</b>	<b>13,455</b>	<b>7,979</b>
<b>Total assets</b>	<b>1,215,164</b>	<b>1,219,203</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 7)	239,733	159,773
Accounts payable and accrued liabilities	159,872	151,831
Customer and other deposits	1,477	5,322
Income taxes payable	5,964	1,720
Other current liabilities	1,554	1,521
Current portion of long-term debt (note 7)	2,140	1,773
Current portion of long-term liabilities (note 2)	5,500	5,243
Current liabilities held for sale (notes 1 and 3)	-	52,486
<b>Total current liabilities</b>	<b>416,240</b>	<b>379,669</b>
<b>Long-term debt</b> (note 7)	<b>315,944</b>	<b>321,222</b>
<b>Long-term liabilities</b> (note 2)	<b>15,945</b>	<b>17,809</b>
<b>Deferred income taxes</b>	<b>59,810</b>	<b>74,324</b>
<b>Total liabilities</b>	<b>807,939</b>	<b>793,024</b>
<b>EQUITY</b>		
<b>SunOpta Inc. shareholders equity</b>		
Common shares, no par value, unlimited shares authorized, 85,611,496 shares issued and outstanding (January 2, 2016 - 85,417,849)	299,128	297,987
Additional paid-in capital	23,901	22,327
Retained earnings	92,481	106,838

Edgar Filing: SunOpta Inc. - Form 10-Q

Accumulated other comprehensive loss	(11,367)	(6,113)
	404,143	421,039
<b>Non-controlling interests</b>	3,082	5,140
<b>Total equity</b>	407,225	426,179
<b>Total equity and liabilities</b>	1,215,164	1,219,203
<b>Commitments and contingencies</b> (note 13)		

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

7

July 2, 2016 10-Q

---

**SunOpta Inc.**

## Consolidated Statements of Shareholders' Equity

As at and for the two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All dollar amounts expressed in thousands of U.S. dollars)

	000s	Common shares \$	Additional paid-in capital \$	Retained earnings \$	Accumulated other com- prehensive loss \$	Non- controlling interests \$	Total \$
Balance at January 2, 2016	85,418	297,987	22,327	106,838	(6,113)	5,140	426,179
Employee stock purchase plan	50	200	-	-	-	-	200
Stock incentive plan	143	941	(418)	-	-	-	523
Stock-based compensation	-	-	1,992	-	-	-	1,992
Loss from continuing operations	-	-	-	(13,787)	-	507	(13,280)
Loss from discontinued operations, net of income taxes (note 3)	-	-	-	(570)	-	(264)	(834)
Disposition of discontinued operation (note 3)	-	-	-	-	(5,094)	(2,054)	(7,148)
Currency translation adjustment	-	-	-	-	(160)	(247)	(407)
<b>Balance at July 2, 2016</b>	<b>85,611</b>	<b>299,128</b>	<b>23,901</b>	<b>92,481</b>	<b>(11,367)</b>	<b>3,082</b>	<b>407,225</b>
	000s	Common shares \$	Additional paid-in capital \$	Retained earnings \$	Accumulated other com- prehensive loss \$	Non- controlling interests \$	Total \$
Balance at January 3, 2015	67,074	190,668	22,490	129,309	(1,778)	12,639	353,328
Employee stock purchase plan	22	314	-	-	-	-	314

Edgar Filing: SunOpta Inc. - Form 10-Q

Stock incentive plan	648	4,165	(1,440)	-	-	-	2,725
Warrants	850	6,042	(2,163)	-	-	-	3,879
Stock-based compensation	-	-	2,239	-	-	-	2,239
Earnings from continuing operations	-	-	-	10,750	-	(22)	10,728
Loss from discontinued operations, net of income taxes	-	-	-	(3,467)	-	(1,672)	(5,139)
Currency translation adjustment	-	-	-	-	(3,332)	(500)	(3,832)
Change in fair value of interest rate swap, net of income taxes (note 5)	-	-	-	-	139	71	210
Acquisition of non-controlling interest	-	-	(1,018)	-	-	285	(733)
<b>Balance at July 4, 2015</b>	<b>68,594</b>	<b>201,189</b>	<b>20,108</b>	<b>136,592</b>	<b>(4,971)</b>	<b>10,801</b>	<b>363,719</b>

(See accompanying notes to consolidated financial statements)

SUNOPTA INC.

8

July 2, 2016 10-Q

**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(Expressed in thousands of U.S. dollars)

	July 2, 2016 \$	Quarter ended July 4, 2015 \$ (note 1)	July 2, 2016 \$	Two quarters ended July 4, 2015 \$ (note 1)
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Earnings (loss)	(4,001)	2,082	(13,850)	7,261
Loss from discontinued operations attributable to SunOpta Inc.	-	(2,747)	(570)	(3,467)
Earnings (loss) from continuing operations	(4,001)	4,829	(13,280)	10,728
Items not affecting cash:				
Depreciation and amortization	8,549	4,262	17,309	8,325
Acquisition accounting adjustment on inventory sold	3,888	-	11,514	-
Amortization and write-off of debt issuance costs (note 7)	2,854	105	6,222	203
Impairment of long-lived assets (note 9)	-	-	1,735	-
Deferred income taxes	(10,821)	57	(14,508)	(138)
Stock-based compensation	953	1,058	1,992	2,028
Unrealized loss (gain) on derivative instruments (note 5)	(306)	996	(515)	893
Fair value of contingent consideration (note 9)	(1,603)	82	(1,405)	82
Other	367	964	407	1,479
Changes in non-cash working capital, net of business acquired (note 12)	(34,294)	(19,413)	(61,779)	(41,613)
Net cash flows from operations - continuing operations	(34,414)	(7,060)	(52,308)	(18,013)
Net cash flows from operations - discontinued operations	-	1,782	758	1,249
	(34,414)	(5,278)	(51,550)	(16,764)
<b>Investing activities</b>				
Purchases of property, plant and equipment	(4,793)	(9,454)	(9,340)	(14,975)
Acquisition of business (note 2)	-	(733)	-	(14,033)
Payment of contingent consideration (note 5)	(4,554)	-	(4,554)	-
	700	-	700	-

Edgar Filing: SunOpta Inc. - Form 10-Q

Decrease in long-term investment (note 5)				
Proceeds from sale of assets	-	944	-	944
Other	-	(162)	-	(192)
Net cash flows from investing activities - continuing operations	(8,647)	(9,405)	(13,194)	(28,256)
Net cash flows from investing activities - discontinued operations	1,945	(217)	1,754	(439)
	(6,702)	(9,622)	(11,440)	(28,695)
<b>Financing activities</b>				
Increase under line of credit facilities (note 7)	39,029	13,150	271,572	34,497
Repayment of line of credit facilities (note 7)	-	-	(192,677)	-
Borrowings under long-term debt (note 7)	-	-	432	-
Repayment of long-term debt (note 7)	(523)	(168)	(11,009)	(411)
Payment of debt issuance costs	(256)	-	(4,366)	-
Proceeds from the exercise of stock options and employee share purchases	575	1,423	687	3,039
Proceeds from the exercise of warrants	-	3,067	-	3,879
Other	(119)	(174)	(134)	(311)
Net cash flows from financing activities - continuing operations	38,706	17,298	64,505	40,693
Net cash flows from financing activities - discontinued operations	-	(1,551)	(1,180)	(813)
	38,706	15,747	63,325	39,880
Foreign exchange gain (loss) on cash held in a foreign currency	(61)	48	(24)	27
Increase (decrease) in cash and cash equivalents in the period	(2,471)	895	311	(5,552)
Discontinued operations cash activity included above:				
Add: Balance included at beginning of period	1,288	2,063	1,707	2,170
Less: Balance included at end of period	-	(2,232)	-	(2,232)
Cash and cash equivalents - beginning of the period	5,475	1,428	2,274	7,768
Cash and cash equivalents - end of the period	4,292	2,154	4,292	2,154

(See accompanying notes to consolidated financial statements)





**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(Expressed in thousands of U.S. dollars)

	July 2, 2016 \$	Quarter ended July 4, 2015 \$  (note 1)	July 2, 2016 \$	Two quarters ended July 4, 2015 \$  (note 1)
<b>Non-cash investing activities</b>				
Proceeds on disposition of discontinued operation, note receivable (note 3)	1,537	-	1,537	-
Acquisition of business, working capital adjustment (note 2)	-	-	-	319
Acquisition of business, settlement of pre-existing relationship (note 2)	-	-	-	(749)
Acquisition of business, contingent consideration at fair value (note 2)	-	-	-	(18,000)
	(See accompanying notes to consolidated financial statements)			

**SUNOPTA INC.**

10

July 2, 2016 10-Q

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts 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's two reportable segments, Global Ingredients and Consumer Products, operate in the natural, organic and specialty food sectors and utilize an integrated business model to bring cost-effective and quality products to market.

In addition, the Company owned approximately 66% of Opta Minerals Inc. (Opta Minerals) as at January 2, 2016, on a non-dilutive basis. Opta Minerals produces, distributes and recycles industrial minerals, silica-free abrasives and specialty sands. On February 12, 2016, the Company announced that Opta Minerals had entered into a definitive acquisition agreement, pursuant to which an affiliate of Speyside Equity Fund I LP (Speyside), agreed to acquire substantially all of the issued and outstanding shares of Opta Minerals. The acquisition of Opta Minerals by Speyside was completed on April 6, 2016, following a vote of the shareholders of Opta Minerals in favor of the transaction on March 31, 2016. For further information regarding the Company's divestiture of its equity interest in Opta Minerals, see note 3.

***Basis of Presentation***

The interim consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, and in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, these condensed interim consolidated financial statements do not include all of the disclosures required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the quarter and two quarters ended July 2, 2016 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2016 or for any other period. The interim consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the annual consolidated financial statements for the year ended January 2, 2016. For further information, refer to the consolidated financial statements, and notes thereto, included in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

***Comparative Balances***

As a result of the Company's divestiture of Opta Minerals, the operating results and cash flows of Opta Minerals for the quarter and two quarters ended July 4, 2015 have been reclassified to discontinued operations to be consistent with presentation for the quarter and two quarters ended July 2, 2016. In addition, the assets and liabilities of Opta Minerals were reported as held for sale on the consolidated balance sheet as at January 2, 2016.

***Fiscal Year-End***

The fiscal year of the Company consists of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal year 2016 is a 52-week period ending on December 31, 2016, with quarterly periods ending on April 2, July 2 and October 1, 2016. Fiscal year 2015 was a 52-week period ending on January 2, 2016, with quarterly periods ending on April 4, July 4 and October 3, 2015.

***Recent Accounting Pronouncements***

In March 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting , which is intended to simplify the accounting for share-based payment transactions, including income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Under the new guidance, companies will record excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement rather than in additional paid-in capital. In addition, the guidance permits companies to elect to recognize forfeitures of share-based payments as they occur, rather than estimating the number of awards expected to be forfeited as is currently required. This guidance is effective for annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

**SUNOPTA INC.**

11

July 2, 2016 10-Q

---

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

In February 2016, the FASB issued ASU 2016-02, *Leases*, a comprehensive new standard that amends various aspects of existing accounting guidance for leases, including the recognition of a right of use asset and a lease liability for leases with a duration of greater than one year. The guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated financial statements; however, the Company anticipates that upon adoption of the standard it will recognize additional assets and corresponding liabilities related to leases on its balance sheet.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 will require equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. The guidance provides a new measurement alternative for equity investments that do not have readily determinable fair values and do not qualify for the net asset practical expedient. Under this alternative, these investments can be measured at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment with the same issuer. Additionally, ASU 2016-01 also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 is effective for interim and annual reporting periods beginning on or after December 15, 2017. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which will supersede existing revenue recognition guidance under U.S. GAAP. Under the new standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers by one year the effective date of ASU 2014-09. In 2016, the FASB issued additional ASUs to address implementation issues and to clarify the guidance for identifying performance obligations, licenses and determining if a company is the principal or agent in a revenue arrangement. ASU 2014-09, as amended, will be effective for annual and interim periods beginning on or after December 15, 2017, and is to be applied on either a full retrospective or modified retrospective basis. Early adoption is permitted only as of annual and interim reporting periods beginning on or after December 15, 2016. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

**2. Business Acquisitions**

***Sunrise Holdings (Delaware), Inc.***

On October 9, 2015, the Company completed the acquisition of 100% of the issued and outstanding common shares of Sunrise Holdings (Delaware), Inc. ( *Sunrise* ), pursuant to a Purchase and Sale Agreement (the *PSA* ) dated July 30, 2015 (the *Sunrise Acquisition* ). Sunrise is a processor of conventional and organic individually quick frozen ( *IQF* ) fruit in the U.S. and Mexico. The acquisition of Sunrise has been accounted for as a business combination under the acquisition method of accounting. The results of Sunrise have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The acquisition of Sunrise is aligned with the Company's strategic focus on healthy and organic foods.

Total consideration for the Sunrise Acquisition was \$472.7 million in cash paid at the acquisition date, which included the repayment of all outstanding obligations under Sunrise's senior credit facility in the amount of \$171.5 million. In

addition, the total consideration included \$23.0 million paid by the Company to the holders of Sunrise stock options. As all outstanding Sunrise stock options vested upon the consummation of the Sunrise Acquisition, pursuant to the terms of Sunrise's pre-existing stock option agreements, the cash consideration paid to the optionholders was attributed to services prior to the Sunrise Acquisition and included as a component of the purchase price. The total consideration also included \$20.9 million paid by the Company to settle acquisition-related transaction costs incurred by Sunrise in connection with the Sunrise Acquisition. As none of these costs were incurred by Sunrise on behalf of the Company, the cash consideration paid to settle these costs was included as a component of the purchase price.

**SUNOPTA INC.**

12

July 2, 2016 10-Q

---

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as at the acquisition date. Amounts for working capital and goodwill are provisional pending final evaluation of certain pre-acquisition contingencies. The Company expects to finalize these amounts no later than one year from the acquisition date.

	\$
Cash and cash equivalents	1,728
Accounts receivable <sup>(1)</sup>	26,090
Inventories <sup>(2)</sup>	124,829
Income taxes recoverable	12,025
Other current assets	3,982
Property, plant and equipment <sup>(3)</sup>	46,068
Intangible assets <sup>(4)</sup>	170,000
Accounts payable and accrued liabilities	(24,169)
Long-term debt, including current portion	(7,620)
Deferred income taxes, net	(75,193)
Net identifiable assets acquired	277,740
Goodwill <sup>(5)</sup>	196,709
Non-controlling interest <sup>(6)</sup>	(1,781)
Net assets acquired	472,668

- (1) The gross amount of accounts receivable acquired was \$26.2 million, of which the Company expects \$0.2 million will be uncollectible.
- (2) Includes an estimated fair value adjustment to inventory of \$19.0 million, of which \$11.5 million and \$4.0 million was recognized in costs of goods sold for inventory sold in the first two quarters of 2016 and fourth quarter of 2015, respectively.
- (3) Includes an estimated fair value adjustment to property, plant and equipment of \$3.7 million.
- (4) The identified intangible assets relate to customer relationships in existence at the acquisition date between Sunrise and major U.S. retail and foodservice customers. The customer relationships intangible assets will be amortized over an estimated weighted-average useful life of approximately 23 years. The estimated fair value of the intangible assets was determined using a discounted cash flow analysis (income approach), which applied a risk-adjusted discount rate of approximately 12.0%.
- (5) Goodwill is calculated as the difference between the acquisition-date fair values of the total consideration and the net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is not expected to be deductible for tax purposes. The goodwill recognized is attributable to: (i) cost savings, operating synergies, and other benefits expected to result from combining the operations of Sunrise with those of the Company; (ii) the value of longer-term growth prospects in the private label frozen fruit market; (iii) the value of acquiring the current capabilities and low-cost position of the existing Sunrise business (i.e., the higher rate of return on the assembled net assets versus acquiring all of the net assets separately); and (iv) the value of Sunrise's assembled workforce.
- (6) Represents the estimated fair value of the non-controlling interest in Sunrise's 75%-owned Mexican subsidiary.



**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

**Niagara Natural Fruit Snack Company Inc.**

On August 11, 2015, the Company acquired the net operating assets of Niagara Natural Fruit Snack Company Inc. (Niagara Natural). Niagara Natural is a manufacturer of all-natural fruit snacks located in the Niagara Region of Ontario. The acquisition of the net operating assets of Niagara Natural has been accounted for as a business combination under the acquisition method of accounting. The results of Niagara Natural have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment.

The following table summarizes the fair values of the consideration transferred as at the acquisition date:

	Provisional Amounts Recognized as at the Acquisition Date \$	Measurement Period Adjustment <sup>(1)</sup> \$	Final Amounts Recognized as at the Acquisition Date \$
Cash	6,475	-	6,475
Working capital adjustment	237	(292)	(55)
Contingent consideration <sup>(2)</sup>	2,330	-	2,330
Total consideration transferred	9,042	(292)	8,750

- (1) The measurement period adjustment reflects the final determination of net working capital as at the acquisition date. This adjustment did not have a significant impact on the Company's consolidated results of operations.
- (2) The Company agreed to pay the owners of Niagara Natural an additional amount of up to approximately \$2.8 million over a period of two years subject to adjustment based on certain performance targets. The fair value of the contingent consideration was determined to be \$2.3 million as of the acquisition date. On May 5, 2016, the Company and the owners of Niagara Natural entered into an agreement to settle the contingent consideration obligation in exchange for a one-time cash payment of \$0.6 million. In the second quarter of 2016, the Company recognized a gain of \$1.7 million in connection with this settlement, based on the difference between the fair value of the contingent consideration obligation and the cash payment (see note 9).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as at the acquisition date:

	Provisional Amounts Recognized as at the Acquisition Date \$	Measurement Period Adjustment <sup>(1)</sup> \$	Final Amounts Recognized as at the Acquisition Date \$
Current assets	2,220	(292)	1,928
Machinery and equipment	3,414	-	3,414
Intangible assets <sup>(2)</sup>	2,459	-	2,459
Current liabilities	(687)	-	(687)
Net identifiable assets acquired	7,406	(292)	7,114



Edgar Filing: SunOpta Inc. - Form 10-Q

Goodwill <sup>(3)</sup>	1,636	-	1,636
Net assets acquired	9,042	(292)	8,750

(1) The measurement period adjustment reflects the final determination of net working capital as at the acquisition date.

**SUNOPTA INC.**

14

July 2, 2016 10-Q

---

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

(2) Intangible assets comprise customer relationships and non-competition arrangements, which will be amortized over an estimated weighted-average useful life of approximately 19 years.

(3) The total amount of goodwill has been assigned to the Consumer Products operating segment.

**Citrusource, LLC**

On March 2, 2015, the Company acquired 100% of the issued and outstanding units of Citrusource, LLC ( Citrusource ), a producer of premium not-from-concentrate private label organic and conventional orange juice and citrus products in the U.S. The acquisition of Citrusource has been accounted for as a business combination under the acquisition method of accounting. The results of Citrusource have been included in the Company's consolidated financial statements since the date of acquisition and are reported in the Consumer Products operating segment. The acquisition of Citrusource aligns with the Company's strategy of growing its value-added consumer products portfolio and leveraging its integrated operating platform.

The following table summarizes the fair values of the consideration transferred as at the acquisition date:

	\$
Cash	13,300
Working capital adjustment	(319)
Settlement of pre-existing relationship	749
Contingent consideration <sup>(1)</sup>	18,000
Total consideration transferred	31,730

(1) The contingent consideration arrangement with the former unitholders of Citrusource comprises two components: (i) deferred consideration calculated based on a seven-times multiple of the incremental growth in Citrusource's earnings before interest, taxes, depreciation and amortization ( EBITDA ) in fiscal year 2015 versus EBITDA for fiscal year 2014; and (ii) an earn-out calculated based on 25% of the incremental growth in the sum of Citrusource's EBITDA and the EBITDA of the Company's San Bernardino, California, juice production facility (the Combined EBITDA ) in each of fiscal years 2016, 2017 and 2018 versus the Combined EBITDA for fiscal year 2015. There are no upper limits to the amount of each of the components. The fair value measurement of the contingent consideration arrangement was determined to be approximately \$18.0 million as at the acquisition date, based on a probability-weighted present value analysis, of which approximately \$15.0 million was related to the deferred consideration and approximately \$3.0 million is related to the earn-out. The deferred consideration is payable in four equal annual installments commencing in 2016. In the second quarter of 2016, the Company paid the first installment in the amount of \$3.9 million. Of the remaining deferred consideration obligation, approximately \$4.0 million is included in current portion of long-term liabilities and approximately \$7.0 million is included in long-term liabilities on the consolidated balance sheets as at July 2, 2016. The earn-out obligation is also included in long-term liabilities on the consolidated balance sheet as at July 2, 2016. The fair value of the contingent consideration arrangement is based on significant level 3 unobservable inputs, including the following factors: (i) estimated range of EBITDA values in each of the earn-out periods; and (ii) the probability-weighting applied to each of the EBITDA values within the estimated range for each earn-out period. The resultant probability-weighted EBITDA values for each earn-out period were discounted at a credit risk-adjusted discount rate of approximately 3.5%.



**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

The following table summarizes the fair values of the assets acquired and liabilities assumed as at the acquisition date.

	\$
Accounts receivable	2,351
Inventories	1,745
Machinery and equipment	164
Customer relationships intangible asset <sup>(1)</sup>	14,000
Accounts payable and accrued liabilities	(1,666)
Net identifiable assets acquired	16,594
Goodwill <sup>(2)</sup>	15,136
Net assets acquired	31,730

- (1) The customer relationships intangible asset was recognized based on contracts in existence at the acquisition date between Citrusource and major U.S. retail customers. This intangible asset will be amortized over an estimated useful life of approximately 12 years.
- (2) Goodwill is calculated as the difference between the acquisition-date fair values of the consideration transferred and net assets acquired. The total amount of goodwill has been assigned to the Consumer Products operating segment and is expected to be fully deductible for tax purposes. The goodwill recognized is attributable to: (i) operating synergies expected to result from combining the operations of Citrusource with the Company's vertically-integrated juice production and supply chain capabilities; and (ii) opportunities to leverage the business experience of Citrusource's management team to grow the Company's existing citrus beverage program.

**3. Discontinued Operations*****Opta Minerals Inc.***

On February 11, 2016, Opta Minerals entered into a definitive acquisition agreement, pursuant to which Speyside agreed to acquire substantially all of the issued and outstanding shares of Opta Minerals. The acquisition agreement was approved by Opta Minerals' Boards of Directors, which recommended that Opta Minerals' shareholders approve the transaction. Also on February 12, 2016, the Company entered into a support agreement pursuant to which it irrevocably agreed to vote all of its Opta Minerals' shares in favor of the transaction. The acquisition of Opta Minerals by Speyside was completed on April 6, 2016, following a vote of the shareholders of Opta Minerals in favor of the transaction on March 31, 2016.

Upon closing of the transaction, the Company received aggregate gross proceeds of \$4.8 million (C\$6.2 million), of which \$3.2 million (C\$4.2 million) was received in cash and \$1.5 million (C\$2.0 million) was received in the form of a subordinated promissory note bearing interest at 2.0% per annum that will mature on October 6, 2018. In the first quarter of 2016, the Company recognized direct costs related to the sale of Opta Minerals of \$0.8 million. The sale of Company's equity interest in Opta Minerals was consistent with its objective of divesting its non-core assets in order to become a pure-play healthy and organic foods company. The Company does not expect to have any significant continuing involvement with Opta Minerals.

In the fourth quarter of 2015, the Company recognized a loss on the classification of Opta Minerals as a discontinued operation held for sale of \$10.5 million, or \$7.7 million net of non-controlling interest, to write down the carrying value of Opta Minerals' net assets to fair value less cost to sell based on estimated net proceeds on sale of

approximately \$4.5 million as at January 2, 2016. In the first quarter of 2016, the Company recognized a \$0.6 million gain on classification as held for sale, which reflected a \$1.1 million decline in the carrying value of Opta Mineral's net assets, partially offset by a \$0.5 million reduction in the estimated net proceeds on sale. The Company has not recognized the results of operations or cash flows of Opta Minerals for the period from April 1, 2016 to the closing of the transaction on April 6, 2016, as these amounts were insignificant to the Company's consolidated results of operations and cash flows for the quarter and two quarters ended July 2, 2016.

**SUNOPTA INC.**

16

July 2, 2016 10-Q

---

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

As at January 2, 2016, the net assets and liabilities of Opta Minerals were reported as held for sale on the consolidated balance sheet. The following table reconciles the major classes of assets and liabilities of Opta Minerals to the amounts reported as held for sale:

	January 2, 2016
	\$
Cash and cash equivalents	1,707
Accounts receivable	14,676
Inventories	25,869
Property, plant and equipment	16,019
Intangible assets	13,194
Other assets	3,380
Loss recognized on classification as held for sale	(10,515)
Total assets held for sale	64,330
Bank indebtedness	12,107
Accounts payable and accrued liabilities	9,634
Long-term debt	25,858
Other liabilities	4,887
Total liabilities held for sale	52,486

The following table reconciles the major components of the results of discontinued operations to the amounts reported in the consolidated statements of operations:

	July 2, 2016	Quarter ended July 4, 2015	July 2, 2016 <sup>(1)</sup>	Two quarters ended July 4, 2015
	\$	\$	\$	\$
Revenues	-	29,674	24,896	59,131
Cost of goods sold <sup>(2)</sup>	-	(25,617)	(22,133)	(51,352)
Selling, general and administrative expenses	-	(3,142)	(3,024)	(6,115)
Intangible asset amortization	-	(502)	-	(1,007)
Other expense, net <sup>(3)</sup>	-	(1,680)	(794)	(1,610)
Foreign exchange gain (loss)	-	314	(454)	(449)
Interest expense	-	(1,952)	(484)	(2,848)
Loss before income taxes	-	(2,905)	(1,993)	(4,250)
Gain on classification as held for sale before income taxes	-	-	560	-
Total pre-tax loss from discontinued operations	-	(2,905)	(1,433)	(4,250)
Recovery of (provision for) income taxes	-	(1,153)	599	(889)
Loss from discontinued operations	-	(4,058)	(834)	(5,139)
Loss from discontinued operations attributable to non-controlling interest	-	1,311	264	1,672

Loss from discontinued operations attributable to SunOpta Inc.	-	(2,747)	(570)	(3,467)
--	---	---------	-------	---------

(1) For the two quarters ended July 2, 2016, no depreciation or amortization was recorded on Opta Minerals long-lived assets as these assets were classified as held for sale.

**SUNOPTA INC.**

17

July 2, 2016 10-Q

---

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

- (2) For the two quarters ended July 2, 2016, cost of goods sold includes a charge related to the write-down of inventory recorded by Opta Minerals of \$0.8 million.
- (3) For the two quarters ended July 2, 2016, other expense, net includes a charge related to the impairment of long-lived assets recorded by Opta Minerals of \$0.4 million.

**4. Product Recall**

During the second quarter of 2016, the Company announced a voluntary recall of certain roasted sunflower kernel products produced at its Crookston, Minnesota facility due to potential contamination with *Listeria monocytogenes* bacteria. The affected sunflower products originated from the Crookston facility between May 31, 2015 and April 21, 2016. For the quarter and two quarters ended July 2, 2016, the Company recognized estimated losses of \$15.5 million and \$16.0 million related to this recall, reflecting the estimated cost of the affected sunflower kernel products expected to be returned to or replaced by the Company, and the estimated cost to reimburse customers for costs incurred by them related to the recall of their retail products that contain the affected sunflower kernels as an ingredient or component. However, these losses do not reflect costs associated with the interruption of production at the Crookston facility for the period from April 21, 2016 to the time regular production resumed on or about May 15, 2016, subject to a positive release protocol, or the costs to put into place corrective and preventive actions at the Company's roasting facilities.

The Company's estimates of the losses related to the recall are provisional and were determined based on an assessment of the information available to the Company up to the date of filing this report, including a preliminary review of customer claims received to-date and consideration of the extent of potential additional claims that have yet to be received. The Company may need to revise its estimates in subsequent periods, as it continues to work with its customers to substantiate the claims received to-date and any additional claims that may be received. In addition, the Company is currently unable to estimate the impact that this recall may have on its future sales of sunflower products or on its ongoing relationships with its customers, which may have an adverse impact on the fair value of the customer relationship intangible asset and goodwill associated with the Company's sunflower operations, which had carrying values of \$6.7 million and \$17.5 million, respectively, as at July 2, 2016.

The Company carries general liability and product recall insurance and is expecting to recover the recall-related costs through its insurance policies, less applicable deductibles under these policies. The Company recognizes expected insurance recoveries in the period in which the recoveries are determined to be probable of realization. Accordingly, in the second quarter of 2016, the Company recorded estimated insurance recoveries of \$15.4 million for the losses recognized to-date related to the recall. However, ability of the Company to recover the recall-related costs from insurance is uncertain, and the amount, if any, recovered could be less than the amount of the losses recognized.

As at July 2, 2016, \$15.8 million of the estimated recall-related costs were unsettled and were recorded in accounts payable and accrued liabilities on the consolidated balance sheet. These costs were offset by the corresponding estimated insurance recoveries of \$15.4 million included in accounts receivable on the consolidated balance sheet as at July 2, 2016.



**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

**5. Derivative Financial Instruments and Fair Value Measurements**

The following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as of July 2, 2016 and January 2, 2016:

	July 2, 2016			
	Fair value	Level 1	Level 2	Level 3
	asset (liability) \$	\$	\$	\$
Commodity futures and forward (a) contracts <sup>(1)</sup>				
Unrealized short-term derivative asset	1,890	429	1,461	-
Unrealized long-term derivative asset	114	-	114	-
Unrealized short-term derivative liability	(2,023)	-	(2,023)	-
Unrealized long-term derivative liability	(150)	-	(150)	-
(b) Inventories carried at market <sup>(2)</sup>	9,290	-	9,290	-
(c) Forward foreign currency contracts <sup>(3)</sup>	104	-	104	-
(d) Contingent consideration <sup>(4)</sup>	(15,051)	-	-	(15,051)
(e) Embedded derivative <sup>(5)</sup>	2,944	-	-	2,944
	January 2, 2016			
	Fair value	Level 1	Level 2	Level 3
	asset (liability) \$	\$	\$	\$
Commodity futures and forward (a) contracts <sup>(1)</sup>				
Unrealized short-term derivative asset	748	-	748	-
Unrealized long-term derivative asset	21	-	21	-
Unrealized short-term derivative liability	(1,417)	(10)	(1,407)	-
Unrealized long-term derivative liability	(36)	-	(36)	-
(b) Inventories carried at market <sup>(2)</sup>	5,945	-	5,945	-
(c) Forward foreign currency contracts <sup>(3)</sup>	311	-	311	-
(d) Contingent consideration <sup>(4)</sup>	(21,010)	-	-	(21,010)
(e) Embedded derivative <sup>(5)</sup>	3,409	-	-	3,409

(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 forward foreign currency contracts are included in accounts receivable or accounts payable and accrued liabilities on the consolidated balance sheets.

(4) Contingent consideration obligations are included in long-term liabilities (including the current portion thereof) on the consolidated balance sheets.

(5) The embedded derivative is included in other assets (long-term) 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.

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company's risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains, as well as the prices of cocoa and coffee. These derivative instruments are not designated as hedges for accounting purposes. Gains and losses on changes in fair value of these derivative instruments are included in cost of goods sold on the consolidated statement of operations. For the quarter ended July 2, 2016, the Company recognized a gain of \$0.3 million (July 4, 2015 loss of \$0.7 million) and for the two quarters ended July 2, 2016, the Company recognized a gain of \$0.5 million (July 4, 2015 loss of \$0.6 million) related to changes in the fair value of these derivatives.

As at July 2, 2016, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

	Number of bushels purchased (sold)	
	Corn	Soybeans
Forward commodity purchase contracts	1,379	811
Forward commodity sale contracts	(460)	(813)
Commodity futures contracts	(1,240)	(560)

In addition, as at July 2, 2016, the Company had net open forward contracts to sell 213 lots of cocoa and 9 lots of coffee.

## (b) Inventories carried at market

Grains inventory carried at fair value is determined using quoted market prices from the Chicago Board of Trade ( CBoT ). Estimated fair market values for grains inventory quantities at period end are valued using the quoted price on the CBoT adjusted for differences in local markets, and broker or dealer quotes. These assets are placed in level 2 of the fair value hierarchy, as there are observable quoted prices for similar assets in active markets. Gains and losses on commodity grains inventory are included in cost of goods sold on the consolidated statements of operations. As at July 2, 2016, the Company had 314,420 bushels of commodity corn and 574,640 bushels of commodity soybeans in inventories carried at market.

## (c) Foreign forward currency contracts

As part of its risk management strategy, the Company enters into forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. For any open forward foreign exchange contracts at period end, the contract rate is compared to the forward rate, and a gain or loss is recorded. These contracts are placed in level 2 of the fair value hierarchy, as the inputs used in making the fair value determination are derived from and are corroborated by observable market data. While these forward foreign exchange contracts typically represent economic hedges that are not designated as hedging instruments, certain of these contracts may be designated as hedges. As at July 2, 2016 the Company had open forward foreign exchange contracts with a notional value of €23.9 million (\$26.8 million). Gains and losses on changes in the fair value of these derivative instruments are included in foreign exchange loss or gain on the consolidated statement of operations. For the quarter ended July 2, 2016, the Company recognized a gain of \$1.0 million (July 4, 2015 loss of \$1.0 million) and for the two quarters ended July 2, 2016, the Company recognized a loss of \$0.2 million (July 4, 2015 loss of \$0.6 million) related to changes in the fair value of these derivatives.

(d) Contingent consideration

The fair value measurement of contingent consideration arising from business acquisitions is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows. The following table presents a reconciliation of contingent consideration obligations for the two quarters ended July 2, 2016:

**SUNOPTA INC.**

20

July 2, 2016 10-Q

---

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

	January 2, 2016	Issuances	Fair Value Adjustments <sup>(1)</sup>	Payments <sup>(2)</sup>	July 2, 2016
	\$	\$	\$	\$	\$
Contingent consideration	(21,010)	-	1,405	4,554	(15,051)

- (1) Reflects the gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural (see note 2) and an adjustment to the contractual amount owing to a former shareholder of Organic Land Corporation OOD, which was acquired by the Company on December 31, 2012, as well as the accretion for the time value of money related to the Citrusource and Niagara Natural obligations. Fair value adjustments are included in other income/expense (see note 9).
- (2) Reflects the payment of deferred consideration to the former unitholders of Citrusource and cash settlement of the contingent consideration obligation related to the acquisition of Niagara Natural (see note 2).

## (e) Embedded derivative

On August 5, 2011 and August 29, 2014, the Company invested \$0.5 million and \$0.9 million, respectively, in convertible subordinated notes issued by Enchi Corporation ( Enchi ), a developer of advanced bioconversion products for the renewable fuels industry, of which \$0.2 million principal amount remained outstanding as at January 2, 2016. The Company's investment in subordinated convertible notes of Enchi includes the value of an accelerated payment option embedded in the notes, which may result in a maximum payout to the Company of \$5.1 million. Due to a lack of level 1 or level 2 observable market quotes for the notes, the Company used a discounted cash flow analysis (income approach) to estimate the original fair value of the embedded derivative based on unobservable level 3 inputs. The Company assesses changes in the fair value of the embedded derivative based on the performance of actual cash flows derived from certain royalty rights owned by Enchi, which are expected to be the primary source of funds available to settle the embedded derivative, relative to the financial forecasts used in the valuation analysis. As at July 2, 2016, there was no significant change to the expectations related to the royalty rights that would impact the fair value of the embedded derivative. On April 15, 2016, the Company received a distribution from Enchi of \$0.7 million, which has been applied to repay the remaining \$0.2 million principal amount of the convertible subordinated notes, with the balance of \$0.5 million applied against the carrying value of the embedded derivative. As at July 2, 2016 and January 2, 2016, the Company determined that the fair value of this embedded derivative was \$2.9 million and \$3.4 million, respectively.

**6. Inventories**

	July 2, 2016	January 2, 2016
	\$	\$
Raw materials and work-in-process	273,809	276,434
Finished goods	116,635	87,215
Company-owned grain	18,891	14,348
Inventory reserves	(9,173)	(6,774)
	400,162	371,223



**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

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

	July 2, 2016	January 2, 2016
	\$	\$
Bank indebtedness:		
Global Credit Facility <sup>(1)</sup>	236,257	-
North American credit facilities <sup>(1)</sup>	-	70,563
European credit facilities <sup>(1)</sup>	-	87,419
Bulgarian credit facility <sup>(2)</sup>	3,476	1,791
	239,733	159,773
Long-term debt:		
Second Lien Loan Agreement, net of unamortized debt issuance costs of \$2,186 (January 2, 2016 - \$7,757) <sup>(3)</sup>	307,814	312,243
Capital lease obligations	8,766	9,245
Other	1,504	1,507
	318,084	322,995
Less: current portion	2,140	1,773
	315,944	321,222

## (1) Global Credit Facility

On February 11, 2016, the Company entered into a five-year credit agreement for a senior secured asset-based revolving credit facility with a syndicate of banks in the maximum aggregate principal amount of \$350.0 million, subject to borrowing base capacity (the Global Credit Facility). The Global Credit Facility replaced the Company's previous North American credit facilities that were set to expire January 27, 2017, and its European credit facilities that were due on demand with no set maturity date. The Global Credit Facility will be used to support the working capital and general corporate needs of the Company's global operations, in addition to funding future strategic initiatives. The Global Credit Facility also includes borrowing capacity available for letters of credit and provides for borrowings on same-day notice, including in the form of swingline loans. Subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, the Company may request to increase the total lending commitments under the Global Credit Facility to a maximum aggregate principal amount not to exceed \$450.0 million. Outstanding principal amounts under the Global Credit Facility are repayable in full on the maturity date of February 10, 2021.

Individual borrowings under the Global Credit Facility have terms of six months or less and bear interest based on various reference rates, including prime rate and LIBOR plus an applicable margin. The applicable margin in the Global Credit Facility ranges from 1.25% to 1.75% for loans bearing interest based on LIBOR and from 0.25% to 0.75% for loans bearing interest based on the prime rate and, in each case, is set quarterly based on average borrowing availability for the preceding fiscal quarter. The initial margin for the Global Credit Facility was 0.50% with respect to prime rate borrowings and 1.50% with respect to LIBOR borrowings. As at July 2, 2016, the weighted-average interest rate on the facilities was 2.41%. The obligations under the Global Credit Facility are guaranteed by substantially all of the Company's subsidiaries and, subject to certain exceptions, such obligations are secured by first priority liens on substantially all assets of the Company.

Edgar Filing: SunOpta Inc. - Form 10-Q

The Global Credit Facility contains a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability to create liens on assets; sell assets and enter into sale and leaseback transactions; pay dividends, prepay junior lien and unsecured indebtedness and make other restricted payments; incur additional indebtedness and make guarantees; make investments, loans or advances, including acquisitions; and engage in mergers or consolidations.

SUNOPTA INC.

22

July 2, 2016 10-Q

---



**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

(2) Bulgarian credit facility

On April 19, 2016, a subsidiary of The Organic Corporation ( TOC ), a wholly-owned subsidiary of the Company, amended its revolving credit facility agreement dated May 22, 2013, to provide up to €4.5 million to cover the working capital needs of TOC's Bulgarian operations. The facility is secured by the accounts receivable and inventories of the Bulgarian operations and is fully guaranteed by TOC. Interest accrues under the facility based on EURIBOR plus a margin of 2.75%, and borrowings under the facility are repayable in full on April 30, 2017. As at July 2, 2016, the weighted-average interest rate on the Bulgarian credit facility was 2.75%.

(3) Second Lien Loan Agreement

On October 9, 2015, SunOpta Foods Inc. (the Borrower ), a wholly-owned subsidiary of the Company, the Company and certain subsidiaries of the Company, as guarantors (together with the Company, the Guarantors ), entered into a second lien loan agreement (the Second Lien Loan Agreement ) with a group of lenders, pursuant to which the Company borrowed an aggregate principal amount of \$330.0 million of term loans. In connection with the Second Lien Loan Agreement, the Company incurred \$10.8 million of debt issuance costs, which were recorded as a reduction against the principal amount of the borrowings. The net proceeds of the Second Lien Loan Agreement were used to partially fund the Sunrise Acquisition. The Second Lien Loan Agreement is guaranteed by the Company and the Company's subsidiaries that guarantee the Global Credit Facility, subject to certain exceptions, and is secured on a second-priority basis by security interests on all of the Borrower's and Guarantors' assets that secure the Global Credit Facility, subject to certain exceptions and permitted liens.

The term loans made under the Second Lien Loan Agreement on October 9, 2015 (the Initial Loans ) mature on October 9, 2016. If any Initial Loans remain outstanding on the maturity date and no bankruptcy or event of default then exists, all Initial Loans then outstanding will automatically convert into term loans (such converted loans, the Term Loans ), which would mature on October 9, 2022. At the Company's election, interest on the Initial Loans is initially determined by reference to either: (i) LIBOR (subject to a 1.0% per annum floor) plus an applicable margin of 6.0% per annum; or (ii) an alternate base rate specified in the Second Lien Loan Agreement plus an applicable margin of 5.0%. The applicable margin increases by 0.50% at the end of each three-month period after October 9, 2015 and before October 9, 2016. In each case, the Initial Loans carry a maximum interest rate of 9.5% per annum, and any Term Loans will bear interest at 9.5% per annum. Giving effect to the amortization of the debt issuance costs, the effective interest rate on the Initial Loans is estimated to be approximately 11.2% per annum.

The Initial Loans may be voluntarily prepaid at par at any time prior to October 9, 2016 and must be prepaid at par upon the incurrence of certain indebtedness, the issuance of certain types of equity and the sale of certain assets. As at July 2, 2016 and January 2, 2016, the Company had repaid \$20.0 million and \$10.0 million principal amount, respectively, of the Initial Loans.

The Second Lien Loan Agreement contains certain customary representations and warranties, customary covenants that restrict the Company's and its restricted subsidiaries' ability to, among other things: incur, assume or permit to exist additional indebtedness (including guarantees thereof); pay dividends or certain other distributions on capital stock or repurchase capital stock or prepay certain indebtedness; incur liens on certain assets; make certain investments; permit certain restrictions on the ability of the restricted subsidiaries to pay

dividends or make other payments to the Borrower and Guarantors; engage in transactions with affiliates; and sell certain assets or merge or consolidate with or into other companies.

**SUNOPTA INC.**

23

July 2, 2016 10-Q

---

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

**8. Stock-Based Compensation**

Under the Company's 2013 Stock Incentive Plan, the Company may grant a variety of stock-based awards including stock options, restricted stock units ( RSUs ) and performance share units ( PSUs ) to selected employees and directors of the Company.

***Stock Options***

For the two quarters ended July 2, 2016, the Company granted 1,087,864 options to employees that vest ratably on each of the first through third anniversaries of the grant date and expire on the tenth anniversary of the grant date. The weighted-average grant-date fair value of these options was \$1.36, which is recognized on a straight-line basis over the three-year vesting period based on the number of stock options expected to vest.

The following table summarizes the weighted-average assumptions used in the Black-Scholes option-pricing model to determine the fair value of the stock options granted:

Exercise price	\$	3.27
Dividend yield		0%
Expected volatility		41.4%
Risk-free interest rate		1.5%
Expected life of options (in years)		6.0

***Restricted Stock Units and Performance Share Units***

For the two quarters ended July 2, 2016, the Company granted 112,000 RSUs and 250,345 PSUs to certain employees and directors of the Company.

Time-based RSUs vest ratably on each of the first through third anniversaries of the grant date. The fair value of each RSU granted was estimated to be \$3.27 based on the fair market value of a share of the Company's common stock on the date of grant. The grant-date fair value is recognized on a straight-line basis over the three-year vesting period based on the number of RSUs expected to vest.

Performance-based PSUs vest three years following the grant date. The number of PSUs that ultimately vest (up to a specified maximum) will be determined based on performance relative to predetermined performance measures of the Company. If the Company's performance is below a specified performance level, no PSUs will vest. The weighted average grant-date fair value of the PSUs granted was estimated to be \$3.27 based on the fair market value of a share of the Company's common stock on the grant dates. Each reporting period, the number of PSUs that are expected to vest is re-determined and the grant-date fair value of these PSUs is amortized on a straight-line basis over the remaining vesting period less amounts previously recognized.

Each vested RSU and PSU will be settled through the issuance of common shares of the Company and are therefore treated as equity awards.

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

**9. Other Expense, Net**

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

	July 2, 2016	Quarter ended July 4, 2015	July 2, 2016	Two quarters ended July 4, 2015
	\$	\$	\$	\$
Legal settlement <sup>(1)</sup>	9,000	-	9,000	-
Severance and rationalization costs <sup>(2)</sup>	543	-	2,750	-
Product withdrawal and recall costs <sup>(3)</sup>	229	-	1,697	-
Business development costs	113	398	210	523
Fair value of contingent consideration (see note 5)	(1,603)	82	(1,405)	82
Other	151	157	159	136
	8,433	637	12,411	741

## (1) Legal settlement

In the second quarter of 2016, the Company recorded a charge of \$9.0 million in connection with the settlement of a complaint filed by Plum, PBC ( Plum ) that arose out of a voluntary recall by Plum of certain resealable pouch products manufactured at the Company's Allentown, Pennsylvania facility in 2013 (see note 13). Previously, in the fourth quarter of 2013, the Company recorded a \$5.2 million provision for the expected loss associated with this recall, which reflected at that time the amount due to the Company for product sold to Plum that was subject to the recall, as well as the carrying value of recalled product still in inventory at the Company. The previously recorded provision did not include any potential amounts payable in connection with the settlement of litigation relating to the voluntary recall.

## (2) Severance and rationalization costs

For the two quarters ended July 2, 2016, severance and rationalization costs primarily related to the consolidation of the Company's frozen fruit processing facilities following the Sunrise Acquisition. In the first quarter of 2016, the Company transferred all production volume from its Buena Park, California facility into Sunrise's facilities located in Kansas and California. Costs recognized include an impairment charge of \$1.7 million, mainly related to leasehold improvements at the Buena Park facility. In the second quarter of 2016, the Company fully vacated the Buena Park facility and associated corporate office located in Cerritos, California, and recognized lease termination costs of \$0.3 million.

## (3) Product withdrawal and recall costs

For the two quarters ended July 2, 2016, the Company recognized costs of \$1.1 million associated with the voluntary withdrawal by a customer, in coordination with the Company, of private label orange juice product produced at the Company's San Bernardino, California premium juice facility, due to instances of early spoilage within the prescribed shelf life of the product. In addition, for the two quarters ended July 2, 2016, the Company recognized an estimated loss of \$0.6 million, net of estimated insurance recoveries, in connection with a

voluntary recall of certain sunflower kernel products that was announced in the second quarter of 2016 (see note 4).

## 10. Income Taxes

For the quarters and two quarters ended July 2, 2016 and July 4, 2015, the Company's effective tax rate was different from the Company's statutory Canadian tax rate due to the Company's annualized mix of earnings by jurisdiction, and the impact of discrete items. For the quarter and two quarters ended July 2, 2016, the Company used the actual year-to-date effective tax rate to estimate tax expense for these periods, instead of the annualized effective tax rate, as the calculated annualized effective tax rate was found to be highly sensitive to changes in estimates of total net earnings. The Company recognized a recovery of income tax of \$10.2 million, or 43.5% of loss before income taxes, for the two quarters ended July 2, 2016, compared with a provision for income tax of \$5.4 million, or 33.5% of earnings before income taxes, for the two quarters ended July 4, 2015. The effective tax rates reflected the impact of changes in the jurisdictional mix of earnings, mainly as the result of pre-tax losses in the U.S. in the two quarters ended July 2, 2016, compared with pre-tax earnings in the U.S. in the corresponding period of 2015, reflecting the effect in the first two quarters of 2016 of higher cash interest costs related to the financing of the Sunrise Acquisition, as well as discrete costs related to business acquisitions, including the acquisition accounting adjustment to Sunrise inventory sold in the period (see note 2) and amortization of debt issuance costs related to the Second Lien Loan Agreement (see note 7), as well as the impact of other discrete items including costs associated with the legal settlement with Plum, consolidation of our frozen fruit processing facilities, and product withdrawal and recall costs (see note 9).

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

**11. Earnings (Loss) Per Share**

Earnings (loss) per share are calculated as follows:

	July 2, 2016	Quarter ended July 4, 2015	July 2, 2016	Two quarters ended July 4, 2015
Earnings (loss) from continuing operations attributable to SunOpta Inc.	\$ (4,124)	\$ 4,796	\$ (13,787)	\$ 10,750
Earnings (loss) from discontinued operations attributable to SunOpta Inc.	-	(2,747)	(570)	(3,467)
Earnings (loss) attributable to SunOpta Inc.	\$ (4,124)	\$ 2,049	\$ (14,357)	\$ 7,283
Basic weighted-average number of shares outstanding	85,540,722	67,895,257	85,483,333	67,725,800
Dilutive potential of the following:				
Employee/director stock options and RSUs	16,304	330,523	17,288	321,080
Diluted weighted-average number of shares outstanding	85,557,026	68,225,780	85,500,621	68,046,880
Earnings (loss) per share - basic:				
- from continuing operations	\$ (0.05)	\$ 0.07	\$ (0.16)	\$ 0.16
- from discontinued operations	-	(0.04)	(0.01)	(0.05)
	\$ (0.05)	\$ 0.03	\$ (0.17)	\$ 0.11
Earnings (loss) per share - diluted:				
- from continuing operations	\$ (0.05)	\$ 0.07	\$ (0.16)	\$ 0.16
- from discontinued operations	-	(0.04)	(0.01)	(0.05)
	\$ (0.05)	\$ 0.03	\$ (0.17)	\$ 0.11

For the quarter ended July 2, 2016, stock options to purchase 3,187,777 (July 4, 2015 – 385,616) common shares were excluded from the calculation of potential dilutive common shares due to their anti-dilutive effect. For the two quarters ended July 2, 2016, stock options to purchase 3,184,777 (July 4, 2015 – 385,616) common shares were excluded from the calculation of potential dilutive common shares due to their anti-dilutive effect.

For the quarter and two quarters ended July 2, 2016, all potential dilutive common shares were excluded from the calculation of diluted loss per share due to their anti-dilutive effect of reducing the loss per share.

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

**12. Supplemental Cash Flow Information**

	July 2, 2016	Quarter ended July 4, 2015	July 2, 2016	Two quarters ended July 4, 2015
	\$	\$	\$	\$
Changes in non-cash working capital, net of businesses acquired:				
Accounts receivable	(16,910)	(4,933)	(33,747)	(9,602)
Inventories	(49,777)	(23,519)	(39,910)	(33,193)
Income tax recoverable	4,353	(1,531)	5,384	(3,017)
Prepaid expenses and other current assets	1,707	2,311	(606)	(3,112)
Accounts payable and accrued liabilities	29,114	12,604	10,944	7,410
Customer and other deposits	(2,781)	(4,345)	(3,844)	(99)
	(34,294)	(19,413)	(61,779)	(41,613)

**13. Commitments and Contingencies*****Plum Dispute***

Plum, a Delaware public benefit corporation, and SunOpta Global Organic Ingredients, Inc., a wholly-owned subsidiary of the Company ( *SGOI* ), are parties to a manufacturing and packaging agreement dated September 21, 2011 (the *Plum Manufacturing Agreement* ). Pursuant to the Plum Manufacturing Agreement, SGOI agreed to manufacture and package certain food items for Plum at SGOI's Allentown, Pennsylvania facility in accordance with Plum's specifications regarding, among other things, product ingredients and packaging, manufacturing processes, and quality control standards. On November 8, 2013, Plum initiated a voluntary recall of certain products manufactured by SGOI at its Allentown facility. On February 3, 2015, Plum filed a complaint against SGOI in the Lehigh County Court of Common Pleas in Allentown, Pennsylvania. On April 13, 2015, Plum filed an amended complaint adding packaging manufacturer and supplier Cheer Pack North America ( *Cheer Pack* ) as a Defendant. SGOI asserted counterclaims against Plum, crossclaims against Cheer Pack and third-party claims against Gualapack S.p.A ( *Gualapack* ), Hosokawa Yoko, Co. ( *Hosokawa* ), Secure HY Packaging Co., Ltd. ( *SHY* ) and CDF Corporation ( *CDF* ). Cheer Pack asserted cross-claims against SGOI. Plum alleged it initiated the recall in response to consumer complaints of bloated packaging and premature spoilage of certain products, which could lead to gastrointestinal symptoms and discomfort if consumed. Plum alleged that the spoilage of its products resulted from a post-processing issue at SGOI's Allentown facility. Plum sought unspecified damages equal to the direct costs of the recall and handling of undistributed product, incidental and consequential damages, lost profits and attorneys' fees.

On July 29, 2016, SGOI entered into a Mutual Release and Settlement Agreement (the *Settlement Agreement* ) with Plum, Campbell Soup Company ( *Campbell* ), Cheer Pack, Gualapack, Hosokawa, CDF and SHY. The Settlement Agreement resolves the disputed issues among the parties in connection with the litigation filed by Plum against SGOI, as described above. Pursuant to the terms of the Settlement Agreement, the Company will pay Campbell \$5.0 million in cash and provide Campbell with rebates of up to \$4.0 million over a four-year period in connection with Plum's purchases of pouch products and Campbell's purchases of aseptic broth products pursuant to manufacturing and supply agreements, as amended, between the parties and their affiliates. In order for Campbell to obtain the full \$4.0

million in rebates, Plum and Campbell must order certain minimum quantities of pouch products and aseptic broth products within each of the designated twelve-month periods over the four-year rebate period. In connection with the Settlement Agreement, the Company recorded a charge of \$9.0 million in the second quarter of 2016, as the Company believes there is reasonable assurance that the minimum order quantities will be achieved (see note 9).

**SUNOPTA INC.**

27

July 2, 2016 10-Q

---



**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

***Employment Matter***

On April 19, 2013, a class-action complaint, in the case titled *De Jesus, et al. v. Frozsun, Inc. d/b/a Frozsun Foods*, was filed against Sunrise Growers, Inc. (then named Frozsun, Inc.) in California Superior Court, Santa Barbara County seeking damages, equitable relief and reasonable attorneys' fees for alleged wage and hour violations. This case includes claims for failure to pay all hours worked, failure to pay overtime wages, meal and rest period violations, waiting-time penalties, improper wage statements and unfair business practices. The putative class includes approximately 4,000 to 4,500 non-exempt hourly employees from Sunrise's production facilities in Santa Maria and Oxnard, California. The parties are currently engaged in pre-class certification discovery. The Company is unable to estimate any potential liabilities relating to this proceeding, and any such liabilities could be material.

***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.

**14. Segmented Information**

In connection with the Company's divestiture of its equity interest in Opta Minerals on April 6, 2016, the Company recognized Opta Minerals as a discontinued operation for the quarter and two quarters ended July 2, 2016 and July 4, 2015 (see notes 1 and 3). Prior to being recognized as a discontinued operation, Opta Minerals was reported as a standalone operating segment within the Company. With the divestiture of Opta Minerals, the composition of the Company's remaining reportable segments is as follows:

- Global Ingredients aggregates our North American-based Raw Material Sourcing and Supply and European-based International Sourcing and Supply operating segments focused on the procurement and sale of specialty and organic grains and seeds, raw material ingredients, value-added grain- and cocoa-based ingredients, and organic commodities.
- Consumer Products consists of three main commercial platforms: Healthy Beverages, Healthy Fruit and Healthy Snacks. Healthy Beverages includes aseptic packaged products including non-dairy and dairy beverages, broths and teas; refrigerated premium juices; and shelf-stable juices and functional waters. Healthy Fruit includes IQF fruits for retail; IQF and bulk frozen fruit for foodservice; and custom fruit preparations for industrial use. Healthy Snacks includes fruit snacks; nutritional and protein bars; and re-sealable pouch products.

In addition, Corporate Services provides a variety of management, financial, information technology, treasury and administration services to each of the SunOpta Foods operating segments from the Company's headquarters in Mississauga, Ontario and administrative office in Edina, Minnesota.

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

When reviewing the operating results of the Company's operating segments, management uses segment revenues from external customers and segment operating income to assess performance and allocate resources. Segment operating income excludes other income/expense items and goodwill impairment losses. In addition, interest expense and income amounts, and provisions for income taxes are not allocated to the operating segments.

	Global Ingredients \$	Consumer Products \$	Quarter ended July 2, 2016 Consolidated \$
Segment revenues from external customers	158,498	189,648	348,146
Segment operating income	10,411	663	11,074
Corporate Services			(2,229)
Other expense, net			(8,433)
Interest expense, net			(11,548)
Loss from continuing operations before income taxes			(11,136)
			Quarter ended July 4, 2015 Consolidated \$
	Global Ingredients \$	Consumer Products \$	
Segment revenues from external customers	161,848	115,746	277,594
Segment operating income	10,311	692	11,003
Corporate Services			(2,011)
Other expense, net			(637)
Interest expense, net			(1,141)
Earnings from continuing operations before income taxes			7,214
			Two quarters ended July 2, 2016 Consolidated \$
	Global Ingredients \$	Consumer Products \$	
Segment revenues from external customers	304,520	395,940	700,460
Segment operating income	16,852	(1,115)	15,737
Corporate Services			(4,257)
Other expense, net			(12,411)
Interest expense, net			(22,570)
Loss from continuing operations before income taxes			(23,501)

**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and two quarters ended July 2, 2016 and July 4, 2015

(Unaudited)

(All tabular amounts expressed in thousands of U.S. dollars, except per share amounts)

	Global Ingredients \$	Consumer Products \$	Two quarters ended July 4, 2015 Consolidated \$
Segment revenues from external customers	316,905	234,638	551,543
Segment operating income	19,292	3,252	22,544
Corporate Services			(3,601)
Other expense, net			(741)
Interest expense, net			(2,068)
Earnings from continuing operations before income taxes			16,134

**SUNOPTA INC.**

30

July 2, 2016 10-Q

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

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read in conjunction with the interim consolidated financial statements, and notes thereto, for the quarter ended July 2, 2016 contained under Item 1 of this Quarterly Report on Form 10-Q and in conjunction with the annual consolidated financial statements, and notes thereto, contained in the Annual Report on Form 10-K for the fiscal year ended January 2, 2016 ( Form 10-K ). Unless otherwise indicated herein, the discussion and analysis contained in this MD&A includes information available to August 10, 2016.

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 the Form 10-K and Item 1A of this report.

Forward-looking statements contained in this commentary are based on our current estimates, expectations and projections, which we believe are reasonable as of the date of this report. 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 currency amounts in this MD&A are expressed in U.S. dollars. All tabular dollar amounts are expressed in thousands of U.S. dollars, except per share amounts.

### **Overview**

In connection with the sale of our equity interest in Opta Minerals Inc. ( Opta Minerals ) on April 6, 2016 (as described below under Recent Developments Sale of Opta Minerals ), the results of operations of Opta Minerals for the current and prior fiscal periods have been reported in discontinued operations in our consolidated statements of operations and cash flows. Prior to being recognized as a discontinued operation, Opta Minerals was reported as a standalone operating segment within SunOpta.

### **Calendar Year**

We operate on a fiscal calendar that results in a given fiscal year consisting of a 52- or 53-week period ending on the Saturday closest to December 31. Fiscal year 2016 will be a 52-week period ending on December 31, 2016, with quarterly periods ending on April 2, July 2 and October 1, 2016. Fiscal year 2015 was a 52-week period ending on January 2, 2016, with quarterly periods ending on April 4, July 4 and October 3, 2015.



## Recent Developments

### *Settlement of Plum Dispute*

On July 29, 2016, we entered into a Mutual Release and Settlement Agreement (the *Settlement Agreement*) with Plum, PBC ( *Plum* ), Campbell Soup Company ( *Campbell* ), and various other parties. The Settlement Agreement resolves the disputed issues among the parties in connection with the litigation filed by Plum against our wholly-owned subsidiary, SunOpta Global Organic Ingredients, Inc. ( *SGOI* ), which arose out of a voluntary recall by Plum of certain products manufactured at our Allentown, Pennsylvania facility in 2013 (see Part II, Item 1 *Legal Proceedings* and note 13 to the unaudited consolidated financial statements included in this report).

Pursuant to the terms of the Settlement Agreement, we will pay Campbell \$5.0 million in cash and provide Campbell with rebates of up to \$4.0 million over a four-year period in connection with Plum's purchases of pouch products and Campbell's purchases of aseptic broth products pursuant to manufacturing and supply agreements, as amended, between the parties and their affiliates. In order for Campbell to obtain the full \$4.0 million in rebates, Plum and Campbell must order certain minimum quantities of pouch products and aseptic broth products within each of the designated twelve-month periods over the four-year rebate period. In connection with the Settlement Agreement, we recorded a charge of \$9.0 million in the second quarter of 2016, as we believe there is reasonable assurance that the minimum order quantities will be achieved.

### *Strategic Review*

On June 27, 2016, we announced that we had engaged external financial and legal advisors to review our operating plan and to evaluate a range of strategic and financial actions that we could undertake to maximize shareholder value. There is no timetable for the completion of this review process, and it is uncertain what actions, if any, might be identified as part of this review. We also announced that we had engaged a global executive search firm to assist in identifying candidates who can add additional operating, industry and capital markets experience and expertise to our Board of Directors.

### *Recall of Certain Roasted Sunflower Kernel Products*

During the second quarter of 2016, we announced a voluntary recall of certain roasted sunflower kernel products produced at our Crookston, Minnesota facility due to potential contamination with *Listeria monocytogenes* bacteria. The affected sunflower products originated from the Crookston facility between May 31, 2015 and April 21, 2016. For the second quarter and first half of 2016, we recognized estimated losses of \$15.5 million and \$16.0 million related to this recall, reflecting the estimated cost of the affected sunflower kernel products expected to be returned to or replaced by us, and the estimated cost to reimburse customers for costs incurred by them related to the recall of their retail products that contain the affected sunflower kernels as an ingredient or component. However, these losses do not reflect costs associated with the interruption of production at the Crookston facility for the period from April 21, 2016 to the time regular production resumed on or about May 15, 2016, subject to a positive release protocol, or the costs to put into place corrective and preventive actions at our roasting facilities.

Our estimates of the losses related to the recall are provisional and were determined based on an assessment of the information available to us up to the date of filing this report, including a preliminary review of customer claims received to-date and consideration of the extent of potential additional claims that have yet to be received. We may need to revise our estimates in subsequent periods, as we continue to work with our customers to substantiate the claims received to-date and any additional claims that may be received. In addition, we are currently unable to estimate the impact that this recall may have on our future sales of sunflower products or on our ongoing relationships with our customers, which may have an adverse impact on the fair value of the customer relationship intangible asset and goodwill associated with our sunflower operations, which had carrying values of \$6.7 million and \$17.5 million, respectively, as at July 2, 2016.

We carry general liability and product recall insurance and are expecting to recover the recall-related costs through our insurance policies, less applicable deductibles under these policies. We recognize expected insurance recoveries in the period in which the recoveries are determined to be probable of realization. Accordingly, in the second quarter of 2016, we recorded estimated insurance recoveries of \$15.4 million for the losses recognized to-date related to the recall. However, our ability to recover the recall-related costs from insurance is uncertain, and the amount, if any, recovered could be less than the amount of the losses recognized.

**SUNOPTA INC.**

32

July 2, 2016 10-Q

---

### ***Sale of Opta Minerals***

On February 11, 2016, Opta Minerals entered into a definitive acquisition agreement, pursuant to which an affiliate of Speyside Equity Fund I LP ( Speyside ) agreed to acquire substantially all of the issued and outstanding shares of Opta Minerals. The acquisition of Opta Minerals by Speyside was completed on April 6, 2016, following a vote of the shareholders of Opta Minerals in favor of the transaction on March 31, 2016.

Upon closing of the transaction, we received aggregate gross proceeds of \$4.8 million (C\$6.2 million), of which \$3.2 million (C\$4.2 million) was received in cash, with the remainder received in the form of a \$1.5 million (C\$2.0 million) subordinated promissory note bearing interest at 2.0% per annum that will mature on October 6, 2018. We incurred direct costs related to the sale of Opta Minerals of \$0.8 million. The sale of our equity interest in Opta Minerals was consistent with our objective of divesting our non-core assets in order to become a pure-play healthy and organic foods company. We do not expect to have any significant continuing involvement with Opta Minerals.

In the fourth quarter of 2015, we recognized a loss on classification of Opta Minerals as a discontinued operation held for sale of \$10.5 million, or \$7.7 million net of non-controlling interest, to write down the carrying value of Opta Minerals net assets to fair value less cost to sell based on estimated net proceeds on sale of approximately \$4.5 million as at January 2, 2016. In the first quarter of 2016, we recognized a \$0.6 million gain on classification as held for sale which reflected a \$1.1 million decline in the carrying value of Opta Minerals net assets, partially offset by a \$0.5 million reduction in the estimated net proceeds on sale. We have not recognized the results of operations or cash flows of Opta Minerals for the period from April 1, 2016 to the closing of the transaction on April 6, 2016, as these amounts were insignificant to our consolidated results of operations and cash flows for the second quarter and first half of 2016.

### ***Five-Year Global Revolving Asset-Based Credit Facility***

On February 11, 2016, we entered into a five-year credit agreement for a senior secured asset-based revolving credit facility in the maximum aggregate principal amount of \$350 million, subject to borrowing base capacity (the Global Credit Facility ), as described below under Liquidity and Capital Resources and in note 7 to the unaudited consolidated financial statements included in this report.

### ***Sunrise Holdings (Delaware), Inc.***

On October 9, 2015, we completed the acquisition of 100% of the issued and outstanding common shares of Sunrise Holding (Delaware), Inc. ( Sunrise ), pursuant to a Purchase and Sale Agreement (the PSA ) dated July 30, 2015 (the Sunrise Acquisition ), for total consideration of \$472.7 million in cash. We financed the Sunrise Acquisition through a combination of: (i) net proceeds of approximately \$95.5 million from a registered offering of 16.7 million of our common shares that closed on September 30, 2015; (ii) net borrowings of approximately \$318.0 million under a second lien loan agreement (the Second Lien Loan Agreement ), as described below under Liquidity and Capital Resources ; and (iii) borrowings of approximately \$59.2 million under our existing credit facilities. Sunrise is a processor of conventional and organic individually quick frozen fruit in the U.S. The acquisition of Sunrise is aligned with our strategic focus on healthy foods, and is expected to provide us with a leadership position in frozen fruit, both leveraging and complementing our integrated field-to-table business model, as well as providing multiple synergy opportunities. Sunrise has been included in the Consumer Products operating segment since the date of acquisition.

In January 2016, we initiated the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition. In the first quarter of 2016, we transferred all production volume from our Buena Park, California facility into Sunrise s facilities located in Kansas and California. In the second quarter of 2016, we fully vacated our Buena Park facility and the associated corporate office located in Cerritos, California. Costs associated with the termination of the Buena Park and Cerritos leases, as well as other direct costs incurred in connection with this operational consolidation amounted to \$0.5 million and \$2.4 million in the second quarter and first half of 2016 and are included



in other expense. This operational consolidation is expected to provide a large part of our targeted cost synergies from the Sunrise Acquisition for 2016.

***Niagara Natural Fruit Snack Company Inc.***

On August 11, 2015, we acquired the net operating assets of Niagara Natural Fruit Snack Company Inc. ( Niagara Natural ), a manufacturer of all-natural fruit snacks. Niagara Natural's operations are located in the Niagara Region of Ontario. The transaction included a cash purchase price of \$6.5 million, subject to certain post-closing adjustments, plus contingent consideration of up to approximately \$2.8 million based on specific performance targets. The fair value of the contingent consideration obligation was determined to be \$2.3 million as at the acquisition date. We believe Niagara Natural is a strong strategic fit within our core consumer products strategy, aligning well with our focus on healthy and convenient snacking, as well as within our vertically integrated business model since the majority of ingredients can be sourced through our Global Ingredients segment. In addition, with this acquisition, we extend our market presence in fruit snacks with manufacturing operations in both the east and west regions of North America, which is expected to generate operational and logistical synergies. Niagara Natural has been included in the Consumer Products operating segment since the date of acquisition.

**SUNOPTA INC.**

33

July 2, 2016 10-Q

---

On May 5, 2016, we entered an agreement with the owners of Niagara Natural to settle the contingent consideration obligation in exchange for a one-time cash payment of \$0.6 million. In the second quarter of 2016, we recognized a gain of \$1.7 million in connection with this settlement, based on the difference between the fair value of the contingent consideration obligation of \$2.3 million as at April 2, 2016 and the cash payment.

***Citrusource, LLC***

On March 2, 2015, we acquired Citrusource, LLC ( Citrusource ), a producer of premium not-from-concentrate private label organic and conventional orange juice and citrus products in the U.S. We paid \$13.3 million in cash at closing and we may pay additional consideration based on the incremental growth in Citrusource's base business and the value of synergies created from combining the operations of Citrusource with our premium juice facility. The fair value of the total consideration transferred to acquire Citrusource was \$31.7 million as at the acquisition date. The acquisition of Citrusource aligns with our strategy of growing our value-added consumer products portfolio and leveraging our integrated operating platform. Citrusource has been included in the Consumer Products operating segment since the date of acquisition.

**SUNOPTA INC.**

34

July 2, 2016 10-Q

---

## Consolidated Results of Operations for the quarters ended July 2, 2016 and July 4, 2015

For the quarter ended	July 2, 2016	July 4, 2015	Change	Change
	\$	\$	\$	%
<b>Revenues</b>				
Global Ingredients	158,498	161,848	(3,350)	-2.1%
Consumer Products	189,648	115,746	73,902	63.8%
<b>Total revenues</b>	<b>348,146</b>	<b>277,594</b>	<b>70,552</b>	<b>25.4%</b>
<b>Gross profit</b>				
Global Ingredients	19,828	20,579	(751)	-3.6%
Consumer Products	16,150	9,074	7,076	78.0%
<b>Total gross profit</b>	<b>35,978</b>	<b>29,653</b>	<b>6,325</b>	<b>21.3%</b>
<b>Segment operating income (loss)<sup>(1)</sup></b>				
Global Ingredients	10,411	10,311	100	1.0%
Consumer Products	663	692	(29)	-4.2%
Corporate Services	(2,229)	(2,011)	(218)	-10.8%
<b>Total segment operating income</b>	<b>8,845</b>	<b>8,992</b>	<b>(147)</b>	<b>-1.6%</b>
Other expense, net	8,433	637	7,796	1223.9%
<b>Earnings from continuing operations before the following</b>	<b>412</b>	<b>8,355</b>	<b>(7,943)</b>	<b>-95.1%</b>
Interest expense, net	11,548	1,141	10,407	912.1%
Provision for (recovery of) income taxes	(7,135)	2,385	(9,520)	-399.2%
Earnings (loss) from continuing operations	(4,001)	4,829	(8,830)	-182.9%
Earnings attributable to non-controlling interests	123	33	90	272.7%
Loss from discontinued operations attributable to SunOpta Inc.	-	(2,747)	2,747	100.0%
<b>Earnings (loss) attributable to SunOpta Inc.<sup>(2)</sup></b>	<b>(4,124)</b>	<b>2,049</b>	<b>(6,173)</b>	<b>-301.3%</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 from continuing operations before the following, which we consider to be the most directly comparable U.S. GAAP financial measure.

For the quarter ended	Global	Consumer	Corporate	Consolidated
	Ingredients	Products	Services	
	\$	\$	\$	\$
<b>July 2, 2016</b>				
Segment operating income (loss)	10,411	663	(2,229)	8,845
Other expense, net	(105)	(8,163)	(165)	(8,433)
Earnings (loss) from continuing operations before the following	10,306	(7,500)	(2,394)	412

Edgar Filing: SunOpta Inc. - Form 10-Q

**July 4, 2015**

Segment operating income (loss)	10,311	692	(2,011)	8,992
Other expense, net	(293)	(135)	(209)	(637)
Earnings (loss) from continuing operations before the following	10,018	557	(2,220)	8,355

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.

**SUNOPTA INC.**

35

July 2, 2016 10-Q

- (2) When assessing our financial performance, we use an internal measure that excludes the following items from earnings attributable to SunOpta Inc. determined in accordance with U.S. GAAP: (i) results of discontinued operations; (ii) specific items recognized in other income/expense; (iii) impairment losses on long-lived assets, investments, and goodwill; and (iv) other unusual items that are identified and evaluated on an individual basis, which due to their nature or size, we would not expect to occur as part of our normal business on a regular basis. We believe that the identification of these items enhances an analysis of our financial performance of our core business when comparing those operating results between periods, as we do not consider these items to be reflective of normal core business operations. The following table presents a reconciliation of adjusted earnings from loss attributable to SunOpta Inc. , which we consider to be the most directly comparable U.S. GAAP financial measure.

For the quarter ended	\$	Per Diluted Share \$
<b>July 2, 2016</b>		
Loss from continuing operations attributable to SunOpta Inc.	(4,124)	(0.05)
Adjusted for:		
Legal settlement and litigation-related legal fees(a)	9,661	
Costs related to business acquisitions(b)	7,905	
Product withdrawal and recall costs(c)	529	
Plant start-up costs(d)	278	
Other(e)	412	
Gain on settlement of contingent consideration(f)	(1,715)	
Net income tax effect on adjusted earnings(g)	(8,825)	
Adjusted earnings	4,121	0.05
<b>July 4, 2015</b>		
Earnings attributable to SunOpta Inc.	2,049	0.03
Loss from discontinued operations attributable to SunOpta Inc.	2,747	0.04
Earnings from continuing operations attributable to SunOpta Inc.	4,796	0.07
Adjusted for:		
Plant start-up costs(d)	346	
Litigation-related legal fees(a)	325	
Other expense, net	637	
Net income tax effect on adjusted earnings	(707)	
Adjusted earnings	5,397	0.08

- (a) Reflects the charge recorded in connection with the settlement of the Plum dispute (as described above under Recent Developments Settlement of Plum Dispute ), which is recorded in other expense. Also includes \$0.6 million (2015 - \$0.3 million) of litigation-related legal costs mainly associated with the Plum dispute, which are recorded in selling, general and administrative ( SG&A ) expenses.
- (b) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise s inventory sold in the second quarter of 2016 of \$3.9 million, which is recorded in cost of goods sold; the non-cash amortization of debt issuance costs incurred in connection with the financing related to the Sunrise Acquisition of \$2.6 million, as well as \$0.9 million of additional financing costs expensed as incurred in the second quarter of 2016, which are recorded in interest expense; and \$0.5 million of integration costs related to the closure and consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, which are recorded in cost of goods sold and other expense.
- (c) Reflects costs of \$0.2 million associated with the voluntary withdrawal or recall of products, net of expected insurance recoveries (as described above under Recent Developments Withdrawal of Private Label Orange Juice Product and Recall of Certain Sunflower Kernel Products ), which are recorded in other expense. Also includes a \$0.3 million adjustment for the estimated lost margin caused by the interruption of production in our roasting operations, which reflects a shortfall in revenues against

## Edgar Filing: SunOpta Inc. - Form 10-Q

anticipated volumes of approximately \$3.5 million, less associated cost of goods sold of approximately \$3.2 million.

- (d) Plant start-up costs relate to the ramp-up of production at our Allentown, Pennsylvania facility following the completion of the addition of aseptic beverage processing and filling capabilities in the fourth quarter of 2015, which are recorded in cost of goods sold. These start-up costs reflect the negative gross margin reported by the facility, which is expected to decrease as the facility ramps up to break-even production levels.
- (e) Other includes fair value adjustments related to contingent consideration arrangements of \$0.2 million, which are recorded in other expense.
- (f) Reflects the gain on settlement of the contingent consideration obligation related to Niagara Natural (as described above under Recent Development - Niagara Natural), which is recorded in other income.
- (g) To tax effect the preceding adjustments and to reflect an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.

We believe that investors' understanding of our financial performance is enhanced by disclosing the specific items that we exclude from earnings/loss attributable to SunOpta Inc. to compute adjusted earnings. However, adjusted earnings is not, and should not be viewed as, a substitute for earnings prepared under U.S. GAAP. Adjusted earnings is presented solely to allow investors to more fully understand how we assess our financial performance.

**SUNOPTA INC.**

36

July 2, 2016 10-Q

---

Revenues for the quarter ended July 2, 2016 increased by 25.4% to \$348.1 million from \$277.6 million for the quarter ended July 4, 2015. Excluding the impact on revenues in the second quarter of 2016 of acquired businesses (an increase in revenues of approximately \$77 million), estimated impact of the sunflower kernel recall based on shortfall against anticipated volumes (a decrease in revenues of approximately \$4 million) and changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately \$4 million), revenues increased 0.3% in the second quarter of 2016, compared with the second quarter of 2015. This increase in revenues reflected higher demand for organic ingredients and growth in aseptic beverage volumes, offset by lower volumes of specialty raw materials driven by a reduction in contracted acres, as well as the negative impact on sales of frozen fruit of crop shortages stemming from a late strawberry harvest and softness in retail demand.

Gross profit increased \$6.3 million, or 21.3%, to \$36.0 million for the quarter ended July 2, 2016, compared with \$29.7 million for the quarter ended July 4, 2015. As a percentage of revenues, gross profit for the quarter ended July 2, 2016 was 10.3% compared to 10.7% for the quarter ended July 4, 2015, a decrease of 0.4%. The gross profit percentage for the second quarter of 2016 would have been approximately 11.5%, excluding the impact of an acquisition accounting adjustment related to the Sunrise's inventory sold in the second quarter of 2016 (\$3.9 million), start-up costs related to the ramp-up of production at our Allentown, Pennsylvania aseptic beverage processing facility (\$0.3 million), and lost margin caused by the interruption of production in our roasting operations (\$0.3 million). Excluding these items, the gross margin percentage increased 0.8% in the second quarter of 2016, compared with the second quarter of 2015, which was driven mainly by increased efficiency and lower costs at our beverage operations, partially offset by increased raw material costs for frozen strawberries that could not be passed on immediately to customers, as well as production inefficiencies within our frozen fruit operations caused by the late harvest and resultant shortage of strawberries.

Total segment operating income for the quarter ended July 2, 2016 decreased by \$0.1 million, or 1.6%, to \$8.8 million, compared with \$9.0 million for the quarter ended July 4, 2015. As a percentage of revenues, segment operating income was 2.5% for the quarter ended July 2, 2016, compared with 3.2% for the quarter ended July 4, 2015. The decrease in segment operating income is attributable to a \$5.2 million increase in SG&A expenses, mainly reflecting incremental expenses from acquired businesses, as well as higher litigation-related legal costs mainly related to the Plum dispute. As a percentage of revenues, SG&A expenses were 7.0% in both the second quarter of 2016 and second quarter of 2015. Also contributing to the decrease in segment operating income was an increase in intangible asset amortization of \$2.1 million in the second quarter of 2016, compared with the second quarter of 2015, reflecting the incremental amortization of identified intangible assets of acquired businesses. These factors were partially offset by a foreign exchange gain of \$0.2 million in the second quarter of 2016, compared with a foreign exchange loss of \$0.7 million in the second quarter of 2015, mainly reflecting the impact of a strengthening of the U.S. dollar relative to the euro on forward foreign exchange contracts within our international sourcing and supply operations, compared with a weakening of the U.S. dollar relative to the euro in the corresponding period of 2015.

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

Other expense for the quarter ended July 2, 2016 of \$8.4 million included the \$9.0 million charge related to the settlement of the Plum dispute, as well as \$0.5 million of facility rationalization and severance costs primarily related to the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, and \$0.2 million of costs (net of estimated insurance recoveries) associated with the voluntary withdrawal of private label orange juice product and voluntary recall of certain sunflower kernel products. These expenses were partially offset by the \$1.7 million gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural.

The increase in interest expense of \$10.4 million to \$11.5 million for the quarter ended July 2, 2016, compared with \$1.1 million for the quarter ended July 4, 2015, primarily reflected increased costs associated with borrowings under the Second Lien Loan Agreement and our credit facilities in order to finance the Sunrise Acquisition, which included \$2.6 million of non-cash amortization of debt issuance costs associated with the Second Lien Loan Agreement. In

addition, in the second quarter of 2016, we recognized \$0.9 million of costs in connection with proposed financing arrangements intended to repay in full the term loans outstanding under the Second Lien Loan Agreement.

We recognized a recovery of income tax of \$7.1 million, or 64.1% of loss before income taxes, for the quarter ended July 2, 2016, compared with a provision for income tax of \$2.4 million, or 33.1% of earnings before income taxes, for the quarter ended July 4, 2015. The effective tax rates reflected the impact of changes in the jurisdictional mix of earnings, mainly as the result of pre-tax losses in the U.S. in the second quarter of 2016, compared with pre-tax earnings in the U.S. in the corresponding period of 2015, which reflected the effect in the second quarter of 2016 of higher cash interest costs related to

**SUNOPTA INC.**

37

July 2, 2016 10-Q

---



the financing of the Sunrise Acquisition, as well as costs related to business acquisitions, including the acquisition accounting adjustment to Sunrise inventory sold in the period and the amortization of debt issuance costs related to the Second Lien Loan Agreement, as well as the impact of other discrete items including costs associated with the Plum legal settlement, consolidation of our frozen fruit processing facilities and product withdrawal and recall costs. For fiscal 2016, we expect our effective tax rate to be in the range of 29% to 32%, excluding discrete items.

Loss from continuing operations attributable to SunOpta Inc. for the quarter ended July 2, 2016 was \$4.1 million, compared with earnings of \$4.8 million for the quarter ended July 4, 2015, a decrease of \$8.9 million. Diluted loss per share from continuing operations was \$0.05 for the quarter ended July 2, 2016, compared with diluted earnings per share from continuing operations of \$0.07 for the quarter ended July 4, 2015.

Loss from discontinued operations of \$2.7 million for the quarter ended July 4, 2015 mainly reflected an after-tax loss from operations of Opta Minerals of \$3.1 million, net of non-controlling interest of \$0.4 million.

On a consolidated basis, we realized a loss of \$4.1 million (diluted loss per share of \$0.05) for the quarter ended July 2, 2016, compared with earnings of \$2.0 million (diluted earnings per share of \$0.03) for the quarter ended July 4, 2015.

For the quarter ended July 2, 2016, adjusted earnings were \$4.1 million, or \$0.05 per diluted share, compared with adjusted earnings of \$5.2 million, or \$0.08 per diluted share for the quarter ended July 4, 2015. Adjusted earnings is a non-GAAP financial measure. See footnote (2) to the table above for a reconciliation of adjusted earnings from earnings attributable to SunOpta Inc. , which we consider to be the most directly comparable U.S. GAAP financial measure.

### Segmented Operations Information

#### Global Ingredients

For the quarter ended	July 2, 2016	July 4, 2015	Change	% Change
Revenues	\$ 158,498	\$ 161,848	\$ (3,350)	-2.1%
Gross Margin	19,828	20,579	(751)	-3.6%
Gross Margin %	12.5%	12.7%		-0.2%
Operating Income	\$ 10,411	\$ 10,311	\$ 100	1.0%
Operating Income %	6.6%	6.4%		0.2%

Global Ingredients contributed \$158.5 million in revenues for the quarter ended July 2, 2016, compared to \$161.8 million for the quarter ended July 4, 2015, a decrease of \$3.4 million, or 2.1% . Excluding the impact of changes including foreign exchange rates and commodity-related pricing, Global Ingredients revenues increased approximately 2.7% . The table below explains the decrease in revenue:

<b>Global Ingredients Revenue Changes</b>	
Revenues for the quarter ended July 4, 2015	\$161,848
Lower volumes of specialty corn and soy driven by a reduction of contracted acres, as well as decreased volumes of organic feed, roasted and other ingredient products	(13,446)
Lower sunflower volumes attributed to downtime due to the impact of the roasted kernel recall in the second quarter of 2016, and lower throughput after restarting our roasting operations, combined with lower export volumes of in-shell sunflower due primarily to a strong U.S. dollar	(7,240)
Decreased pricing for organic fruit and vegetables, seeds and nuts, quinoa, coffee and oils, partially offset by increases in pricing for sugar	(3,168)
Favorable foreign exchange impact on euro-denominated sales due to the stronger U.S. dollar	1,037
Increased pricing of specialty corn, and grain snacks, partially offset by lower pricing on commodity soy	1,216
Higher sales volumes of internationally sourced organic ingredients including cocoa, coffee, grains and pulses, oils, and fruit and vegetables	18,251
Revenues for the quarter ended July 2, 2016	<b>\$158,498</b>

Gross margin in Global Ingredients decreased by \$0.8 million to \$19.8 million for the quarter ended July 2, 2016 compared to \$20.6 million for the quarter ended July 4, 2015, and the gross margin percentage decreased by 0.2% to 12.5%. The decrease in gross margin as a percentage of revenue was primarily due to the impact of the roasted sunflower kernel recall and unfavorable impact of a weaker euro relative to U.S. dollar, partially offset by a favorable sales mix of higher margin organic raw materials. The table below explains the decrease in gross margin:

<b>Global Ingredients Gross Margin Changes</b>	
Gross margin for the quarter ended July 4, 2015	\$20,579
Unfavorable impact on gross margins due to weaker euro relative to U.S. dollar, lower pricing spreads on internationally sourced organic ingredients, and reduced yield and other operational inefficiencies at European sunflower operations	(1,253)
Margin loss from downtime associated with the sunflower roasted kernel recall, as well as reduced throughput following the restart of our roasting operations at our Crookston facility	(675)
Higher pricing spread on specialty corn and soy, and organic feed	454
Favorable margin impact of mark-to-market gains related to commodity futures contracts	723
Gross margin for the quarter ended July 2, 2016	<b>\$19,828</b>

Operating income in Global Ingredients increased by \$0.1 million, or 1.0%, to \$10.4 million for the quarter ended July 2, 2016, compared to \$10.3 million for the quarter ended July 4, 2015. The table below explains the increase in operating income:

<b>Global Ingredients Operating Income Changes</b>	
Operating income for the quarter ended July 4, 2015	\$10,311
Decrease in gross margin, as explained above	(751)
Increase in SG&A expenses, primarily due to higher bad debt and other SG&A costs partially offset by lower compensation costs	(66)
Decrease in corporate cost allocations	207
Increased foreign exchange gains on forward derivative contracts	710
Operating income for the quarter ended July 2, 2016	<b>\$10,411</b>

Looking forward, we believe Global Ingredients is well positioned in growing non-GMO and organic food categories. We intend to focus our efforts on (i) growing our organic sourcing and supply capabilities, making certified organic ingredients a larger proportion of our overall sales; (ii) leveraging our international sourcing and supply capabilities internally, and forward and backward integrating where opportunities exist; and (iii) expanding our international sales base via strategic relationships for procurement of product to drive incremental sales volume. 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.

### Consumer Products

<b>For the quarter ended</b>	<b>July 2, 2016</b>	<b>July 4, 2015</b>	<b>Change</b>	<b>% Change</b>
Revenues	\$ 189,648	\$ 115,746	\$ 73,902	63.8%
Gross Margin	16,150	9,074	7,076	78.0%
Gross Margin %	8.5%	7.8%		0.7%
Operating Income	\$ 663	\$ 692	\$ (29)	-4.2%
Operating Income %	0.3%	0.6%		-0.3%

Consumer Products contributed \$189.6 million in revenues for the quarter ended July 2, 2016, compared to \$115.7 million for the quarter ended July 4, 2015, a \$73.9 million, or a 63.8% increase. Excluding the impact of changes primarily related to revenues acquired as a result of the acquisitions of Sunrise, Citrusource and Niagara Natural in 2015, Consumer Products revenues decreased approximately 1.7%. The table below explains the increase in revenues:

<b>Consumer Products Revenue Changes</b>	
Revenues for the quarter ended July 4, 2015	\$115,746
Acquired revenues as a result of the acquisition of Sunrise, partially offset by the impact of customer transition following the closure of the Buena Park processing facility in the first quarter of 2016, category resets of a major customer impacting the timing of major contracted sales and general softness in the retail customer market in the second quarter	61,174
Higher sales of aseptic beverages including retail almond beverages and non-dairy into the food service channel, along with stronger sales of shelf-stable juice as a result of new product innovation	10,747
Acquired revenues as a result of the acquisition of Niagara Natural as well as increased volumes of resealable pouch offerings as a result of new business contracted, partially offset by of lower volumes of specialty bars	1,981
Revenues for the quarter ended July 2, 2016	<b>\$189,648</b>

Gross margin in Consumer Products increased by \$7.1 million to \$16.2 million for the quarter ended July 2, 2016 compared to \$9.1 million for the quarter ended July 4, 2015, and the gross margin percentage increased by 0.7% to 8.5%. For the quarter ended July 2, 2016 gross margin as a percentage of revenue was impacted by a \$3.9 million acquisition accounting adjustment related to Sunrise inventory sold, as well as costs associated with expansion activities at our Allentown aseptic facility of \$0.3 million. Excluding these costs, the gross margin percentage in the consumer products segment would have been 10.7% for the quarter ended July 2, 2016. The increase in gross margin percentage reflected the higher margin profile of 2015 acquisitions, and increased facility utilization and operating costs within the beverage operations, partially offset by higher costs within healthy fruit operations due to a delayed 2016 fruit harvest that led to increased labor costs and higher raw material prices that were not yet built into customer pricing. The table below explains the increase in gross margin:

<b>Consumer Products Gross Margin Changes</b>	
Gross margin for the quarter ended July 4, 2015	\$9,074
Margin impact of the Sunrise Acquisition and improved pricing for frozen fruit offerings, partially offset by lower margins for fruit bases and toppings	6,836
Increased contribution from sales of aseptic and non-aseptic private label beverages, driven by increased production volumes and higher facility utilization partially offset by ramp-up costs at the Allentown, Pennsylvania aseptic facility	3,648
Increased volumes of resealable pouch offerings as a result of new business contracted, and incremental margin from the acquisition of Niagara Natural partially offset by lower volumes of specialty bars	480
Margin impact from acquisition accounting adjustment related to Sunrise inventory sold in the quarter	(3,888)
Gross margin for the quarter ended July 2, 2016	<b>\$16,150</b>

Operating income in Consumer Products was \$0.7 million for the quarter ended July 2, 2016, essentially flat compared to operating income for the quarter ended July 4, 2015. The table below explains the decrease in operating income:

<b>Consumer Products Operating Income Changes</b>	
Operating income for the quarter ended July 4, 2015	\$692
Increase in gross margin, as explained above	7,076
Increased SG&A costs due primarily to the acquisitions of Sunrise and Niagara Natural, partially offset by lower compensation costs	(5,146)
Increase in corporate cost allocations	(1,959)
Operating income for the quarter ended July 2, 2016	<b>\$663</b>

During 2015, we completed three strategic acquisitions in each of our primary consumer product commercial platforms; healthy beverage, healthy fruit, and healthy snacks. In addition, we completed a significant capacity expansion at our West Coast aseptic beverage facility, and in the fourth quarter opened a new East Coast aseptic beverage facility. All of these acquisitions and investments are designed to expand our ability to address fast growing markets, provide a strategic east-west footprint, strengthen our revenue growth, and drive improvements in our margin profile and operating income. Looking forward we intend to leverage these new assets, as well as our innovation capabilities to bring new value-added packaged products and processes to market and to increase our capacity utilization across the Consumer Products segment. In addition, we believe the Sunrise Acquisition will allow us to further leverage our global sourcing expertise, as it provides us with a leading market position in conventional and organic private label IQF fruit. The statements in this paragraph are forward-looking statements. See [Forward-Looking Statements](#) above. Unfavorable shifts in consumer preferences, increased competition, availability of raw material supply, volume decreases or loss of customers, unexpected delays in our expansion and integration plans, 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.

### Corporate Services

For the quarter ended	July 2, 2016	July 4, 2015	Change	% Change
-----------------------	--------------	--------------	--------	----------

Operating Loss	\$ (2,229)	\$ (2,011)	\$ (218)	-10.8%
----------------	------------	------------	----------	--------

Operating loss at Corporate Services increased by \$0.2 million to \$2.2 million for the quarter ended July 2, 2016, from a loss of \$2.0 million for the quarter ended July 4, 2015. The table below explains the increase in operating loss:

<b>Corporate Services Operating Loss Changes</b>	
Operating loss for the quarter ended July 4, 2015	\$(2,011)
Higher compensation-related costs due to increased headcount, stock-based compensation and health benefits	(1,174)
Increased information technology consulting, professional fees and costs associated with an ongoing litigation	(1,163)
Decrease in foreign exchange losses	367
Increase in corporate cost allocations that are charged to SunOpta reporting segments, due in part to a further centralization of services	1,752
Operating Income for the quarter ended July 2, 2016	<b>\$(2,229)</b>

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

number of people employed within each segment. The 2016 management fee allocations reflect the additional revenues and head count added as a result of the acquisitions of Sunrise, Citrusource, and Niagara Natural. These acquisitions added approximately \$350.0 million in annualized revenues all to the Consumer Products segment.

**SUNOPTA INC.**

42

July 2, 2016 10-Q

---

## Consolidated Results of Operations for the two quarters ended July 2, 2016 and July 4, 2015

For the two quarters ended	July 2, 2016 \$	July 4, 2015 \$	Change \$	Change %
<b>Revenues</b>				
Global Ingredients	304,520	316,905	(12,385)	-3.9%
Consumer Products	395,940	234,638	161,302	68.7%
<b>Total revenues</b>	<b>700,460</b>	<b>551,543</b>	<b>148,917</b>	<b>27.0%</b>
<b>Gross profit</b>				
Global Ingredients	37,920	37,898	22	0.1%
Consumer Products	29,959	20,925	9,034	43.2%
<b>Total gross profit</b>	<b>67,879</b>	<b>58,823</b>	<b>9,056</b>	<b>15.4%</b>
<b>Segment operating income (loss)<sup>(1)</sup></b>				
Global Ingredients	16,852	19,292	(2,440)	-12.6%
Consumer Products	(1,115)	3,252	(4,367)	-134.3%
Corporate Services	(4,257)	(3,601)	(656)	-18.2%
<b>Total segment operating income</b>	<b>11,480</b>	<b>18,943</b>	<b>(7,463)</b>	<b>-39.4%</b>
Other expense, net	12,411	741	11,670	1574.9%
<b>Earnings (loss) from continuing operations before the following</b>	<b>(931)</b>	<b>18,202</b>	<b>(19,133)</b>	<b>-105.1%</b>
Interest expense, net	22,570	2,068	20,502	991.4%
Provision for (recovery of) income taxes	(10,221)	5,406	(15,627)	-289.1%
Earnings (loss) from continuing operations	(13,280)	10,728	(24,008)	-223.8%
Earnings (loss) attributable to non-controlling interests	507	(22)	529	2404.5%
Loss from discontinued operations, net of taxes	(570)	(3,467)	2,897	83.6%
<b>Earnings (loss) attributable to SunOpta Inc.<sup>(2)</sup></b>	<b>(14,357)</b>	<b>7,283</b>	<b>(21,640)</b>	<b>-297.1%</b>

- (1) When assessing the financial performance of our operating segments, we use an internal measure of operating income that excludes other income/expense items determined in accordance with U.S. 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 from continuing operations before the following, which we consider to be the most directly comparable U.S. GAAP financial measure.

For the two quarters ended	Global Ingredients \$	Consumer Products \$	Corporate Services \$	Consol- idated \$
<b>July 2, 2016</b>				
Segment operating income (loss)	16,852	(1,115)	(4,257)	11,480
Other expense, net	(765)	(11,254)	(392)	(12,411)
	16,087	(12,369)	(4,649)	(931)

Edgar Filing: SunOpta Inc. - Form 10-Q

Earnings (loss) from continuing operations before the following

**July 4, 2015**

Segment operating income (loss)	19,292	3,252	(3,601)	18,943
Other expense, net	(293)	(135)	(313)	(741)
Earnings (loss) from continuing operations before the following	18,999	3,117	(3,914)	18,202

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.

SUNOPTA INC.

43

July 2, 2016 10-Q



- (2) When assessing our financial performance, we use an internal measure that excludes the following items from earnings attributable to SunOpta Inc. determined in accordance with U.S. GAAP: (i) results of discontinued operations; (ii) specific items recognized in other income/expense; (iii) impairment losses on long-lived assets, investments, and goodwill; and (iv) other unusual items that are identified and evaluated on an individual basis, which due to their nature or size, we would not expect to occur as part of our normal business on a regular basis. We believe that the identification of these items enhances an analysis of our financial performance of our core business when comparing those operating results between periods, as we do not consider these items to be reflective of normal core business operations. The following table presents a reconciliation of adjusted earnings from loss attributable to SunOpta Inc. , which we consider to be the most directly comparable U.S. GAAP financial measure.

<b>For the two quarters ended</b>	\$	Per Diluted Share \$
<b>July 2, 2016</b>		
Loss attributable to SunOpta Inc.	(14,357)	(0.17)
Loss from discontinued operations attributable to SunOpta Inc.	570	0.01
Loss from continuing operations attributable to SunOpta Inc.	(13,787)	(0.16)
Adjusted for:		
Legal settlement and litigation-related legal fees <sup>(a)</sup>	10,286	
Costs related to business acquisitions <sup>(b)</sup>	20,416	
Product withdrawal and recall costs <sup>(c)</sup>	1,997	
Plant start-up costs <sup>(d)</sup>	1,565	
Write-off of debt issuance costs <sup>(e)</sup>	215	
Other <sup>(f)</sup>	1,187	
Gain on settlement of contingent consideration <sup>(g)</sup>	(1,715)	
Net income tax effect on adjusted earnings <sup>(h)</sup>	(13,356)	
Adjusted earnings	6,808	0.08
<b>July 4, 2015</b>		
Earnings attributable to SunOpta Inc.	7,283	0.11
Loss from discontinued operations attributable to SunOpta Inc.	3,467	0.05
Earnings from continuing operations attributable to SunOpta Inc.	10,750	0.16
Adjusted for:		
Litigation-related legal fees <sup>(a)</sup>	794	
Plant start-up costs <sup>(d)</sup>	695	
Other expense, net	741	
Net income tax effect on adjusted earnings	(1,173)	
Adjusted earnings	11,807	0.17

- (a) Reflects the charge recorded in connection with the settlement of the Plum dispute (as described above under Recent Developments Settlement of Plum Dispute ), which is recorded in other expense. Also includes \$1.3 million (2015 - \$0.8 million) of litigation-related legal costs mainly associated with the Plum dispute, which are recorded in SG&A expenses.
- (b) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise's inventory sold in the first half of 2016 of \$11.5 million, which is recorded in cost of goods sold; the non-cash amortization of debt issuance costs incurred in connection with the financing related to the Sunrise Acquisition of \$5.6 million, as well as \$0.9 million of additional financing costs expensed as incurred in the second quarter of 2016, which are recorded in interest expense; and \$2.4 million of integration costs related to the closure and consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, which are recorded in cost of goods sold and other expense.
- (c) Reflects costs of \$1.7 million associated with the voluntary withdrawal or recall of products, net of expected insurance recoveries (as described above under Recent Developments Withdrawal of Private Label Orange Juice Product and Recall of Certain

## Edgar Filing: SunOpta Inc. - Form 10-Q

Sunflower Kernel Products ), which are recorded in other expense. Also includes a \$0.3 million adjustment for the estimated lost margin caused by the interruption of production in our roasting operations, which reflects a shortfall in revenues against anticipated volumes of approximately \$3.5 million, less associated cost of goods sold of approximately \$3.2 million.

- (d) Plant start-up costs relate to the ramp-up of production at our Allentown, Pennsylvania facility following the completion of the addition of aseptic beverage processing and filling capabilities in the fourth quarter of 2015, which are recorded in cost of goods sold. These start-up costs reflect the negative gross margin reported by the facility, which is expected to decrease as the facility ramps up to break-even production levels.
- (e) Reflects the write-off to interest expense of \$0.2 million of remaining unamortized debt issuance costs related to our North American credit facilities, which were replaced by the Global Credit Facility.
- (f) Other includes severance costs of \$0.5 million and fair value adjustments related to contingent consideration arrangements of \$0.4 million, which are recorded in other expense.
- (g) Reflects the gain on settlement of the contingent consideration obligation related to Niagara Natural (as described above under Recent Development - Niagara Natural), which is recorded in other income.

**SUNOPTA INC.**

44

July 2, 2016 10-Q

---

- (h) To tax effect the preceding adjustments and to reflect an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.

We believe that investors' understanding of our financial performance is enhanced by disclosing the specific items that we exclude from earnings/loss attributable to SunOpta Inc. to compute adjusted earnings. However, adjusted earnings is not, and should not be viewed as, a substitute for earnings prepared under U.S. GAAP. Adjusted earnings is presented solely to allow investors to more fully understand how we assess our financial performance.

Revenues for the two quarters ended July 2, 2016 increased by 27.0% to \$700.5 million from \$551.5 million for the two quarters ended July 4, 2015. Excluding the impact on revenues in the first half of 2016 of acquired businesses (an increase in revenues of approximately \$154 million), estimated impact of the sunflower kernel recall based on shortfall against anticipated volumes (a decrease in revenues of approximately \$4 million) and changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately \$15 million), revenues increased 2.0% in the first half of 2016, compared with the first half of 2015. This increase in revenues was driven primarily by increased demand for organic ingredients and growth in aseptic beverage volumes. These factors were largely offset by lower volumes of specialty raw materials driven by a reduction in contracted acres, as well as the negative impact on sales of frozen fruit of crop shortages stemming from a late strawberry harvest and softness in retail demand.

Gross profit increased \$9.1 million, or 15.4%, to \$67.9 million for the two quarters ended July 2, 2016, compared with \$58.8 million for the two quarters ended July 4, 2015. As a percentage of revenues, gross profit for the two quarters ended July 2, 2016 was 9.7% compared to 10.7% for the two quarters ended July 4, 2015, a decrease of 1.0%. The gross profit percentage for the first half of 2016 would have been approximately 11.6%, excluding the impact of an acquisition accounting adjustment related to the Sunrise's inventory sold in the first half of 2016 (\$11.5 million), start-up costs related to the ramp-up of production at our Allentown, Pennsylvania aseptic beverage processing facility (\$1.6 million), and lost margin caused by the interruption of production in our roasting operations (\$0.3 million). Excluding these items, the gross margin percentage increased 0.9% in the first half of 2016, compared with the first half of 2015, driven mainly by increased efficiency and lower costs at our beverage operations, partially offset by increased raw material costs for frozen strawberries that could not be passed on immediately to customers, as well as production inefficiencies within our frozen fruit operations caused by the late harvest and resultant shortage of strawberries.

Total segment operating income for the two quarters ended July 2, 2016 decreased by \$7.5 million, or 39.4%, to \$11.5 million, compared with \$18.9 million for the two quarters ended July 4, 2015. As a percentage of revenues, segment operating income was 1.6% for the two quarters ended July 2, 2016, compared with 3.4% for the two quarters ended July 4, 2015. The decrease in segment operating income is attributable to an \$8.8 million increase in SG&A expenses, mainly reflecting incremental expenses from acquired businesses, as well as higher litigation-related legal costs mainly related to the Plum dispute, partially offset by lower employee compensation-related expenses. As a percentage of revenues, SG&A expenses were 7.0% in the first half of 2016, compared with 7.3% in the first half of 2015. Also contributing to the decrease in segment operating income was an increase in intangible asset amortization of \$4.3 million in the first half of 2016, compared with the first half of 2015, reflecting the incremental amortization of identified intangible assets of acquired businesses. In addition, the decrease in segment operating income reflected a foreign exchange loss of \$2.0 million in the first half of 2016, compared with a foreign exchange gain of \$1.5 million in the first half of 2015, mainly reflecting the impact of a weakening of the U.S. dollar relative to the euro on forward foreign exchange contracts within our international sourcing and supply operations, compared with a strengthening of the U.S. dollar relative to the euro in the corresponding period of 2015.

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

Other expense for the two quarters ended July 2, 2016 of \$12.4 million included the \$9.0 million charge related to the

settlement of the Plum dispute, as well as \$2.8 million of facility rationalization and severance costs primarily related to the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition, and \$1.7 million of costs (net of estimated insurance recoveries) associated with the voluntary withdrawal of private label orange juice product and voluntary recall of certain sunflower kernel products. These expenses were partially offset by the \$1.7 million gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural.

The increase in interest expense of \$20.5 million to \$22.6 million for the two quarters ended July 2, 2016, compared with \$2.1 million for the two quarters ended July 4, 2015, primarily reflected increased costs associated with borrowings under the Second Lien Loan Agreement and our credit facilities in order to finance the Sunrise Acquisition, which included \$5.6 million of non-cash amortization of debt issuance costs associated with the Second Lien Loan Agreement. In addition, in the first half of 2016, we wrote-off \$0.2 million of remaining unamortized debt issuance costs related to our former North American credit facilities, which were replaced by the Global Credit Facility, and recognized \$0.9 million of costs in connection with proposed financing arrangements intended to repay in full the term loans outstanding under the Second Lien Loan Agreement.

**SUNOPTA INC.**

45

July 2, 2016 10-Q

---

We recognized a recovery of income tax of \$10.2 million, or 43.5% of loss before income taxes, for the two quarters ended July 2, 2016, compared with a provision for income tax of \$5.4 million, or 33.5% of earnings before income taxes, for the two quarters ended July 4, 2015. The effective tax rates reflected the impact of changes in the jurisdictional mix of earnings, mainly as the result of pre-tax losses in the U.S. in the first half of 2016, compared with pre-tax earnings in the U.S. in the corresponding period of 2015, which reflected the effect in the first half of 2016 of higher cash interest costs related to the financing of the Sunrise Acquisition, as well as costs related to business acquisitions, including the acquisition accounting adjustment to Sunrise inventory sold in the period and the amortization of debt issuance costs related to the Second Lien Loan Agreement, as well as the impact of other discrete items including costs associated with the Plum legal settlement, consolidation of our frozen fruit processing facilities and product withdrawal and recall costs. For fiscal 2016, we expect our effective tax rate to be in the range of 29% to 32%, excluding discrete items.

Loss from continuing operations attributable to SunOpta Inc. for the two quarters ended July 2, 2016 was \$13.8 million, compared with earnings of \$10.8 million for the two quarters ended July 4, 2015. Diluted loss per share from continuing operations was \$0.16 for the two quarters ended July 2, 2016, compared with diluted earnings per share from continuing operations of \$0.16 for the two quarters ended July 4, 2015.

Loss from discontinued operations of \$0.6 million for the two quarters ended July 2, 2016 reflected the loss from operations of Opta Minerals of \$2.0 million, which included an asset impairment charge of \$1.2 million, partially offset by a \$0.6 million gain on classification as held for sale, net of recovery of income taxes and non-controlling interest of \$0.9 million. Loss from discontinued operations of \$3.5 million for the two quarters ended July 4, 2015 mainly reflected an after-tax loss from operations of Opta Minerals of \$5.1 million, net of non-controlling interest of \$1.6 million.

On a consolidated basis, we realized a loss of \$14.4 million (diluted loss per share of \$0.17) for the two quarters ended July 2, 2016, compared with earnings of \$7.3 million (diluted earnings per share of \$0.11) for the two quarters ended July 4, 2015.

For the two quarters ended July 2, 2016, adjusted earnings were \$6.8 million, or \$0.08 per diluted share, compared with adjusted earnings of \$11.2 million, or \$0.17 per diluted share for the two quarters ended July 4, 2015. Adjusted earnings is a non-GAAP financial measure. See footnote (2) to the table above for a reconciliation of adjusted earnings from earnings attributable to SunOpta Inc. , which we consider to be the most directly comparable U.S. GAAP financial measure.

## Segmented Operations Information

### Global Ingredients

For the two quarters ended	July 2, 2016	July 4, 2015	Change	% Change
Revenues	\$ 304,520	\$ 316,905	\$ (12,385)	-3.9%
Gross Margin	37,920	37,898	22	0.1%
Gross Margin %	12.5%	12.0%		0.5%
Operating Income	\$ 16,852	\$ 19,292	\$ (2,440)	-12.6%
Operating Income %	5.5%	6.1%		-0.6%

Global Ingredients contributed \$304.5 million in revenues for the two quarters ended July 2, 2016, compared to \$316.9 million for the two quarters ended July 4, 2015, a decrease of \$12.4 million, or 3.9% . Excluding the impact of changes including foreign exchange rates and commodity-related pricing, Global Ingredients revenues increased approximately 2.1% . The table below explains the decrease in revenue:



<b>Global Ingredients Revenue Changes</b>	
Revenues for the two quarters ended July 4, 2015	\$316,905
Lower volumes of specialty corn and soy driven by a reduction of contracted acres, as well as decreased volumes of organic feed, roasted and other ingredient products	(18,396)
Lower sunflower volumes attributed to downtime due to the impact of the recall of roasted kernels in the second quarter of 2016, and lower throughput after restarting our roasting operations, combined with lower export volumes of in-shell sunflower due primarily to a strong U.S. dollar	(11,412)
Decreased pricing of specialty corn, soy, sunflower and organic feed	(6,380)
Decreased pricing for organic fruit and vegetables, seeds and nuts, quinoa, coffee, and oils, partially offset by increases in pricing for sugar	(5,804)
Favorable foreign exchange impact on euro-denominated sales due to the stronger U.S. dollar	160
Higher sales volumes of internationally sourced organic ingredients including cocoa, coffee, grains and pulses, oils, and organic fruit and vegetables	29,447
Revenues for the two quarters ended July 2, 2016	<b>\$304,520</b>

Gross margin in Global Ingredients remained unchanged at \$37.9 million for the two quarters ended July 2, 2016, and the gross margin percentage increased by 0.5% to 12.5%. The increase in gross margin as a percentage of revenue was primarily due to a favorable sales mix driven by higher margin international organic raw materials and improved mix in domestic raw materials as a result of a decline in acres contracted of low margin seed and grain varieties, mark-to-market gains on commodity futures contracts, and improved sunflower processing yields and operating efficiencies, partially offset by the impact of the sunflower recall on operations and lower pricing spreads on non-GMO soy, corn and organic feed. The table below explains the increase in gross margin:

<b>Global Ingredients Gross Margin Changes</b>	
Gross margin for the two quarters ended July 4, 2015	\$37,898
Favorable margin impact of mark-to-market gains related to commodity futures contracts	1,338
Improved sunflower annual processing yields on raw materials and improved operating efficiencies, partially offset by impact of downtime associated with the sunflower roasted kernel recall, as well as reduced throughput following the restart of our roasting operations at our Crookston facility	394
Unfavorable impact on gross margins due to weaker euro relative to U.S. dollar, lower pricing spreads on internationally sourced organic ingredients, and reduced yield and other operational inefficiencies at European sunflower operations	(132)
Lower pricing spread on specialty corn and soy, and organic feed	(1,578)
Gross margin for the two quarters ended July 2, 2016	<b>\$37,920</b>

Operating income in Global Ingredients decreased by \$2.4 million, or 12.6%, to \$16.9 million for the two quarters ended July 2, 2016, compared to \$19.3 million for the two quarters ended July 4, 2015. The table below explains the decrease in operating income:

<b>Global Ingredients Operating Income Changes</b>	
Operating income for the two quarters ended July 4, 2015	\$19,292
Increase in gross margin, as explained above	22
Decreased foreign exchange gains on forward derivative contracts and increased SG&A costs	(3,352)
Decrease in corporate cost allocations	890
Operating income for the two quarters ended July 2, 2016	<b>\$16,852</b>

**Consumer Products**

**For the two quarters ended      July 2, 2016      July 4, 2015**