

SunOpta Inc.  
Form 10-Q  
November 09, 2016

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

**FORM 10-Q**

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

For the quarterly period ended **October 1, 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):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes  No

The number of the registrant's common shares outstanding as of November 4, 2016 was 85,656,820.

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**FORM 10-Q**  
**For the quarterly period ended October 1, 2016**

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

In this report, all currency amounts are expressed in thousands of United States ( "U.S." ) dollars ( "\$" ), except per share amounts, unless otherwise stated. Amounts expressed in Canadian dollars are expressed in thousands of Canadian dollars and preceded by the symbol "Cdn \$", and amounts expressed in euros are expressed in thousands of euros and preceded by the symbol "€". As at October 1, 2016, the closing rates of exchange for the U.S. dollar, expressed in Canadian dollars and euros, were \$1.00 = Cdn \$1.3117 and \$1.00 = €0.8901. 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; the timing and results of our process to identify a permanent Chief Executive Officer; additional charges associated with the closure

of our San Bernardino, California facility; 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.

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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:

- failure or inability to complete our ongoing operational review and implement value creation strategies in a timely manner;
- restrictions under the terms of our debt and equity instruments on how we may operate our business;
- conflicts of interest between our significant investors and our other stakeholders;
- 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;
- failure to retain key management and employees of acquired businesses;
- ability to meet the covenants under our credit facilities or to obtain necessary waivers from our lenders;
- ability to obtain additional capital as required to maintain current growth rates;
- ability to successfully consummate possible future divestitures of businesses;
- 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;

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- dilution in the value of our common shares through the exchange of preferred shares, 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;
- 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;
- 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;
- 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 three quarters ended October 1, 2016 and October 3, 2015

(Unaudited)

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

	October 1, 2016	Quarter ended October 3, 2015	October 1, 2016	Three quarters ended October 3, 2015
	\$	\$	\$	\$
		(note 1)		(note 1)
<b>Revenues</b>	348,732	277,213	1,049,192	828,756
<b>Cost of goods sold</b>	307,702	250,904	940,283	743,624
<b>Gross profit</b>	41,030	26,309	108,909	85,132
Selling, general and administrative expenses	23,915	21,020	72,676	61,031
Intangible asset amortization	2,826	786	8,472	2,105
Other expense, net (note 9)	10,312	3,652	22,723	4,393
Foreign exchange loss (gain)	1,068	404	3,060	(1,046)
<b>Earnings from continuing operations before the following</b>	2,909	447	1,978	18,649
Interest expense, net	12,178	1,103	34,748	3,171
<b>Earnings (loss) from continuing operations before income taxes</b>	(9,269)	(656)	(32,770)	15,478

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Provision for (recovery of) income taxes (note 10)	(5,411)	(568)	(15,632)	4,838
<b>Earnings (loss) from continuing operations</b>	(3,858)	(88)	(17,138)	10,640
<b>Discontinued operations (note 3)</b>				
Earnings (loss) from discontinued operations	-	699	(1,993)	(3,551)
Gain on classification as held for sale	-	-	560	-
Recovery of (provision for) income taxes	-	(75)	599	(964)
Loss (earnings) from discontinued operations attributable to non-controlling interests	-	(116)	264	1,556
Earnings (loss) from discontinued operations attributable to SunOpta Inc.	-	508	(570)	(2,959)
<b>Earnings (loss)</b>	(3,858)	420	(17,708)	7,681
Earnings (loss) attributable to non-controlling interests	(503)	106	4	84
<b>Earnings (loss) attributable to SunOpta Inc.</b>	(3,355)	314	(17,712)	7,597
<b>Earnings (loss) per share basic (note 11)</b>				



- from continuing operations	(0.04)	-	(0.20)	0.15
- from discontinued operations	-	0.01	(0.01)	(0.04)
	(0.04)	-	(0.21)	0.11

**Earnings (loss) per share diluted** (note 11)

- from continuing operations	(0.04)	-	(0.20)	0.15
- from discontinued operations	-	0.01	(0.01)	(0.04)
	(0.04)	-	(0.21)	0.11

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

## Consolidated Statements of Comprehensive Earnings

For the quarters and three quarters ended October 1, 2016 and October 3, 2015

(Unaudited)

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

	October 1, 2016 \$	Quarter ended October 3, 2015 \$  (note 1)	October 1, 2016 \$	Three quarters ended October 3, 2015 \$  (note 1)
<b>Earnings (loss) from continuing operations</b>	(3,858)	(88)	(17,138)	10,640
Earnings (loss) from discontinued operations attributable to SunOpta Inc.	-	508	(570)	(2,959)
<b>Earnings (loss)</b>	(3,858)	420	(17,708)	7,681
Change in fair value of interest rate swap, net of taxes	-	-	-	(129)
Reclassification adjustment for loss included in earnings	-	-	-	339
Unrealized gain on interest rate swap, net	-	-	-	210
Currency translation adjustment	689	823	282	(3,009)
<b>Other comprehensive earnings (loss), net of income taxes</b>	689	823	282	(2,799)
<b>Comprehensive earnings (loss)</b>	(3,169)	1,243	(17,426)	4,882
	(482)	51	(486)	(2,072)

Comprehensive  
earnings (loss)  
attributable to  
non-controlling  
interests

**Comprehensive  
earnings (loss)  
attributable to  
SunOpta Inc.**

(2,687)	1,192	(16,940)	6,954
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(See accompanying notes to consolidated financial statements)

**SUNOPTA INC.**

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**SunOpta Inc.**

## Consolidated Balance Sheets

As at October 1, 2016 and January 2, 2016

(Unaudited)

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

	October 1, 2016	January 2, 2016
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,639	2,274
Accounts receivable	173,880	117,412
Inventories (note 6)	393,689	371,223
Prepaid expenses and other current assets	23,455	20,088
Current income taxes recoverable	9,390	21,728
Current assets held for sale (notes 1 and 3)	-	64,330
<b>Total current assets</b>	<b>602,053</b>	<b>597,055</b>
<b>Property, plant and equipment</b>	<b>161,252</b>	<b>176,513</b>
<b>Goodwill</b> (note 2)	<b>241,585</b>	<b>241,690</b>
<b>Intangible assets</b> (note 2)	<b>186,603</b>	<b>195,008</b>
<b>Deferred income taxes</b>	<b>958</b>	<b>958</b>
<b>Other assets</b>	<b>11,797</b>	<b>7,979</b>
<b>Total assets</b>	<b>1,204,248</b>	<b>1,219,203</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (note 7)	226,651	159,773
Accounts payable and accrued liabilities	170,343	151,831
Customer and other deposits	1,029	5,322
Income taxes payable	4,189	1,720
Other current liabilities	1,208	1,521
Current portion of long-term debt (note 7)	2,159	1,773
Current portion of long-term liabilities (note 2)	5,365	5,243
Current liabilities held for sale (notes 1 and 3)	-	52,486
<b>Total current liabilities</b>	<b>410,944</b>	<b>379,669</b>
<b>Long-term debt</b> (note 7)	<b>317,484</b>	<b>321,222</b>
<b>Long-term liabilities</b> (note 2)	<b>15,828</b>	<b>17,809</b>
<b>Deferred income taxes</b>	<b>54,564</b>	<b>74,324</b>
<b>Total liabilities</b>	<b>798,820</b>	<b>793,024</b>
<b>EQUITY</b>		
<b>SunOpta Inc. shareholders equity</b>		
Common shares, no par value, unlimited shares authorized, 85,653,788 shares issued and outstanding (January 2, 2016 - 85,417,849)	299,470	297,987
Additional paid-in capital	24,931	22,327
Retained earnings	89,126	106,838

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Accumulated other comprehensive loss	(10,699)	(6,113)
	402,828	421,039
<b>Non-controlling interests</b>	2,600	5,140
<b>Total equity</b>	405,428	426,179
<b>Total equity and liabilities</b>	1,204,248	1,219,203
<b>Commitments and contingencies</b> (note 13)		

(See accompanying notes to consolidated financial statements)

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**SunOpta Inc.**

## Consolidated Statements of Shareholders' Equity

As at and for the three quarters ended October 1, 2016 and October 3, 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	67	326	-	-	-	-	326
Stock incentive plan	169	1,157	(569)	-	-	-	588
Stock-based compensation	-	-	3,173	-	-	-	3,173
Loss from continuing operations	-	-	-	(17,142)	-	4	(17,138)
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	-	-	-	-	508	(226)	282
<b>Balance at October 1, 2016</b>	<b>85,654</b>	<b>299,470</b>	<b>24,931</b>	<b>89,126</b>	<b>(10,699)</b>	<b>2,600</b>	<b>405,428</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
Issuance of common shares,	16,670	96,544	-	-	-	-	96,544

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net							
Employee stock purchase plan	36	451	-	-	-	-	451
Stock incentive plan	704	4,624	(1,597)	-	-	-	3,027
Warrants	850	6,042	(2,163)	-	-	-	3,879
Stock-based compensation	-	-	4,140	-	-	-	4,140
Earnings from continuing operations	-	-	-	10,556	-	84	10,640
Loss from discontinued operations, net of income taxes	-	-	-	(2,959)	-	(1,556)	(4,515)
Currency translation adjustment	-	-	-	-	(2,338)	(671)	(3,009)
Change in fair value of interest rate swap, net of income taxes	-	-	-	-	139	71	210
Acquisition of non-controlling interest	-	-	(1,018)	-	-	285	(733)
<b>Balance at October 3, 2015</b>	85,334	298,329	21,852	136,906	(3,977)	10,852	463,962
	(See accompanying notes to consolidated financial statements)						

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**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the quarters and three quarters ended October 1, 2016 and October 3, 2015

(Unaudited)

(Expressed in thousands of U.S. dollars)

	October 1, 2016 \$	Quarter ended October 3, 2015 \$	October 1, 2016 \$	Three quarters ended October 3, 2015 \$
		(note 1)		(note 1)
<b>CASH PROVIDED BY (USED IN)</b>				
<b>Operating activities</b>				
Earnings (loss)	(3,858)	420	(17,708)	7,681
Earnings (loss) from discontinued operations attributable to SunOpta Inc.	-	508	(570)	(2,959)
Earnings (loss) from continuing operations	(3,858)	(88)	(17,138)	10,640
Items not affecting cash:				
Depreciation and amortization	8,646	4,414	25,955	12,739
Acquisition accounting adjustment on inventory sold	1,890	-	13,404	-
Amortization and write-off of debt issuance costs (note 7)	3,988	124	10,210	327
Impairment of long-lived assets (note 9)	10,300	-	12,035	-
Deferred income taxes	(5,252)	835	(19,760)	697
Stock-based compensation	1,181	1,804	3,173	3,832
Unrealized gain on derivative instruments	(749)	(1,088)	(1,264)	(534)



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(note 5)				
Fair value of contingent consideration (note 9)	124	235	(1,281)	317
Other	(64)	(581)	343	1,237
Changes in non-cash working capital, net of businesses acquired (note 12)	836	12,648	(60,943)	(28,965)
Net cash flows from operations - continuing operations	17,042	18,303	(35,266)	290
Net cash flows from operations - discontinued operations	-	4,241	758	5,490
	17,042	22,544	(34,508)	5,780
<b>Investing activities</b>				
Purchases of property, plant and equipment	(5,463)	(6,866)	(14,803)	(21,841)
Acquisition of businesses (note 2)	-	(6,475)	-	(19,775)
Payment of contingent consideration (note 5)	-	-	(4,554)	-
Proceeds from sale of assets	-	348	-	1,292
Other	-	147	700	(778)
Net cash flows from investing activities - continuing operations	(5,463)	(12,846)	(18,657)	(41,102)
Net cash flows from investing activities - discontinued operations	-	(785)	1,754	(1,224)
	(5,463)	(13,631)	(16,903)	(42,326)
<b>Financing activities</b>				
Increase (decrease) under	(13,097)	(3,206)	258,475	31,291

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line of credit facilities (note 7)				
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)	(520)	(311)	(11,529)	(722)
Payment of debt issuance costs	(1,179)	(2,157)	(5,545)	(2,188)
Proceeds from the issuance of common shares, net	-	95,344	-	95,344
Proceeds from the exercise of stock options and employee share purchases	227	439	914	3,478
Proceeds from the exercise of warrants	-	-	-	3,879
Other	8	(179)	(126)	(459)
Net cash flows from financing activities - continuing operations	(14,561)	89,930	49,944	130,623
Net cash flows from financing activities - discontinued operations	-	(4,199)	(1,180)	(5,012)
	(14,561)	85,731	48,764	125,611
Foreign exchange gain (loss) on cash held in a foreign currency	329	(41)	305	(14)
Increase (decrease) in cash and cash equivalents in the period	(2,653)	94,603	(2,342)	89,051

Discontinued  
operations cash  
activity included  
above:

Add: Balance included at beginning of period	-	2,232	1,707	2,170
Less: Balance included at end of period	-	(1,626)	-	(1,626)

Cash and cash equivalents - beginning of the period	4,292	2,154	2,274	7,768
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Cash and cash equivalents - end of the period	1,639	97,363	1,639	97,363
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(See accompanying notes to consolidated financial statements)

**SUNOPTA INC.**

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**SunOpta Inc.**

## Consolidated Statements of Cash Flows

For the quarters and three quarters ended October 1, 2016 and October 3, 2015

(Unaudited)

(Expressed in thousands of U.S. dollars)

	October 1, 2016 \$	Quarter ended October 3, 2015 \$	October 1, 2016 \$	Three quarters ended October 3, 2015 \$
		(note 1)		(note 1)
<b>Non-cash investing activities</b>				
Proceeds on disposition of discontinued operation, note receivable (note 3)	-	-	1,537	-
Acquisition of business, working capital adjustment (note 2)	-	(55)	-	264
Acquisition of business, settlement of pre-existing relationship (note 2)	-	-	-	(749)
Acquisition of business, contingent consideration at fair value (note 2)	-	(2,330)	-	(20,330)

(See accompanying notes to consolidated financial statements)

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## **SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and three quarters ended October 1, 2016 and October 3, 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 three quarters ended October 1, 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 three quarters ended October 3, 2015 have been reclassified to discontinued operations to be consistent with presentation for the quarter and three quarters ended October 1, 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 August 2016, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update ( ASU ) 2016-15, which clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flow, including contingent consideration payments made after a business combination. The guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and is to be applied on a retrospective basis. Early adoption is permitted. The Company is currently assessing the impact that this standard will have on its consolidated statement of cash flows.

In March 2016, the FASB issued 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.

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

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(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 ASU 2014-09, as amended, will have on its consolidated financial statements and does not intend to early adopt this standard.

**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 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.

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(Unaudited)

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The following table summarizes the fair values of the assets acquired and liabilities assumed as at 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 \$13.4 million and \$4.0 million was recognized in costs of goods sold for inventory sold in the first three 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.



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(Unaudited)

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**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 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
Goodwill <sup>(3)</sup>	1,636	-	1,636

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Net assets acquired	9,042	(292)	8,750
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- (1) The measurement period adjustment reflects the final determination of net working capital as at the acquisition date.

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(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 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 October 1, 2016. The earn-out obligation is also included in long-term liabilities on the consolidated balance sheet as at October 1, 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%.

During the fourth quarter of 2016, the Company and former unitholders of Citrusource will assess the impact of

the planned closure of the San Bernardino juice facility (see note 9) on the earn-out component of the contingent consideration arrangement.

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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 those of the Company; 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.

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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:

	October 1, 2016 \$	Quarter ended October 3, 2015 \$	October 1, 2016 <sup>(1)</sup> \$	Three quarters ended October 3, 2015 \$
Revenues	-	28,794	24,896	87,925
Cost of goods sold <sup>(2)</sup>	-	(24,471)	(22,133)	(75,823)
Selling, general and administrative expenses	-	(2,736)	(3,024)	(8,851)
Intangible asset amortization	-	(498)	-	(1,505)
Other expense, net <sup>(3)</sup>	-	(591)	(794)	(2,201)
Foreign exchange gain (loss)	-	1,017	(454)	568
Interest expense	-	(816)	(484)	(3,664)
Earnings (loss) before income taxes	-	699	(1,993)	(3,551)
Gain on classification as held for sale before income taxes	-	-	560	-
Total pre-tax earnings (loss) from discontinued operations	-	699	(1,433)	(3,551)
Recovery of (provision for) income taxes	-	(75)	599	(964)
Earnings (loss) from discontinued operations	-	624	(834)	(4,515)
	-	(116)	264	1,556

Loss (earnings) from discontinued operations attributable to non-controlling interest				
Earnings (loss) from discontinued operations attributable to SunOpta Inc.	-	508	(570)	(2,959)

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

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- (2) For the three quarters ended October 1, 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 three quarters ended October 1, 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 three quarters ended October 1, 2016, the Company recognized estimated losses of \$12.0 million and \$28.0 million, respectively, 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 remediation efforts are ongoing, and it expects to continue to incur related costs, which may be material.

The Company's estimates of the losses related to the recall are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. The Company's estimates reflect the amount of losses that it determined, as of the date of this report, to be both probable and reasonably estimable. The Company may need to revise its estimates in subsequent periods as the Company continues to work with its customers and insurance providers to substantiate the claims received to date and any additional claims that may be received. These revisions may occur at any time and may be material.

The Company is currently unable to estimate the impact that this recall may have on our future sales of sunflower products or on its ongoing relationships with its customers, which may have an adverse impact on the recoverability of the customer relationships intangible asset associated with the Company's sunflower operations and on the fair value of the reporting unit to which the sunflower operations relate that could result in an impairment of the associated goodwill. As at October 1, 2016, the customer relationships intangible asset and goodwill associated with the sunflower operations had carrying values of \$6.6 million and \$17.5 million, respectively.

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, for the quarter and three quarters ended October 1, 2016, the Company recorded estimated insurance recoveries of \$12.0 million and \$27.4 million for the losses recognized to-date related to the recall. However, the Company may not recover amounts equal to the amount of the losses recognized if those losses exceed the coverage available or are excluded under its insurance policies. Subsequent to the third quarter of 2016, the Company received \$2.0 million from an insurance provider in relation to the recall.

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As at October 1, 2016, \$27.8 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 \$27.4 million included in accounts receivable on the consolidated balance sheet as at October 1, 2016.

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(Unaudited)

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**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 October 1, 2016 and January 2, 2016:

	October 1, 2016			
	Fair value	Level 1	Level 2	Level 3
	asset (liability) \$	\$	\$	\$
(a) Commodity futures and forward contracts <sup>(1)</sup>				
Unrealized short-term derivative asset	1,747	799	948	-
Unrealized short-term derivative liability	(1,197)	-	(1,197)	-
Unrealized long-term derivative liability	(12)	-	(12)	-
(b) Inventories carried at market <sup>(2)</sup>	6,647	-	6,647	-
(c) Forward foreign currency contracts <sup>(3)</sup>	(188)	-	(188)	-
(d) Contingent consideration <sup>(4)</sup>	(15,175)	-	-	(15,175)
(e) Embedded derivative <sup>(5)</sup>	2,944	-	-	2,944
(f) Long-lived assets <sup>(6)</sup>	600	-	600	-

  

	January 2, 2016			
	Fair value	Level 1	Level 2	Level 3
	asset (liability) \$	\$	\$	\$
(a) Commodity futures and forward 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.
- (6) Long-lived assets are included in property, plant and equipment on the consolidated balance sheets.

(a) Commodity futures and forward contracts

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

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These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company's risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains, as well as the 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 October 1, 2016, the Company recognized a gain of \$0.7 million (October 3, 2015 gain of \$1.1 million) and for the three quarters ended October 1, 2016, the Company recognized a gain of \$1.2 million (October 3, 2015 gain of \$0.5 million) related to changes in the fair value of these derivatives.

As at October 1, 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	414	596
Forward commodity sale contracts	(75)	(599)
Commodity futures contracts	(670)	(440)

In addition, as at October 1, 2016, the Company had net open forward contracts to sell 309 lots of cocoa and 23 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 October 1, 2016, the Company had 340,399 bushels of commodity corn and 386,737 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 October 1, 2016 the Company had open forward foreign exchange contracts with a notional value of €29.4 million (\$33.0 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 October 1, 2016, the Company recognized a loss of \$0.3 million (October 3, 2015 loss of \$0.5 million) and for the three quarters ended October 1, 2016, the Company recognized a loss of \$0.5 million (October 3, 2015 loss of \$1.1 million) related to changes in the fair value of these derivatives.





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## (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 three quarters ended October 1, 2016:

	January 2, 2016	Issuances	Fair Value Adjustments <sup>(1)</sup>	Payments <sup>(2)</sup>	October 1, 2016
	\$	\$	\$	\$	\$
Contingent consideration	(21,010)	-	1,281	4,554	(15,175)

- (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. 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 October 1, 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, based on expectations related to the remaining royalty rights.

## (f) Long-lived assets

Long-lived assets associated with the Company's juice facility located in San Bernardino, California with a carrying value of \$10.9 million were written down to their fair value of \$0.6 million, resulting in an impairment

charge of \$10.3 million, which was included in other expense for the quarter and three quarters ended October 1, 2016 (see note 9). Fair value was determined based on market prices for comparable assets, which represent level 2 inputs.

**6. Inventories**

	October 1, 2016 \$	January 2, 2016 \$
Raw materials and work-in-process	283,036	276,434
Finished goods	104,999	87,215
Company-owned grain	17,098	14,348
Inventory reserves	(11,444)	(6,774)
	393,689	371,223

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

	October 1, 2016 \$	January 2, 2016 \$
Bank indebtedness:		
Global Credit Facility <sup>(1)</sup>	223,503	-
North American credit facilities <sup>(1)</sup>	-	70,563
European credit facilities <sup>(1)</sup>	-	87,419
Bulgarian credit facility <sup>(2)</sup>	3,148	1,791
	226,651	159,773
Long-term debt:		
Second Lien Loan Agreement, net of unamortized debt issuance costs of nil (January 2, 2016 - \$7,757) <sup>(3)</sup>	310,000	312,243
Capital lease obligations	8,162	9,245
Other	1,481	1,507
	319,643	322,995
Less: current portion	2,159	1,773
	317,484	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 October 1, 2016, the weighted-average interest rate on the facilities was 2.57%. 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 of the assets of the Company.

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.



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(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 October 1, 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. ( SunOpta Foods ), 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 was guaranteed by the Company and the Company's subsidiaries that guarantee the Global Credit Facility, subject to certain exceptions, and was secured on a second-priority basis by security interests on all of SunOpta Foods' and Guarantors' assets that secured the Global Credit Facility, subject to certain exceptions and permitted liens.

Interest on the term loans made under the Second Lien Loan Agreement on October 9, 2015 (the Initial Loans ) was determined by reference to LIBOR (subject to a 1.0% per annum floor) plus an applicable margin of 6.0% per annum. The applicable margin increased 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 carried a maximum interest rate of 9.5% per annum. Giving effect to the amortization of the debt issuance costs, the effective interest rate on the Initial Loans was approximately 11.2% per annum.

The Initial Loans could be repaid at par at any time prior to October 9, 2016. As at October 1, 2016 and January 2, 2016, the Company had repaid \$20.0 million and \$10.0 million principal amount, respectively, of the Initial Loans.

On October 7, 2016, SunOpta Foods issued an aggregate of 85,000 shares of Series A Preferred Stock (the Preferred Stock ) for consideration in the amount of \$85.0 million. The Company used the net proceeds from the issuance of the Preferred Stock to repay an additional \$79.0 million principal amount of the Initial Loans (see note 15). The remaining \$231.0 million aggregate principal amount of Initial Loans matured on October 9, 2016 and automatically converted into a like principal amount of term loans (such converted loans, the Term Loans ), with a maturity date of October 9, 2022. The Term Loans bore interest at a rate of 9.5% per annum. On October 20, 2016, all of the outstanding Term Loans were exchanged for a corresponding amount of 9.5% Senior Secured Second Lien Notes due 2022 (the Notes ) issued by SunOpta Foods (see note 15). The Second Lien Loan Agreement was terminated in connection with the issuance of the Notes.



## 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 three quarters ended October 1, 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 three quarters ended October 1, 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.

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**9. Other Expense, Net**

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

	October 1, 2016 \$	Quarter ended October 3, 2015 \$	October 1, 2016 \$	Three quarters ended October 3, 2015 \$
Impairment of long-lived assets <sup>(1)</sup>	10,300	-	12,035	-
Legal settlement <sup>(2)</sup>	-	-	9,000	-
Product withdrawal and recall costs <sup>(3)</sup>	-	-	1,697	-
Severance and rationalization costs <sup>(4)</sup>	138	2,653	1,153	2,653
Business development costs	23	893	233	1,416
Fair value of contingent consideration (see note 5)	124	235	(1,281)	317
Other	(273)	(129)	(114)	7
	10,312	3,652	22,723	4,393

**(1) Impairment of long-lived assets**

During the third quarter of 2016, the Company assessed the carrying value of owned equipment and leasehold improvements associated with its leased San Bernardino, California juice facility as it evaluated recent commercial and operational developments that impacted the facility. In particular, the Company identified a need for significant investment in new packaging and processing capabilities in order to satisfy packaging format changes demanded by the facility's largest customer. In addition, the Company was unsuccessful in contracting sufficient supply of raw citrus fruit for the upcoming season to allow for effective and efficient use of the facility's extraction capabilities. This supply chain challenge is expected to continue for the foreseeable future, and while the Company has secured sufficient supply of extracted juice to meet its production requirements, the Company determined that it would be more beneficial to transfer its juice production from the facility to contract manufacturers with whom the Company has ongoing relationships. Accordingly, the Company has decided to not make further capital investments in support of the bottling or extraction areas of the facility. As a result, the Company determined that the carrying value of the long-lived assets of \$10.9 million was not recoverable and that the assets were impaired. The Company recorded an impairment loss of \$10.3 million to write down the carrying value of these assets to their estimated fair value. This facility is included in the Consumer Products operating segment.

On November 8, 2016, the Board of Directors of the Company approved the closure of the San Bernardino juice facility. During the fourth quarter of 2016, the Company expects to incur additional facility closure costs of approximately \$4.0 million to \$5.0 million including lease termination and employee severance costs. In addition, it is reasonably possible that the Company may need to further adjust the estimated fair value of the long-lived assets based on the final disposition of the facility.

For the three quarters ended October 1, 2016, the Company also recorded an impairment charge of \$1.7 million related to the write-off of leasehold improvements at its Buena Park, California frozen fruit processing facility.



In the first quarter of 2016, the Company transferred all production volume from this facility into Sunrise's facilities located in Kansas and California.

(2) 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.

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(3) Product withdrawal and recall costs

For the three quarters ended October 1, 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 San Bernardino juice facility, due to instances of early spoilage within the prescribed shelf life of the product. In addition, for the three quarters ended October 1, 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).

(4) Severance and rationalization costs

For the three quarters ended October 1, 2016, severance and rationalization costs primarily related to the consolidation of the Company's frozen fruit processing facilities following the Sunrise Acquisition, which included lease termination costs associated with the vacated Buena Park facility and related corporate office located in Cerritos, California.

For the quarter and three quarters ended October 3, 2015, employee severance costs included contractual severance benefits of \$1.2 million and previously unrecognized stock-based compensation expense of \$0.9 million recognized in connection with the departure of Steven Bromley as the Company's Chief Executive Officer effective October 1, 2015.

**10. Income Taxes**

For the quarters and three quarters ended October 1, 2016 and October 3, 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 including the realization of \$1.3 million of previously unrecognized tax benefits in the third quarter of 2016. For the quarter and three quarters ended October 1, 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 \$15.6 million for the three quarters ended October 1, 2016, compared with a provision for income tax of \$4.8 million for the three quarters ended October 3, 2015. Excluding the impact of the change in unrecognized tax benefits, the effective tax rate was 43.8% for the three quarters ended October 1, 2016, compared with 31.3% for the three quarters ended October 3, 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. for the quarter and three quarters ended October 1, 2016, compared with pre-tax earnings in the U.S. for the corresponding periods of 2015, reflecting the effect in the first three 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).

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

Earnings (loss) per share are calculated as follows:

	October 1, 2016		Quarter ended October 3, 2015		October 1, 2016		Three quarters ended October 3, 2015	
Earnings (loss) from continuing operations attributable to SunOpta Inc.	\$	(3,355)	\$	(194)	\$	(17,142)	\$	10,556
Earnings (loss) from discontinued operations attributable to SunOpta Inc.		-		508		(570)		(2,959)
Earnings (loss) attributable to SunOpta Inc.	\$	(3,355)	\$	314	\$	(17,712)	\$	7,597
Basic weighted-average number of shares outstanding		85,618,870		69,180,603		85,528,512		68,198,611
Dilutive potential of the following:								
Employee/director stock options and RSUs		31,582		-		20,534		207,190
Diluted weighted-average number of shares outstanding		85,650,452		69,180,603		85,549,046		68,405,801
Earnings (loss) per share - basic:								
- from continuing operations	\$	(0.04)	\$	-	\$	(0.20)	\$	0.15
- from discontinued operations		-		0.01		(0.01)		(0.04)
	\$	(0.04)	\$	-	\$	(0.21)	\$	0.11
Earnings (loss) per share - diluted:								
- from continuing operations	\$	(0.04)	\$	-	\$	(0.20)	\$	0.15
		-		0.01		(0.01)		(0.04)

- from  
discontinued  
operations

\$	(0.04)	\$	-	\$	(0.21)	\$	0.11
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For the quarter ended October 1, 2016, stock options to purchase 1,873,871 (October 3, 2015 – 870,192) common shares were excluded from the calculation of potential dilutive common shares due to their anti-dilutive effect. For the three quarters ended October 1, 2016, stock options to purchase 2,453,271 (October 3, 2015 – 405,996) common shares were excluded from the calculation of potential dilutive common shares due to their anti-dilutive effect.

For the quarter and three quarters ended October 1, 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.

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**12. Supplemental Cash Flow Information**

	October 1, 2016 \$	Quarter ended October 3, 2015 \$	October 1, 2016 \$	Three quarters ended October 3, 2015 \$
Changes in non-cash working capital, net of businesses acquired:				
Accounts receivable	(22,302)	7,250	(56,049)	(2,352)
Inventories	5,150	3,369	(34,760)	(29,824)
Income tax recoverable	9,423	(3,600)	14,807	(6,617)
Prepaid expenses and other current assets	(1,985)	2,190	(2,591)	(922)
Accounts payable and accrued liabilities	10,999	2,321	21,943	9,731
Customer and other deposits	(449)	1,118	(4,293)	1,019
	836	12,648	(60,943)	(28,965)

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

Plum, a Delaware public benefit corporation and a subsidiary of Campbell Soup Company ("Campbell") 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, Cheer Pack, Gualapack, Hosokawa, CDF and SHY. The Settlement Agreement resolved 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 paid Campbell \$5.0 million in cash and will 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).

***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 8,500 to 9,000 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.

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***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 three quarters ended October 1, 2016 and October 3, 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.

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.

**SunOpta Inc.**

## Notes to Consolidated Financial Statements

For the quarters and three quarters ended October 1, 2016 and October 3, 2015

(Unaudited)

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

			Quarter ended October 1, 2016
	Global Ingredients \$	Consumer Products \$	Consolidated \$
Segment revenues from external customers	137,174	211,558	348,732
Segment operating income	7,404	8,104	15,508
Corporate Services			(2,287)
Other expense, net			(10,312)
Interest expense, net			(12,178)
Loss from continuing operations before income taxes			(9,269)
			Quarter ended October 3, 2015
	Global Ingredients \$	Consumer Products \$	Consolidated \$
Segment revenues from external customers	150,500	126,713	277,213
Segment operating income	4,642	1,863	6,505
Corporate Services			(2,406)
Other expense, net			(3,652)
Interest expense, net			(1,103)
Loss from continuing operations before income taxes			(656)
			Three quarters ended October 1, 2016
	Global Ingredients \$	Consumer Products \$	Consolidated \$
Segment revenues from external customers	441,694	607,498	1,049,192
Segment operating income	24,256	6,989	31,245
Corporate Services			(6,544)
Other expense, net			(22,723)
Interest expense, net			(34,748)
Loss from continuing operations before income taxes			(32,770)
			Three quarters ended October 3, 2015
	Global Ingredients \$	Consumer Products \$	Consolidated \$
Segment revenues from external customers	467,405	361,351	828,756
Segment operating income	23,934	5,115	29,049
Corporate Services			(6,007)
Other expense, net			(4,393)



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Interest expense, net	(3,171)
Earnings from continuing operations before income taxes	15,478

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and three quarters ended October 1, 2016 and October 3, 2015

(Unaudited)

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

**15. Subsequent Events**

***Series A Preferred Stock***

On October 7, 2016 (the Closing Date), the Company and SunOpta Foods entered into a subscription agreement (the Subscription Agreement) with Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (collectively, the Investors). Pursuant to the Subscription Agreement, SunOpta Foods issued an aggregate of 85,000 shares of Preferred Stock to the Investors for consideration in the amount of \$85.0 million. The proceeds were used to repay \$79.0 million principal amount of Initial Loans outstanding under the Second Lien Loan Agreement and pay expenses associated with the transaction. In connection with the Subscription Agreement, the Company agreed to, among other things (i) ensure SunOpta Foods has sufficient funds to pay its obligations under the terms of the Preferred Stock and (ii) grant each holder of Preferred Stock (the Holder) the right to exchange the Preferred Stock for shares of common stock of the Company (the Common Shares). The Preferred Stock is non-participating with the Common Shares in dividends and undistributed earnings of the Company.

The Preferred Stock has a stated value and initial liquidation preference of \$1,000 per share. Cumulative preferred dividends accrue daily on the Preferred Stock at an annualized rate of 8.0% prior to October 5, 2025 and 12.5% thereafter, in each case of the liquidation preference (subject to an increase of 1.0% per quarter, up to a maximum rate of 5.0% per quarter on the occurrence of certain events of non-compliance). Prior to October 5, 2025, SunOpta Foods may pay dividends in cash or elect, in lieu of paying cash, to add the amount that would have been paid to the liquidation preference. After October 4, 2025, the failure to pay dividends in cash will be an event of non-compliance. The Preferred Stock ranks senior to the shares of common stock of SunOpta Foods with respect to dividend rights and rights on the distribution of assets on any liquidation, winding up or dissolution of the Company or SunOpta Foods.

At any time, the Holders may exchange their shares of Preferred Stock, in whole or in part, into the number of Common Shares equal to, per share of Preferred Stock, the quotient of the liquidation preference divided by \$7.50 (such price, the Exchange Price and such quotient, the Exchange Rate). As at October 7, 2016, the aggregate shares of Preferred Stock outstanding were exchangeable into 11,333,333 Common Shares. The Exchange Price is subject to certain anti-dilution adjustments, including a weighted-average adjustment for issuances of Common Shares below the Exchange Price, provided that the Exchange Price may not be lower than \$7.00 (subject to adjustment in certain circumstances). SunOpta Foods may cause the Holders to exchange all of the Preferred Stock into a number of Common Shares based on the applicable Exchange Price if (i) fewer than 10% of the shares of Preferred Stock issued on the Closing Date remain outstanding or (ii) on or after the third anniversary of the Closing Date, the average volume-weighted average price of the Common Shares during the then preceding 20 trading day period is greater than 200% of the Exchange Price. Prior to the receipt of applicable approval by the holder of Common Shares, shares of Preferred Stock are not exchangeable into more than 19.99% of the number of Common Shares outstanding immediately after giving effect to such exchange.

At any time on or after the fifth anniversary of the Closing Date, SunOpta Foods may redeem all of the Preferred Stock for an amount, per share of Preferred Stock, equal to the value of the liquidation preference at such time. Upon certain events involving a change of control of the Company, SunOpta Foods must use reasonable efforts to provide the Holders with the option to exchange shares of the Preferred Stock for a security in the surviving or successor entity that has the same rights, preferences and privileges as the Preferred Stock as adjusted for the change of control. SunOpta Foods will also offer to redeem the Preferred Stock at an amount per share equal to the greater of (i) the liquidation preference plus an amount equal to the value of incremental dividends that would have accrued through to the fifth anniversary of the Closing Date and (ii) the amount payable per Common Share in such change of control

multiplied by the Exchange Rate.

In connection with the Subscription Agreement, 11,333,333 Special Shares, Series 1 (the Special Voting Shares ) of the Company were issued to the Investors, which entitle the Investors to one vote per Special Voting Share on all matters submitted to a vote of the holders of Common Shares, together as a single class, subject to certain exceptions. As of the Closing Date, the Special Voting Shares represented an 11.7% voting interest in the Company. Additional Special Voting Shares will be issued, or existing Special Voting Shares will be redeemed, as necessary to ensure that the aggregate number of Special Voting Shares outstanding is equal to the number of shares of Preferred Stock outstanding from time to time multiplied by the Exchange Rate in effect at such time. The Special Voting Shares are not transferable and the voting rights associated with the Special Voting Shares will terminate upon the transfer of the Preferred Stock to a third party, other than a controlled affiliate of the Investors. The Investors will be entitled to designate up to two nominees for election to the board of directors of the Company (the Board ) and have the right to designate one individual to attend meetings of the Board as a non-voting observer, subject to the Investors maintaining certain levels of beneficial ownership of Common Shares on an as-exchanged basis. For so long as the Investors beneficially own or control at least 50% of the Preferred Stock issued on the Closing Date, including any corresponding Common Shares into which such Preferred Stock are exchanged, the Investors will be entitled to (i) participation rights with respect to future equity offerings of the Company; and (ii) governance rights, including the right to approve certain actions proposed to be taken by the Company and its subsidiaries.

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**SunOpta Inc.**

Notes to Consolidated Financial Statements

For the quarters and three quarters ended October 1, 2016 and October 3, 2015

(Unaudited)

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

***Senior Secured Second Lien Notes***

On October 20, 2016, SunOpta Foods issued \$231.0 million aggregate principal amount of Notes in exchange for the corresponding principal amount of Term Loans borrowed under the Second Lien Loan Agreement. The Term Loans were the result of the automatic conversion on October 9, 2016 of the outstanding Initial Loans borrowed under the Second Lien Loan Agreement (see note 7).

Interest on the Notes is payable semi-annually in arrears on April 15 and October 15 at a rate of 9.5% per annum, commencing on April 15, 2017. The Notes will mature on October 9, 2022.

At any time prior to October 9, 2018, SunOpta Foods may redeem some or all of the Notes at any time and from time to time at a make-whole redemption price set forth in the indenture governing the Notes. On or after October 9, 2018, SunOpta Foods may redeem the Notes, in whole or in part, at any time at the redemption prices equal to 107.125% through October 8, 2019, 104.750% from October 9, 2019 through October 8, 2020, 102.375% from October 9, 2020 through October 8, 2021 and at par thereafter, plus accrued and unpaid interest, if any, to but excluding the date of redemption. In addition, prior to October 9, 2018, SunOpta Foods may, on one or more occasions, redeem up to 35% of the aggregate principal amount of the Notes with the proceeds of certain equity offerings at a redemption price equal to 109.500% of the principal amount of the Notes redeemed, plus accrued and unpaid interest, if any, to but excluding the date of redemption. At any time prior to October 9, 2018, SunOpta Foods may also redeem, during each twelve-month period beginning on October 20, 2016, up to 10% of the aggregate principal amount of the Notes at a price equal to 103% of the aggregate principal amount of the Notes being redeemed, plus accrued and unpaid interest, if any, to but excluding the date of redemption. In the event of a change of control, SunOpta Foods will be required to make an offer to repurchase the Notes at 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

The Notes are secured by second-priority liens on substantially all of the assets that secure the credit facilities provided under the Global Credit Facility, subject to certain exceptions and permitted liens. The Notes are senior secured obligations and rank equally in right of payment with SunOpta Foods existing and future senior debt and senior in right of payment to any future subordinated debt. The Notes are effectively subordinated to debt under the Global Credit Facility and any future indebtedness secured on a first priority basis. The Notes are initially guaranteed on a senior secured second-priority basis by the Company and each of its subsidiaries (other than SunOpta Foods) that guarantees indebtedness under the Global Credit Facility, subject to certain exceptions.

The Notes are subject to covenants that, among other things, limit the Company's ability to (i) incur additional debt or issue preferred stock; (ii) pay dividends and make certain types of investments and other restricted payments; (iii) create liens; (iv) enter into transactions with affiliates; (v) sell assets; and (vi) create restrictions on the ability of restricted subsidiaries to pay dividends, make loans or advances or transfer assets to the Company, SunOpta Foods or any Guarantor. The indenture provides for customary events of default (subject in certain cases to customary grace and cure periods), which include nonpayment, breach of covenants in the indenture, certain payment defaults or acceleration of other indebtedness, a failure to pay certain judgments and certain events of bankruptcy and insolvency. If an event of default occurs and is continuing, the trustee or holders of at least 25% in principal amount of the outstanding Notes may declare the principal of and accrued and unpaid interest on, if any, all the Notes to be due and payable.



## **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 October 1, 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 November 9, 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 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 Developments

### *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. The strategic review arose out of discussions with our largest shareholders, some of which had advocated that we examine value maximization strategies. 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 (the Board). The strategic review was concluded on October 7, 2016 with our announcement of a strategic partnership with Oaktree Capital Management L.P., a private equity investor (together with its affiliates, Oaktree).

On October 7, 2016, Oaktree invested \$85.0 million in cumulative, non-participating Series A Preferred Stock (the Preferred Stock) of SunOpta Foods Inc. (SunOpta Foods). The shares of Preferred Stock are exchangeable into common shares of SunOpta Inc. in accordance with certain terms and conditions. Net proceeds from the issuance of the Preferred Stock were used to repay \$79.0 of borrowings made under our second lien loan agreement (the Second Lien Loan Agreement), as described below under Liquidity and Capital Resources.

For more information regarding the terms of the Preferred Stock investment by Oaktree, see note 15 to the unaudited consolidated financial statements included in this report.

### *Governance and Management Transitions*

On October 7, 2016, we increased the size of the Board to nine directors and appointed two Oaktree-nominated independent directors, Dean Hollis and Al Bolles, Ph.D., to the Board. In addition, on October 7, 2016, Brendan Springstubb was appointed to the Board to replace Douglas Greene who resigned as a director. Mr. Springstubb is a Principal at Engaged Capital LLC, one of our largest shareholders.

On November 9, 2016, we announced that Rik Jacobs, President and Chief Executive Officer (CEO), and Alan Murray, Chair of the Board, will be stepping down from their respective positions. Mr. Jacobs' last day with the Company will be November 11, 2016, and Mr. Murray's departure from the board was effective concurrent with the announcement.

Director Dean Hollis has been appointed Chair of the Board, and director Katrina L. Houde will serve as interim CEO. The Board has initiated a search process for a permanent CEO.

### *Operational Review and Value Creation Strategy*

We are conducting, with the assistance of Oaktree, a thorough review of our operations, management and governance, with the objective of maximizing our ability to deliver long-term value to our shareholders. Through this review, we have developed a value creation strategy built on four pillars: portfolio optimization, operational excellence, go-to-market effectiveness and process sustainability. Key actions include:

#### Portfolio Optimization

- We continue to review our product offerings and are focused on simplifying our portfolio. We will invest in areas where we have a structural advantage and will assess the impact of exiting product lines where we are not effectively positioned.
- As described below under Rationalization of Juice Operations, we have announced our intention to close our juice processing and packaging facility located in San Bernardino, California.



Operational Excellence

- We are committed to ensure quality performance and improve operational excellence and have also identified significant savings opportunities in procurement and logistics.
- We plan to engage third-party support in manufacturing, procurement and logistics to enhance quality and capture savings.

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### Go-to-Market Effectiveness

- We are working to optimize the customer and product mix in existing channels and are also exploring opportunities across new channels to identify unmet market demand.
- The foodservice channel offers a substantial opportunity for us and additional resources will be deployed to develop this area.
- Our sales efforts will be reorganized by channel, rather than geography.

### Process Sustainability

- We are focused on simplifying and strengthening the organization, improving plant operating levers, augmenting asset flexibility and capacities, investing in systems that can provide detailed data on supply chain and manufacturing processes to support commercial strategies and optimize working capital.
- We will develop and incentivize a culture rooted in accountability, results and continuous improvement.
- We have created a Project Management Office to manage all critical activities and work streams.

### ***Rationalization of Juice Operations***

On November 8, 2016, the Board approved the closure of our San Bernardino, California juice facility, after determining that it would be more beneficial to transfer our juice production from the facility to contract manufacturers with whom we have ongoing relationships, rather than make further capital investments in support of the bottling or extraction areas of the facility. These capital investments would have been necessary to satisfy packaging format changes demanded by the facility's largest customer and to address shortfalls in contracting sufficient supply of raw citrus fruit for the upcoming season to allow for effective and efficient use of the facility's extraction capabilities. In the third quarter of 2016, we recorded an impairment loss of \$10.3 million to write down the carrying value of the long-lived assets associated with the facility. For more information regarding the impairment of long-lived assets, see note 9 to the unaudited consolidated financial statements included in this report.

In the fourth quarter of 2016, we expect to incur additional facility closure costs of approximately \$4.0 million to \$5.0 million including lease termination and employee severance costs. In addition, it is reasonably possible that we may need to further adjust the estimated fair value of the long-lived assets based on the final disposition of the facility.

### ***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. During the third quarter and first three quarters of 2016, we recognized estimated losses of \$12.0 million and \$28.0 million, respectively, related to this recall. Our estimates are provisional and were determined based on an assessment of the information available up to the date of filing of this report, including a review of customer claims received as of that date and consideration of the extent of potential additional claims that have yet to be received. For the third quarter and first three quarters of 2016, we recorded estimated insurance recoveries of \$12.0 million and \$27.4 million for the losses recognized to-date related to the recall. However, we may not recover the amount of losses recognized to the extent those losses exceed the coverage available or are excluded under our insurance policies. The recall may also have an adverse impact on the value of the customer relationships intangible asset and goodwill associated with our sunflower operations, which had carrying values of \$6.6 million and \$17.5 million, respectively, as at October 1, 2016. For more information regarding the recall, see note 4 to the unaudited consolidated financial statements included in this report.

### ***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 resolved 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).

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Pursuant to the terms of the Settlement Agreement, we paid Campbell \$5.0 million in cash and will 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 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.

### ***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 more information regarding the sale of Opta Minerals, see note 3 to the unaudited consolidated financial statements included in this report.

### ***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 dated July 30, 2015 (the Sunrise Acquisition ), for total consideration of \$472.7 million in cash. 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 and organic foods. Sunrise has been included in the Consumer Products operating segment since the date of acquisition. For more information regarding the Sunrise Acquisition, see note 2 to the unaudited consolidated financial statements included in this report.

In January 2016, we initiated the consolidation of our frozen fruit processing facilities following the Sunrise Acquisition. Consequently, we transferred all production volume from our Buena Park, California facility into Sunrise's facilities located in Kansas and California. In the first three quarters of 2016, we recognized severance and rationalization costs of \$2.4 million related to closure of the Buena Park facility and associated corporate office located in Cerritos, California. This operational consolidation is expected to provide a large part of our targeted cost synergies from the Sunrise Acquisition for 2016.

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***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. Niagara Natural is a strong strategic fit within our core consumer products strategy and has been included in the Consumer Products operating segment since the date of acquisition. For more information regarding the acquisition of Niagara Natural, see note 2 to the unaudited consolidated financial statements included in this report.

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. 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. Citrusource has been included in the Consumer Products operating segment since the date of acquisition. For more information regarding the acquisition of Citrusource, see note 2 to the unaudited consolidated financial statements included in this report.

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## Consolidated Results of Operations for the quarters ended October 1, 2016 and October 3, 2015

For the quarter ended	October 1, 2016 \$	October 3, 2015 \$	Change \$	Change %
<b>Revenues</b>				
Global Ingredients	137,174	150,500	(13,326)	-8.9%
Consumer Products	211,558	126,713	84,845	67.0%
<b>Total revenues</b>	<b>348,732</b>	<b>277,213</b>	<b>71,519</b>	<b>25.8%</b>
<b>Gross profit</b>				
Global Ingredients	16,796	15,327	1,469	9.6%
Consumer Products	24,234	10,982	13,252	120.7%
<b>Total gross profit</b>	<b>41,030</b>	<b>26,309</b>	<b>14,721</b>	<b>56.0%</b>
<b>Segment operating income (loss)<sup>(1)</sup></b>				
Global Ingredients	7,404	4,642	2,762	59.5%
Consumer Products	8,104	1,863	6,241	335.0%
Corporate Services	(2,287)	(2,406)	119	4.9%
<b>Total segment operating income</b>	<b>13,221</b>	<b>4,099</b>	<b>9,122</b>	<b>222.5%</b>
Other expense, net	10,312	3,652	6,660	182.4%
<b>Earnings from continuing operations before the following</b>	<b>2,909</b>	<b>447</b>	<b>2,462</b>	<b>550.8%</b>
Interest expense, net	12,178	1,103	11,075	1004.1%
Recovery of income taxes	(5,411)	(568)	(4,843)	-852.6%
Loss from continuing operations	(3,858)	(88)	(3,770)	-4284.1%
Earnings (loss) attributable to non-controlling interests	(503)	106	(609)	-574.5%
Earnings from discontinued operations attributable to SunOpta Inc.	-	508	(508)	-100.0%
<b>Earnings (loss) attributable to SunOpta Inc.<sup>(2)</sup></b>	<b>(3,355)</b>	<b>314</b>	<b>(3,669)</b>	<b>-1168.5%</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 CEO, 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 Ingredients \$	Consumer Products \$	Corporate Services \$	Consolidated \$
<b>October 1, 2016</b>				
Segment operating income (loss)	7,404	8,104	(2,287)	13,221
Other expense, net	(14)	(10,218)	(80)	(10,312)
Earnings (loss) from continuing operations before the following	7,390	(2,114)	(2,367)	2,909

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Segment operating income (loss)	4,642	1,863	(2,406)	4,099
Other expense, net	(86)	(399)	(3,167)	(3,652)
Earnings (loss) from continuing operations before the following	4,556	1,464	(5,573)	447

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.

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- (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>October 1, 2016</b>		
Loss from continuing operations attributable to SunOpta Inc.	(3,355)	(0.04)
Adjusted for:		
Costs related to rationalization of juice operations <sup>(a)</sup>	10,300	
Costs related to business acquisitions <sup>(b)</sup>	5,515	
Product withdrawal and recall costs <sup>(c)</sup>	683	
Costs related to strategic review <sup>(d)</sup>	483	
Legal settlement and litigation-related legal fees <sup>(e)</sup>	564	
Other <sup>(f)</sup>	12	
Net income tax effect on adjusted earnings <sup>(g)</sup>	(6,629)	
Change in unrecognized tax benefits <sup>(h)</sup>	(1,268)	
Adjusted earnings	6,305	0.07
<b>October 3, 2015</b>		
Earnings attributable to SunOpta Inc.	314	-
Earnings from discontinued operations attributable to SunOpta Inc.	(508)	(0.01)
Loss from continuing operations attributable to SunOpta Inc.	(194)	-
Adjusted for:		
Demurrage, detention and other related expenses <sup>(i)</sup>	1,858	
Plant expansion and start-up costs <sup>(j)</sup>	1,525	
Litigation-related legal fees <sup>(d)</sup>	383	
Other expense, net <sup>(k)</sup>	3,652	
Net income tax effect on adjusted earnings <sup>(g)</sup>	(2,485)	
Adjusted earnings	4,739	0.07

- (a) Reflects the impairment of long-lived assets associated with the closure of the San Bernardino, California juice facility (as described above under Recent Developments Rationalization of Juice Operations ).
- (b) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise s inventory sold in the third quarter of 2016 of \$1.9 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 \$2.2 million, and \$1.4 million of additional financing costs expensed in the third quarter of 2016, which are recorded in interest expense.
- (c) Reflects a \$0.7 million adjustment for the estimated lost margin caused by the recall of certain sunflower kernel products (as described above under Recent Developments Recall of Certain

- Sunflower Kernel Products ), which reflects a shortfall in revenues against anticipated volumes of approximately \$2.9 million, less associated cost of goods sold of approximately \$2.2 million.
- (d) Reflects legal advisory costs of \$0.5 million associated with the recently completed strategic review (as described above under Recent Developments Strategic Review ), which are recorded in selling, general and administrative ( SG&A ) expenses.
  - (e) Reflects litigation-related legal costs mainly associated with the settlement of the Plum dispute (as described above under Recent Developments Settlement of Plum Dispute ), which are recorded in SG&A expenses.
  - (f) Other includes fair value adjustments related to contingent consideration arrangements of \$0.1 million, which are recorded in other expense.
  - (g) To tax effect the preceding adjustments to earnings and to reflect an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.
  - (h) Reflects the realization of previously unrecognized tax benefits.
  - (i) Reflects additional logistics costs stemming from capacity constraints on imports and exports within the Global Ingredients segment, which were recorded in cost of goods sold.
  - (j) Reflects costs related to the retrofit of the San Bernardino juice facility and expansion of our Allentown, Pennsylvania facility to add aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold.
  - (k) Other expense, net includes severance costs of \$2.7 million mainly for our former CEO, and \$0.9 million of business development costs mainly related to the Sunrise Acquisition and divestiture of Opta Minerals.

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 quarter ended October 1, 2016 increased by 25.8% to \$348.7 million from \$277.2 million for the quarter ended October 3, 2015. Excluding the impact on revenues in the third quarter of 2016 of business acquisitions and associated product rationalizations (an increase in revenues of approximately \$85.0 million), estimated impact of the recall of certain sunflower kernel products based on shortfall against anticipated volumes (a decrease in revenues of approximately \$3.0 million), estimated impact on west coast pouch operations as a result of a fire at a third-party facility (a decrease in revenues of approximately \$2.0 million) and changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately \$6.0 million), revenues decreased 0.9% in the third quarter of 2016, compared with the third quarter of 2015. This decrease in revenues reflected lower volumes of specialty raw materials driven by a reduction in contracted acres, and the timing of sales of frozen fruit into the foodservice channel. In addition, the decrease in revenues reflected lower volumes of fruit snacks and specialty bars due to customer turnover and the ramp-up of new product offerings. These unfavorable factors were partially offset by higher demand for organic ingredients and growth in aseptic beverage volumes with the added output from our Allentown, Pennsylvania facility and new product launches.

Gross profit increased \$14.7 million, or 56.0%, to \$41.0 million for the quarter ended October 1, 2016, compared with \$26.3 million for the quarter ended October 3, 2015. As a percentage of revenues, gross profit for the quarter ended October 1, 2016 was 11.8% compared to 9.5% for the quarter ended October 3, 2015, an increase of 2.3%. The gross profit percentage for the third quarter of 2016 would have been approximately 12.3%, excluding the impact of an acquisition accounting adjustment related to Sunrise's inventory sold in the third quarter of 2016 (\$1.9 million), and estimated lost margin as a result of the recall of certain sunflower kernel products (\$0.7 million), compared with approximately 10.7% for the third quarter of 2015, excluding the impact of demurrage, detention and other related expenses (\$1.9 million) and costs related to the retrofit of our San Bernardino, California juice facility and expansion of Allentown, Pennsylvania facility to add aseptic beverage production capabilities (\$1.5 million). Excluding these items, the gross margin percentage increased 1.6% on an adjusted basis in the third quarter of 2016, compared with the third quarter of 2015, which was driven mainly by increased efficiency and lower costs at our aseptic beverage operations and improved pricing spreads on organic ingredients. These factors were partially offset by lower production of fruit snacks and specialty bars driven by lower sales volumes.

Total segment operating income for the quarter ended October 1, 2016 increased by \$9.1 million, or 222.5%, to \$13.2 million, compared with \$4.1 million for the quarter ended October 3, 2015. As a percentage of revenues, segment operating income was 3.8% for the quarter ended October 1, 2016, compared with 1.5% for the quarter ended October 3, 2015. The increase in segment operating income reflected higher overall gross profit as described above, partially offset by a \$2.9 million increase in SG&A expenses, mainly reflecting incremental expenses from acquired businesses, as well as higher costs related to the strategic review. As a percentage of revenues, SG&A expenses were 6.9% in the third quarter of 2016, compared with 7.6% in the third quarter of 2015, which reflected efficiencies gained following the Sunrise Acquisition. Partially offsetting the increase in segment operating income was an increase in intangible asset amortization of \$2.0 million in the third quarter of 2016, compared with the third quarter of 2015, reflecting the incremental amortization of identified intangible assets of acquired businesses, as well as a \$0.7 million increase in foreign exchange losses mainly related to our Mexican frozen fruit operations due to a weakening of the peso relative to the U.S. dollar.

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

Other expense for the quarter ended October 1, 2016 was \$10.3 million, which reflected the impairment of long-lived assets associated with the San Bernardino juice facility. Other expense for the quarter ended October 3, 2015 of \$3.7 million included severance costs of \$2.7 million mainly for our former CEO, and \$0.9 million of business development costs mainly related to the Sunrise Acquisition and the divestiture of Opta Minerals.

The increase in interest expense of \$11.1 million to \$12.2 million for the quarter ended October 1, 2016, compared with \$1.1 million for the quarter ended October 3, 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 \$2.2 million of non-cash amortization of debt issuance costs associated with the Second Lien Loan Agreement. In addition, in the third quarter of 2016, we recognized \$1.4 million of costs in connection with proposed alternative 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 \$5.4 million for the quarter ended October 1, 2016 (including the realization of \$1.3 million of previously unrecognized tax benefits), compared with a recovery of income tax of \$0.6 million for the quarter ended October 3, 2015, which 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 third quarter of 2016, compared with pre-tax earnings in the U.S. in the corresponding period of 2015, which reflected the effect in the third quarter 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.

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Loss from continuing operations attributable to SunOpta Inc. for the quarter ended October 1, 2016 was \$3.4 million, compared with a loss of \$0.2 million for the quarter ended October 3, 2015, a decrease of \$3.2 million. Diluted loss per share from continuing operations was \$0.04 for the quarter ended October 1, 2016, compared with diluted loss per share from continuing operations of \$0.00 for the quarter ended October 3, 2015.

On a consolidated basis, we realized a loss of \$3.4 million (diluted loss per share of \$0.04) for the quarter ended October 1, 2016, compared with earnings of \$0.3 million (diluted earnings per share of \$0.00) for the quarter ended October 3, 2015.

For the quarter ended October 1, 2016, adjusted earnings were \$6.3 million, or \$0.07 per diluted share, compared with adjusted earnings of \$4.7 million, or \$0.07 per diluted share for the quarter ended October 3, 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	October 1, 2016	October 3, 2015	Change	% Change
Revenues	\$ 137,174	\$ 150,500	\$ (13,326)	-8.9%
Gross Margin	16,796	15,327	1,469	9.6%
Gross Margin %	12.2%	10.2%		2.0%
Operating Income	\$ 7,404	\$ 4,642	\$ 2,762	59.5%
Operating Income %	5.4%	3.1%		2.3%

Global Ingredients contributed \$137.2 million in revenues for the quarter ended October 1, 2016, compared to \$150.5 million for the quarter ended October 3, 2015, a decrease of \$13.3 million, or 8.9% . Excluding the estimated impact on revenues of the recall of certain sunflower kernel products and the impact of changes including foreign exchange rates and commodity-related pricing, Global Ingredients revenues decreased approximately 3.1% . The table below explains the decrease in revenue:

Global Ingredients Revenue Changes	
Revenues for the quarter ended October 3, 2015	\$150,500
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	(13,864)
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	(6,213)
Decreased pricing for organic seeds and nuts, coffee, oils, sugar and quinoa	(4,014)
Decreased pricing of specialty corn, soy, sunflower and organic feed	(1,925)
Higher sales volumes of internationally sourced organic ingredients including cocoa, fruit and vegetables, coffee, and seeds and nuts	12,690
Revenues for the quarter ended October 1, 2016	<b>\$137,174</b>

Gross margin in Global Ingredients increased by \$1.5 million to \$16.8 million for the quarter ended October 1, 2016 compared to \$15.3 million for the quarter ended October 3, 2015, and the gross margin percentage increased by 2.0% to 12.2% . The increase in gross margin as a percentage of revenue was primarily due to the impact of favorable sales

mix of higher margin organic raw materials, as well as the impact in the prior year of demurrage, detention and other costs associated with transloading capacity constraints in the quarter. These were partially offset by the reduced throughput from the roasted sunflower kernel and unfavorable impact of a weaker euro relative to U.S. dollar. The table below explains the increase in gross margin:

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<b>Global Ingredients Gross Margin Changes</b>	
Gross margin for the quarter ended October 3, 2015	\$15,327
Favorable impact on gross margins due to improved pricing spreads on internationally sourced organic ingredients, partially offset by reduced yield and other operational inefficiencies at European sunflower operations	1,845
Improved pricing on organic feed and improved recoveries over the prior year related to transloading costs in the third quarter of 2015, partially offset by lower pricing spread on specialty corn and soy	834
Favorable margin impact of mark-to-market gains related to commodity futures contracts	251
Margin loss from downtime associated with the sunflower roasted kernel recall, and as reduced throughput following the restart of our roasting operations at our Crookston facility as well as lower export volumes of in-shell sunflower due primarily to a strong U.S. dollar	(1,461)
Gross margin for the quarter ended October 1, 2016	<b>\$16,796</b>

Operating income in Global Ingredients increased by \$2.8 million, or 59.5%, to \$7.4 million for the quarter ended October 1, 2016, compared to \$4.6 million for the quarter ended October 3, 2015. The table below explains the increase in operating income:

<b>Global Ingredients Operating Income Changes</b>	
Operating income for the quarter ended October 3, 2015	\$4,642
Increase in gross margin, as explained above	1,469
Decrease in SG&A expenses, primarily due to professional fees, other SG&A costs and lower compensation costs, partially offset by decreased foreign exchange gains on forward derivative contracts	853
Decrease in corporate cost allocations	440
Operating income for the quarter ended October 1, 2016	<b>\$7,404</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**

For the quarter ended	October 1, 2016	October 3, 2015	Change	% Change
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Revenues	\$ 211,558	\$ 126,713	\$ 84,845	67.0%
Gross Margin	24,234	10,982	13,252	120.7%
Gross Margin %	11.5%	8.7%		2.8%
Operating Income	\$ 8,104	\$ 1,863	\$ 6,241	335.0%
Operating Income %	3.8%	1.5%		2.3%

Consumer Products contributed \$211.6 million in revenues for the quarter ended October 1, 2016, compared to \$126.7 million for the quarter ended October 3, 2015, an \$84.8 million, or a 67.0% increase. Excluding the impact of business acquisitions and associated product rationalizations, as well as the estimated impact on west coast pouch operations as a result of a fire at a third-party facility, Consumer Products revenues increased 0.6% . The table below explains the increase in revenues:

<b>Consumer Products Revenue Changes</b>	
Revenues for the quarter ended October 3, 2015	\$126,713
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, as well as lower volumes in the foodservice customer market in the third quarter	78,249
Higher sales of aseptic beverages including retail almond beverages and non-dairy into the foodservice channel, along with stronger sales of shelf-stable juice as a result of new product innovation	10,880
Lower volumes of fruit snacks and specialty bars, partially offset by increased volumes of resealable pouch offerings from our east coast pouch facility as a result of new business contracted	(2,576)
Impact on revenues from closure of west coast pouch operations as a result of a fire at a third-party facility in the third quarter	(1,708)
Revenues for the quarter ended October 1, 2016	<b>\$211,558</b>

Gross margin in Consumer Products increased by \$13.3 million to \$24.2 million for the quarter ended October 1, 2016 compared to \$11.0 million for the quarter ended October 3, 2015, and the gross margin percentage increased by 2.8% to 11.5% . For the quarter ended October 1, 2016 gross margin as a percentage of revenue was impacted by a \$1.9 million acquisition accounting adjustment related to Sunrise inventory sold. Excluding these costs, the gross margin percentage in the consumer products segment would have been 12.7% for the quarter ended October 1, 2016. The increase in gross margin percentage reflected the higher margin profile of 2015 acquisitions, and increased facility utilization and operating efficiencies within the beverage operations, partially offset by lower production volumes of fruit snacks and specialty bars due to lower sales demand. The table below explains the increase in gross margin:



<b>Consumer Products Gross Margin Changes</b>	
Gross margin for the quarter ended October 3, 2015	\$10,982
Margin impact of the Sunrise Acquisition and improved pricing for frozen fruit offerings and for fruit bases and toppings	12,249
Increased contribution from sales of aseptic and non-aseptic private label beverages, driven by increased production volumes and higher facility utilization	4,297
Margin impact from acquisition accounting adjustment related to Sunrise inventory sold in the quarter	(1,890)
Lower volumes of fruit snacks and specialty bars, partially offset by increased volumes of resealable pouch offerings from our east coast pouch facility as a result of new business contracted	(1,404)
Gross margin for the quarter ended October 1, 2016	<b>\$24,234</b>

Operating income in Consumer Products increased by \$6.2 million, or 335.0%, to \$8.1 million for the quarter ended October 1, 2016, compared to \$1.9 million for the quarter ended October 3, 2015. The table below explains the increase in operating income:

<b>Consumer Products Operating Income Changes</b>	
Operating income for the quarter ended October 3, 2015	\$1,863
Increase in gross margin, as explained above	13,252
Increased SG&A costs due primarily to the acquisitions of Sunrise and Niagara Natural, and increased foreign exchange losses on international operations, partially offset by lower compensation costs	(5,366)
Increase in corporate cost allocations	(1,645)
Operating income for the quarter ended October 1, 2016	<b>\$8,104</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	October 1, 2016	October 3, 2015	Change	% Change
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Operating Loss	\$ (2,287)	\$ (2,406)	\$ 119	4.9%
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Operating loss at Corporate Services decreased by \$0.1 million to \$2.3 million for the quarter ended October 1, 2016, from a loss of \$2.4 million for the quarter ended October 3, 2015. The table below explains the decrease in operating loss:

<b>Corporate Services Operating Loss Changes</b>	
Operating loss for the quarter ended October 3, 2015	\$(2,406)
Increase in corporate cost allocations that are charged to SunOpta reporting segments, due in part to a further centralization of services	1,205
Higher compensation-related costs due to increased headcount, stock-based compensation and health benefits	(1,043)
Increased information technology consulting, professional fees and costs associated with litigation now resolved, partially offset by lower foreign exchange losses	(43)
Operating loss for the quarter ended October 1, 2016	<b>\$(2,287)</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.

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## Consolidated Results of Operations for the three quarters ended October 1, 2016 and October 3, 2015

For the three quarters ended	October 1, 2016 \$	October 3, 2015 \$	Change \$	Change %
<b>Revenues</b>				
Global Ingredients	441,694	467,405	(25,711)	-5.5%
Consumer Products	607,498	361,351	246,147	68.1%
<b>Total revenues</b>	<b>1,049,192</b>	<b>828,756</b>	<b>220,436</b>	<b>26.6%</b>
<b>Gross profit</b>				
Global Ingredients	54,716	53,225	1,491	2.8%
Consumer Products	54,193	31,907	22,286	69.8%
<b>Total gross profit</b>	<b>108,909</b>	<b>85,132</b>	<b>23,777</b>	<b>27.9%</b>
<b>Segment operating income (loss)<sup>(1)</sup></b>				
Global Ingredients	24,256	23,934	322	1.3%
Consumer Products	6,989	5,115	1,874	36.6%
Corporate Services	(6,544)	(6,007)	(537)	-8.9%
<b>Total segment operating income</b>	<b>24,701</b>	<b>23,042</b>	<b>1,659</b>	<b>7.2%</b>
Other expense, net	22,723	4,393	18,330	417.3%
<b>Earnings from continuing operations before the following</b>				
	1,978	18,649	(16,671)	-89.4%
Interest expense, net	34,748	3,171	31,577	995.8%
Provision for (recovery of) income taxes	(15,632)	4,838	(20,470)	-423.1%
Earnings (loss) from continuing operations	(17,138)	10,640	(27,778)	-261.1%
Earnings attributable to non-controlling interests	4	84	(80)	-95.2%
Loss from discontinued operations, net of taxes	(570)	(2,959)	2,389	80.7%
<b>Earnings (loss) attributable to SunOpta Inc.<sup>(2)</sup></b>	<b>(17,712)</b>	<b>7,597</b>	<b>(25,309)</b>	<b>-333.1%</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 CEO, 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 three quarters ended	Global Ingredients \$	Consumer Products \$	Corporate Services \$	Consol- idated \$
<b>October 1, 2016</b>				
Segment operating income (loss)	24,256	6,989	(6,544)	24,701
Other expense, net	(779)	(21,472)	(472)	(22,723)
	23,477	(14,483)	(7,016)	1,978

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Earnings (loss) from continuing operations before the following

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Segment operating income (loss)	23,934	5,115	(6,007)	23,042
Other expense, net	(379)	(534)	(3,480)	(4,393)
Earnings (loss) from continuing operations before the following	23,555	4,581	(9,487)	18,649

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.

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- (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 three quarters ended</b>	\$	Per Diluted Share
		\$
<b>October 1, 2016</b>		
Loss attributable to SunOpta Inc.	(17,712)	(0.21)
Loss from discontinued operations, attributable to SunOpta Inc.	570	0.01
Loss from continuing operations attributable to SunOpta Inc.	(17,142)	(0.20)
Adjusted for:		
Costs related to business acquisitions <sup>(a)</sup>	25,931	
Legal settlement and litigation-related legal fees <sup>(b)</sup>	10,850	
Costs related to rationalization of juice operations <sup>(c)</sup>	10,300	
Product withdrawal and recall costs <sup>(d)</sup>	2,680	
Plant start-up costs <sup>(e)</sup>	1,565	
Costs related to strategic review <sup>(f)</sup>	483	
Write-off of debt issuance costs <sup>(g)</sup>	215	
Other <sup>(h)</sup>	1,199	
Gain on settlement of contingent consideration <sup>(i)</sup>	(1,715)	
Net income tax effect on adjusted earnings <sup>(j)</sup>	(19,985)	
Change in unrecognized tax benefits <sup>(k)</sup>	(1,268)	
Adjusted earnings	13,113	0.15
<b>October 3, 2015</b>		
Earnings attributable to SunOpta Inc.	7,597	0.11
Loss from discontinued operations, attributable to SunOpta Inc.	2,959	0.04
Earnings from continuing operations attributable to SunOpta Inc.	10,556	0.15
Adjusted for:		
Plant expansion and start-up costs <sup>(l)</sup>	2,220	
Demurrage, detention and other related expenses <sup>(m)</sup>	1,858	
Litigation-related legal fees <sup>(b)</sup>	1,177	
Other expense, net <sup>(n)</sup>	4,393	
Net income tax effect on adjusted earnings <sup>(j)</sup>	(3,658)	
Adjusted earnings	16,546	0.24

- (a) Reflects costs related to business combinations, including an acquisition accounting adjustment related to Sunrise's inventory sold in the first three quarters of 2016 of \$13.4 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 \$7.8 million, as well as \$2.4 million of additional financing costs expensed, 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.

- (b) 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 \$1.6 million (2015 - \$1.2 million) of litigation-related legal costs mainly associated with the Plum dispute, which are recorded in SG&A expenses.
- (c) Reflects the impairment of long-lived assets associated with the closure of the San Bernardino, California juice facility (as described above under *Recent Developments Rationalization of Juice Operations* ).
- (d) Reflects costs of \$1.1 million associated with a voluntary withdrawal of private label orange juice in the first quarter of 2016, as well as \$0.6 million associated with the recall of certain sunflower kernel products, net of expected insurance recoveries (as described above under *Recent Developments Recall of Certain Sunflower Kernel Products* ), which are recorded in other expense. Also includes a \$1.0 million adjustment for the estimated lost margin caused by the sunflower recall, which reflects a shortfall in revenues against anticipated volumes of approximately \$6.4 million, less associated cost of goods sold of approximately \$5.4 million.
- (e) 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 as the facility ramped up to break-even production levels.
- (f) Reflects legal advisory costs of \$0.5 million associated with the recently completed strategic review (as described above under *Recent Developments Strategic Review* ), which are recorded in SG&A expenses.
- (g) 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.
- (h) Other includes severance costs of \$0.6 million and fair value adjustments related to contingent consideration arrangements of \$0.6 million, which are recorded in other expense.

- (i) 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.
- (j) To tax effect the preceding adjustments to earnings and to reflect an overall estimated annual effective tax rate of approximately 30% on adjusted earnings before tax.
- (k) Reflects the realization of previously unrecognized tax benefits.
- (l) Reflects costs related to the retrofit of the San Bernardino juice facility and expansion of the Allentown facility to add aseptic beverage processing and filling capabilities, which were recorded in cost of goods sold.
- (m) Reflects additional logistics costs stemming from capacity constraints on imports and exports within the Global Ingredients segment, which were recorded in cost of goods sold.
- (n) Other expense, net included severance costs of \$2.7 million mainly for our former CEO, and \$1.4 million of business development costs mainly related to the acquisitions of Sunrise and Citrusource, as well as the divestiture of Opta Minerals.

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 three quarters ended October 1, 2016 increased by 26.6% to \$1,049.2 million from \$828.8 million for the three quarters ended October 3, 2015. Excluding the impact on revenues in the first three quarters of 2016 of business acquisitions and associated product rationalizations (an increase in revenues of approximately \$231.0 million), estimated impact of the recall of certain sunflower kernel products based on shortfall against anticipated volumes (a decrease in revenues of approximately \$6.0 million), estimated impact on west coast pouch operations as a result of a fire at a third-party facility (a decrease in revenues of approximately \$2.0 million), and changes in commodity-related pricing and foreign exchange rates (a decrease in revenues of approximately \$21.0 million), revenues increased 1.7% in the first three quarters of 2016, compared with the first three quarters of 2015. This increase in revenues was driven primarily by increased demand for organic ingredients and growth in aseptic beverage volumes with the added output from our Allentown, Pennsylvania facility and new product launches. 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 lower volumes sold into the foodservice channel.

Gross profit increased \$23.8 million, or 27.9%, to \$108.9 million for the three quarters ended October 1, 2016, compared with \$85.1 million for the three quarters ended October 3, 2015. As a percentage of revenues, gross profit for the three quarters ended October 1, 2016 was 10.4% compared to 10.3% for the three quarters ended October 3, 2015, an increase of 0.1%. The gross profit percentage for the first three quarters of 2016 would have been approximately 11.8%, excluding the impact of an acquisition accounting adjustment related to Sunrise's inventory sold in the first three quarters of 2016 (\$13.4 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 recall of certain sunflower kernel products (\$1.0 million), compared with approximately 10.7% for the first three quarters of 2015, excluding the impact of demurrage, detention and other related expenses (\$1.9 million) and costs related to the retrofit of our San Bernardino, California juice facility and expansion of Allentown, Pennsylvania facility to add aseptic beverage production capabilities (\$1.5 million). Excluding these items, the gross margin percentage increased 1.1% on an adjusted basis in the first three quarters of 2016, compared with the first three quarters of 2015, driven mainly by increased efficiency and lower costs at our aseptic beverage operations and improved pricing spreads on organic ingredients, 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 in the first half of 2016 caused by a late harvest and resultant shortage of strawberries.

Total segment operating income for the three quarters ended October 1, 2016 increased by \$1.7 million, or 7.2%, to \$24.7 million, compared with \$23.0 million for the three quarters ended October 3, 2015. As a percentage of revenues,

segment operating income was 2.4% for the three quarters ended October 1, 2016, compared with 2.8% for the three quarters ended October 3, 2015. The increase in segment operating income reflected higher overall gross profit as described above, partially offset by an \$11.6 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 6.9% in the first three quarters of 2016, compared with 7.4% in the first three quarters of 2015, which reflected efficiencies gained following the Sunrise Acquisition. Partially offsetting the increase in operating income was an increase in intangible asset amortization of \$6.4 million in the first three quarters of 2016, compared with the first three quarters of 2015, reflecting the incremental amortization of identified intangible assets of acquired businesses. In addition, the increase in segment operating income was offset by a foreign exchange loss of \$3.1 million in the first three quarters of 2016, compared with a foreign exchange gain of \$1.0 million in the first three quarters 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, as well as the negative impact of a strengthening of the U.S. dollar relative to the peso on our Mexican frozen fruit operations.

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

Other expense for the three quarters ended October 1, 2016 of \$22.7 million included charges related to the impairment of long-lived assets associated with the San Bernardino juice facility (\$10.3 million), settlement of the Plum dispute (\$9.0 million), consolidation of our frozen fruit processing facilities following the Sunrise Acquisition (\$2.9 million), and voluntary withdrawal of private label orange juice product and voluntary recall of certain sunflower kernel products (\$1.7 million). These charges were partially offset by the \$1.7 million gain on settlement of the contingent consideration obligation related to the acquisition of Niagara Natural. Other expense for the three quarters ended October 3, 2015 of \$4.4 million included severance costs of \$2.7 million mainly for our former CEO and \$1.4 million of business development costs mainly related to the acquisitions of Sunrise and Citrusource, as well as the divestiture of Opta Minerals.

The increase in interest expense of \$31.6 million to \$34.7 million for the three quarters ended October 1, 2016, compared with \$3.2 million for the three quarters ended October 3, 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 \$7.6 million of non-cash amortization of debt issuance costs associated with the Second Lien Loan Agreement. In addition, in the first three quarters of 2016, we recognized \$2.4 million of costs in connection with proposed alternative financing arrangements intended to repay in full the term loans outstanding under the Second Lien Loan Agreement, and 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.

We recognized a recovery of income tax of \$15.6 million (including the realization of \$1.3 million of previously unrecognized tax benefits) for the three quarters ended October 1, 2016, compared with a provision for income tax of \$4.8 million for the three quarters ended October 3, 2015. Excluding the impact of the change in unrecognized tax benefits, the effective tax rate for the first three quarters of 2016 was 43.8% of the loss before income taxes, compared with 31.3% of earnings before income taxes for the first three quarters of 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 three quarters of 2016, compared with pre-tax earnings in the U.S. in the corresponding period of 2015, which reflected the effect in the first three quarters 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 three quarters ended October 1, 2016 was \$17.1 million, compared with earnings of \$10.6 million for the three quarters ended October 3, 2015. Diluted loss per share from continuing operations was \$0.20 for the three quarters ended October 1, 2016, compared with diluted earnings per share from continuing operations of \$0.15 for the three quarters ended October 3, 2015.

Loss from discontinued operations of \$0.6 million for the three quarters ended October 1, 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 \$3.0 million for the three quarters ended October 3, 2015 mainly reflected an after-tax loss from operations of Opta Minerals of \$4.3 million, net of non-controlling interest of \$1.6 million.

On a consolidated basis, we realized a loss of \$17.7 million (diluted loss per share of \$0.21) for the three quarters ended October 1, 2016, compared with earnings of \$7.6 million (diluted earnings per share of \$0.11) for the three quarters ended October 3, 2015.

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For the three quarters ended October 1, 2016, adjusted earnings were \$13.1 million, or \$0.15 per diluted share, compared with adjusted earnings of \$16.5 million, or \$0.24 per diluted share for the three quarters ended October 3, 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.

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**Segmented Operations Information****Global Ingredients**

For the three quarters ended	October 1, 2016	October 3, 2015	Change	% Change
Revenues	\$ 441,694	\$ 467,405	\$ (25,711)	-5.5%
Gross Margin	54,716	53,225	1,491	2.8%
Gross Margin %	12.4%	11.4%		1.0%
Operating Income	\$ 24,256	\$ 23,934	\$ 322	1.3%
Operating Income %	5.5%	5.1%		0.4%

Global Ingredients contributed \$441.7 million in revenues for the three quarters ended October 1, 2016, compared to \$467.4 million for the three quarters ended October 3, 2015, a decrease of \$25.7 million, or 5.5%. Excluding the estimated impact of the recall of certain sunflower kernel products and the impact of changes including foreign exchange rates and commodity-related pricing, Global Ingredients revenues increased approximately 0.4%. The table below explains the decrease in revenue:

<b>Global Ingredients Revenue Changes</b>	
Revenues for the three quarters ended October 3, 2015	\$467,405
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	(32,742)
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	(14,397)
Decreased pricing of specialty corn, soy, sunflower and organic feed	(11,051)
Decreased pricing for organic fruit and vegetables, seeds and nuts, quinoa, coffee, and oils	(9,818)
Higher sales volumes of internationally sourced organic ingredients including cocoa, coffee, fruit and vegetables, and seed and nuts	42,074
Favorable foreign exchange impact on euro-denominated sales due to the stronger U.S. dollar	223
Revenues for the three quarters ended October 1, 2016	<b>\$441,694</b>

Gross margin in Global Ingredients remained unchanged at \$54.7 million for the three quarters ended October 1, 2016, and the gross margin percentage increased by 1.0% to 12.4%. 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 transloading operating efficiencies from the prior year, 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 three quarters ended October 3, 2015	\$53,225
Margins impact due to improved pricing spreads on internationally sourced organic ingredients, partially offset by reduced yield and other operational inefficiencies at European sunflower operations	1,713
Favorable margin impact of mark-to-market gains related to commodity futures contracts	1,589
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	(1,067)
Lower pricing spread on specialty corn and soy, and organic feed partially offset improved recoveries over the prior year related to transloading efficiency costs in the third quarter of 2015	(744)
Gross margin for the three quarters ended October 1, 2016	<b>\$54,716</b>

Operating income in Global Ingredients increased by \$0.3 million, or 1.3%, to \$24.3 million for the three quarters ended October 1, 2016, compared to \$23.9 million for the three quarters ended October 3, 2015. The table below explains the increase in operating income:

<b>Global Ingredients Operating Income Changes</b>	
Operating income for the three quarters ended October 3, 2015	\$23,934
Increase in gross margin, as explained above	1,491
Decrease in corporate cost allocations	1,330
Decrease in SG&A expenses, primarily due to professional fees, other SG&A costs and lower compensation costs	858
Decreased foreign exchange gains on forward derivative contracts	(3,357)
Operating income for the three quarters ended October 1, 2016	<b>\$24,256</b>

### Consumer Products

**For the three quarters ended**      **October 1, 2016**      **October 3, 2015**      **Change**      **% Change**

Revenues	\$ 607,498	\$ 361,351	\$ 246,147	68.1%
Gross Margin	54,193	31,907	22,286	69.8%
Gross Margin %	8.9%	8.8%		0.1%

Operating Income	\$ 6,989	\$ 5,115	\$ 1,874	36.6%
Operating Income %	1.2%	1.4%		-0.2%

Consumer Products contributed \$607.5 million in revenues for the three quarters ended October 1, 2016, compared to \$361.4 million for the three quarters ended October 3, 2015, a \$246.1 million, or 68.1% increase. Excluding the impact of business acquisitions and associated product rationalizations, as well as the estimated impact on west coast pouch operations as a result of a fire at a third-party facility, Consumer Products revenues increased 2.7%. The table below explains the increase in revenues:

<b>Consumer Products Revenue Changes</b>	
Revenues for the three quarters ended October 3, 2015	\$361,351
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, and lower volumes to foodservice customer market	216,330
Higher sales of aseptic beverages including retail almond beverages and non-dairy into the foodservice channel, along with stronger sales of shelf-stable juice as a result of new product innovation	28,868
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 lower volumes of specialty bars	2,657
Impact on revenues from closure of west coast pouch operations as a result of a fire at a third party facility in the third quarter	(1,708)
Revenues for the three quarters ended October 1, 2016	<b>\$607,498</b>

Gross margin in Consumer Products increased by \$22.3 million to \$54.2 million for the three quarters ended October 1, 2016 compared to \$31.9 million for the three quarters ended October 3, 2015, and the gross margin percentage increased by 0.1% to 8.9%. For the quarter ended July 2, 2016 gross margin as a percentage of revenue was impacted by a \$13.4 million acquisition accounting adjustment related to Sunrise inventory sold, as well as costs associated with expansion activities at our Allentown aseptic facility of \$1.6 million. Excluding these costs, the gross margin percentage in the consumer products segment would have been 11.5% for the three quarters ended October 1, 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 three quarters ended October 3, 2015	\$31,907
Margin impact of the Sunrise Acquisition and improved pricing for frozen fruit offerings, partially offset by lower margins for fruit bases and toppings	30,476
Increased contribution from sales of aseptic and non-aseptic private label beverages, driven by increased production volumes and higher facility utilization	6,017
Margin impact from acquisition accounting adjustment related to Sunrise inventory sold in the quarter	(13,404)
Lower volumes of fruit snacks and specialty bars, partially offset by increased volumes of resealable pouch offerings from our east coast pouch facility as a result of new business contracted	(803)
Gross margin for the three quarters ended October 1, 2016	<b>\$54,193</b>

Operating income in Consumer Products increased by \$1.9 million, or 36.6%, to an operating income of \$7.0 million for the three quarters ended October 1, 2016, compared to operating income of \$5.1 million for the three quarters ended October 3, 2015. The table below explains the increase in operating income:

<b>Consumer Products Operating Income Changes</b>	
Operating income for the three quarters ended October 3, 2015	\$5,115
Increase in gross margin, as explained above	22,286
Increased SG&A costs due primarily to the acquisitions of Sunrise, Citrusource and Niagara Natural, and increased foreign exchange losses on international operations, partially offset by lower compensation costs	(15,476)
Increase in corporate cost allocations	(4,936)
Operating loss for the three quarters ended October 1, 2016	<b>\$6,989</b>

**Corporate Services**

**For the three quarters ended**      **October 1, 2016**      **October 3, 2015**      **Change**      **% Change**

Operating Loss	\$	(6,544)	\$	(6,007)	\$	(537)	-8.9%
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Operating loss at Corporate Services increased by \$0.5 million to \$6.5 million for the three quarters ended October 1, 2016, from a loss of \$6.0 million for the three quarters ended October 3, 2015. The table below explains the increase in operating loss:

<b>Corporate Services Operating Loss Changes</b>	
Operating loss for the three quarters ended October 3, 2015	\$(6,007)
Increased information technology consulting, professional fees and costs associated litigation now resolved	(2,546)
Higher compensation-related costs due to increased headcount, stock-based compensation and health benefits	(2,289)
Increase in corporate cost allocations that are charged to SunOpta reporting segments, due in part to a further centralization of services	3,606
Decrease in foreign exchange losses	692
Operating loss for the three quarters ended October 1, 2016	<b>\$(6,544)</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.

## Liquidity and Capital Resources

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

- Existing cash and cash equivalents;
- Available operating lines of credit;
- Cash flows generated from operating activities;
- Cash flows generated from the exercise, if any, of stock options during the year;
- Potential additional long-term financing, including the offer and sale of debt and/or equity securities; and
- Potential sales of non-core divisions, or assets.

On February 11, 2016, we entered into a five-year, \$350.0 million Global Credit Facility, which replaced our previous North American credit facilities, which were comprised of a \$165.0 million facility and a C\$10.0 million facility, that were set to expire January 27, 2017, and our €92.5 million multipurpose 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 our global operations, in addition to funding future strategic initiatives. In addition, subject to customary borrowing conditions and the agreement of any such lenders to provide such increased commitments, we may request to increase the total lending commitments under this facility to a maximum aggregate principal amount not to exceed \$450.0 million. 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. As at October 1, 2016, we had outstanding borrowings of \$223.5 million and approximately \$105.0 million of available borrowing capacity under the Global Credit Facility. For more information on the Global Credit Facility, see note 7 to the unaudited consolidated financial statements included in this report.

On October 9, 2015, SunOpta Foods and certain of our other subsidiaries entered into the Second Lien Loan Agreement with a group of lenders, pursuant to which we borrowed an aggregate principal amount of \$330.0 million of term loans (the Initial Loans). The net proceeds of the Second Lien Loan Agreement were used to partially fund the Sunrise Acquisition, as described above under Recent Developments Sunrise Holdings (Delaware), Inc. As at October 1, 2016, we had repaid \$20.0 million of the outstanding principal of the Initial Loans. On October 7, 2016, we used the net proceeds from the issuance of the Preferred Stock to repay an additional \$79.0 million principal amount of the Initial Loans, as described above under Recent Developments Strategic Review. The remaining \$231.0 million aggregate principal amount of Initial Loans matured on October 9, 2016 and automatically converted into a like principal amount of term loans (such converted loans, the Term Loans), with a maturity date of October 9, 2022. The Term Loans bore interest at 9.5% per annum. On October 20, 2016, all of the outstanding Term Loans were exchanged for a corresponding amount of 9.5% Senior Secured Second Lien Notes due October 9, 2022 (the Notes) issued by SunOpta Foods. For more information on the Notes, see note 15 to the unaudited consolidated financial statements included in this report. The Second Lien Loan Agreement was terminated in connection with the issuance of the Notes.

We have an effective registration statement on file with the U.S. Securities and Exchange Commission, pursuant to which we may offer up to \$200.0 million of debt, equity and other securities. We also have a prospectus on file with Canadian securities regulators covering the offer and sale of up to \$200.0 million of debt, equity and other securities. As described above under Recent Developments Sunrise Holdings (Delaware), Inc., we issued 16.7 million of our common shares for gross proceeds of \$100.0 million under the U.S. registration statement and the Canadian prospectus. The remaining amount of \$100.0 million available under U.S. registration statement and the Canadian prospectus could be used by us for a public offering of debt, equity or other securities to raise additional capital. Our ability to conduct any such future offerings will be subject to market conditions.

In order to finance significant acquisitions, if any, that may arise in the future, we may need additional sources of cash that we could attempt to obtain through a combination of additional bank or subordinated financing, a private or

public offering of debt or equity securities, or the issuance of common stock as consideration in an acquisition. There can be no assurance that these types of financing would be available at all or, if so, on terms that are acceptable to us.

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

## Cash Flows

### *Cash flows for the quarter ended October 1, 2016*

Net cash and cash equivalents decreased \$2.7 million in the third quarter of 2016 to \$1.6 million as at October 1, 2016, compared with \$4.3 million as at July 2, 2016, which primarily reflected cash provided by continuing operating activities of \$17.0 million, which was more than offset by the repayment of \$13.1 million of borrowings under our line of credit facilities and capital expenditures of \$5.5 million.

Cash provided by operating activities of continuing operations was \$17.0 million in the third quarter of 2016, compared with \$18.3 million in the third quarter of 2015, a decrease in cash provided of \$1.3 million. The decrease in cash used in operating activities in the third quarter of 2016, compared with the third quarter of 2015, reflected the receipt of income tax refunds related to 2015, mostly offset by an increase in accounts receivable, mainly reflecting higher sales of frozen fruit in the third quarter of 2016, compared with the second quarter of 2016.

Cash used in investing activities of continuing operations was \$5.5 million in the third quarter of 2016, compared with \$12.8 million in the third quarter of 2015, a decrease in cash used of \$7.3 million, which mainly reflected the upfront payment of \$6.5 million to acquire Niagara Natural in the third quarter of 2015, and a third-quarter-over-third-quarter decrease in capital expenditures of \$1.4 million, reflecting higher spending in the third quarter of 2015 related to the expansion of our Allentown, Pennsylvania aseptic facility.

Cash used in financing activities of continuing operations was \$14.6 million in the third quarter of 2016, compared with cash provided of \$89.9 million in the third quarter of 2015, an increase in cash used of \$104.5 million, which mainly reflected the net proceeds from the issuance of common shares of \$95.3 million in the third quarter of 2015. In addition, repayments under our line of credit facilities were higher by \$9.9 million in the third quarter of 2016, compared with the third quarter of 2015, mainly reflecting the upfront payment to acquire Niagara Natural in the third quarter of 2015.

### *Cash flows for the three quarters ended October 1, 2016*

Net cash and cash equivalents decreased \$0.6 million in the first three quarters of 2016 to \$1.6 million as at October 1, 2016, compared with \$2.3 million as at January 2, 2016, which primarily reflected net borrowings under our line of credit facilities of \$65.8 million, that were more than offset by the following uses of cash:

- cash used by continuing operating activities of \$35.3 million;
- capital expenditures of \$14.8 million;
- repayment of \$10.0 million of Initial Loans under the Second Lien Loan Agreement;
- payment of \$5.5 million debt issuance costs related to the Global Credit Facility; and
- payment of \$4.6 million of contingent consideration related to business acquisitions.

Cash used in operating activities of continuing operations was \$35.3 million in the first three quarters of 2016, compared with cash provided of \$0.3 million in the first three quarters of 2015, an increase in cash used of \$35.6 million. The increase in cash used in operating activities in the first three quarters of 2016, compared with the first three quarters of 2015, reflected the increased working capital requirements related to acquired businesses, including the seasonal fruit purchases to support the Sunrise business that occurred largely in the second quarter of 2016, partially offset by the receipt of income tax refunds related to 2015.

Cash used in investing activities of continuing operations was \$18.7 million in the first three quarters of 2016, compared with \$41.1 million in the first three quarters of 2015, a decrease in cash used of \$22.4 million, which mainly reflected the total upfront payments of \$19.8 million to acquire Citrusource and Niagara Natural in the first three quarters of 2015, as well as a decrease in capital expenditures of \$7.0 million, reflecting higher spending in the first three quarters of 2015 related to a retrofit of our San Bernardino, California juice facility and the expansion of our Allentown, Pennsylvania aseptic facility. These factors were partially offset by contingent consideration payments of \$4.6 million in the first three quarters of 2016 related to the acquisitions of Citrusource and Niagara Natural. Cash provided by investing activities of discontinued operations reflected cash proceeds from the sale of Opta Minerals of \$3.2 million, net of cash sold.

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Cash provided by financing activities of continuing operations was \$49.9 million in the first three quarters of 2016, compared with \$130.6 million in the first three quarters of 2015, a decrease in cash provided of \$80.7 million, which mainly reflected the net proceeds from the issuance of common shares of \$95.3 million in the third quarter of 2015. Net borrowings under our line of credit facilities increased \$34.5 million in the first three quarters of 2016, compared with the first three quarters of 2015, including the repayment in full of outstanding borrowings of \$192.7 million under our North American and European credit facilities with new borrowings under the Global Credit Facility. The increase in borrowings under our credit facilities mainly reflected increased working capital requirements and repayment of \$10.0 million of borrowings under the Second Lien Loan Agreement, as well as lower proceeds from the exercise of stock options and warrants, partially offset by reduced business acquisition spending.

### **Off-Balance Sheet Arrangements**

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

### **Contractual Obligations**

Except as described below, there have been no material changes outside the normal course of business in our contractual obligations since January 2, 2016:

- On February 11, 2016, we entered into the Global Credit Facility which replaced our previous North American and European credit facilities. As at October 1, 2016, borrowings under the Global Credit Facility totaled \$223.5 million. Outstanding amounts under the Global Credit Facility are repayable in full on February 10, 2021.
- On October 20, 2016, we issued \$231.0 million of Notes, bearing interest at 9.5% per annum, in exchange for an equivalent principal amount of borrowings under the Second Lien Loan Agreement (as described above under *Liquidity and Capital Resources* ). Annualized interest on the Notes will amount to \$21.9 million through the maturity of the Notes on October 9, 2022.

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, related revenues and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. The estimates and assumptions made require us to exercise our judgment and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. We continually evaluate the information that forms the basis of our estimates and assumptions as our business and the business environment generally changes. The use of estimates is pervasive throughout our financial statements. There have been no material changes to the critical accounting estimates disclosed under the heading *Critical Accounting Estimates* in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations* , of the Form 10-K.

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

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A, *Quantitative and Qualitative Disclosures about Market Risk* , of the Form 10-K. There have been no material changes to our exposures to market risks since January 2, 2016.

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

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

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

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Under the supervision and with the participation of our management, including our Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), we conducted an evaluation of our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the period covered by this quarterly report. Based on this evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective as of October 1, 2016.

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

Our management, with the participation of our CEO and CFO, has evaluated whether any change in our internal control over financial reporting (as such term is defined under Rule 13a-15(f) promulgated under the Exchange Act) occurred during the quarter ended October 1, 2016. Based on that evaluation, management concluded that there were no changes in our internal control over financial reporting during the quarter ended October 1, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II - OTHER INFORMATION

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

#### **Plum Dispute**

Plum, PBC ("Plum"), a Delaware public benefit corporation and a subsidiary of Campbell Soup Company ("Campbell"), 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, Cheer Pack, Gualapack, Hosokawa, CDF and SHY. The Settlement Agreement resolved 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 paid Campbell \$5.0 million in cash and will 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.

#### **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 8,500 to 9,000 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.

From time to time, we are involved in other litigation incident to the ordinary conduct of our business. For a discussion of legal proceedings, see note 13 to the unaudited consolidated financial statements included under Part I, Item 1 of this report.

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

Certain risks associated with our operations are discussed in Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended January 2, 2016. Except as described below, there have been no material changes to the previously-reported risk factors as of the date of this quarterly report. Our previously reported risk factors, together with the information below, should be carefully reviewed in connection with an evaluation of our Company. However, we have updated the risk factor below for items disclosed in this report.

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## Risks Related to Our Business

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

Many of our products are susceptible to harmful bacteria, and the sale of food products for human consumption involves the risk of injury or illness to consumers. Such injuries may result from inadvertent mislabeling, tampering by unauthorized third parties, faulty packaging materials, product contamination, or spoilage. Under certain circumstances, we or our customers may be required to recall or withdraw products, which may lead to a material and adverse effect on our business, financial condition or result of operations. Our customers may also voluntarily recall or withdraw a product we manufactured or packaged, even without consulting us, which could increase our potential liability, costs or and result in lost sales. A product recall or withdrawal could result in significant losses due to the costs of the recall, the destruction of product inventory, and lost sales due to the unavailability of product for a period of time. In addition, we could be forced to temporarily close one or more production facilities. Even if a situation does not necessitate a recall or market withdrawal, product liability claims might be asserted against us. If a product recall or withdrawal were to lead to a decline in sales of a similar or related product sold by a customer or other third party, that party could also initiate litigation against us. While we are subject to governmental inspection and regulations and believe our facilities and those of our co-packers comply in all material respects with all applicable laws and regulations, if the consumption of any of our products causes, or is alleged to have caused, a health-related illness in the future, we may become subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or physical harm could adversely affect our reputation with existing and potential customers and consumers and our corporate and brand image.

For example, on July 29, 2016, one of our wholly-owned subsidiaries agreed to pay \$5.0 million in cash and up to \$4.0 million in rebates to one of our customers to settle litigation filed by the customer in connection with a voluntary recall of certain products manufactured at our subsidiary's Allentown, Pennsylvania facility.

On May 3, 2016, we announced a voluntary recall of certain sunflower kernel products produced at our Crookston, Minnesota facility that have the potential to be contaminated with *Listeria monocytogenes* bacteria, and a number of our customers initiated recalls of their products that contain the affected sunflower kernels as an ingredient or component. While we have recognized estimated losses of \$28.0 million related to this recall, we may need to revise our estimates to be materially larger as we continue to work with our customers to substantiate the claims received to date and any additional claims that may be received. We may also incur costs that are significantly greater than our previous estimates. These revisions of our estimated losses and costs may occur at any time as we continue this process.

Additionally, 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 remediation efforts are ongoing, and we expect to continue to incur related costs, which may be material. Further, 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. The recall may cause us to lose future revenues from, or relationships with, one or more material customers, and the impact of the recall could affect our customers' willingness to continue to purchase other unrelated products from us or could hinder our ability to grow our business with those customers. We may not be able to determine the full extent of the losses related to the recall for some time and certain factors impacting these losses, such as our customers' processes for developing their claims, the timing of submission of any such claims and the terms of our customers' insurance policies and related coverage, are beyond our control.

Moreover, claims or liabilities of this sort might not be covered by our insurance or by any rights of indemnity or contribution that we may have against others. Although we maintain product liability insurance, we may incur claims



or liabilities for which we are not insured or that exceed the amount of our insurance coverage. A product liability judgment against us or a further product recall could have a material and adverse effect on our business, financial condition or results of operations.

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## **Risks Related to Our Ongoing Operational Review and Our Business Acquisitions**

*We are conducting a thorough review of the Company's operations, management and governance. Both the process of conducting this review and its outcome and implementation could pose a number of risks that could have an adverse impact on our business, financial condition or results of operations*

We are conducting a thorough review of our operations, management and governance in partnership with representatives of Oaktree Capital Management L.P. (together with its affiliates, Oaktree). Among other things, our Board of Directors (the Board) has committed to a further review of governance and leadership with a particular focus on continuing to add independent directors with significant operating and supply chain expertise in the food industry and continuing to ensure that we have the management resources to implement our strategy and the action items that emerge from our operational review. We are also considering a number of operational actions to improve our profitability and streamline our operations for long-term success. These actions may include rationalization or consolidation of certain of our operations or facilities, reinvestment in certain of our operations or facilities, investments in personnel, processes and tools, as well as other cost saving initiatives. These actions could consume capital resources and could also give rise to impairment and other restructuring charges that would be both cash and non-cash in nature, and these charges could be material.

In connection with our operational review, we may decide to take actions that could have a material impact on our operations, strategy, governance, management and future prospects. Certain actions that we take may lead to write-downs of assets and/or charges in future periods. In addition, we cannot predict whether the actions we take will be successful in achieving our goals of improving our profitability and financial performance and delivering long-term value to our shareholders. Our ongoing review could expose us to a number of other risks, including the following:

- distraction of management;
- difficulties in hiring, retaining and motivating key personnel as a result of uncertainty generated by the review and the implementation of any resulting recommendations;
- difficulties in maintaining relationships or arrangements with customers, suppliers and other third parties;
- increases in general and administrative expenses associated with the need to retain and compensate business and recruiting consultants and other advisors; and
- increased volatility in the price of our stock due to uncertainties associated with the ongoing review.

The above risks could have an adverse impact on our business, financial results, liquidity and financial condition.

### ***Our significant investors may have interests that conflict with those of our debtholders and other stakeholders***

Under the agreements executed in connection with the strategic partnership with Oaktree, Oaktree initially may acquire common stock of SunOpta Inc. representing up to 19.99% of SunOpta Inc.'s outstanding common stock. This percentage may be increased to 27% under certain circumstances, subject to shareholder approval.

Oaktree has nominated two members of the Board and is entitled to designate two nominees for election to the Board so long as it beneficially owns or controls at least 11.1% of SunOpta Inc.'s common stock on an as-exchanged basis. If Oaktree beneficially owns or controls less than 11.1% but more than 5% of SunOpta Inc.'s common stock on an as-exchanged basis, it will be entitled to designate one nominee. In addition, Engaged Capital LLC (Engaged Capital), SunOpta Inc.'s second largest shareholder, has nominated one member of our Board.

Oaktree is participating in our ongoing review of our operations, management and governance. Oaktree's objectives and perspectives during this review may not always be aligned with those of other stakeholders, including our debtholders and smaller shareholders.

The interests of Oaktree and Engaged Capital, as well as their affiliates, may differ from the interests of our other stakeholders in material respects. For example, our large investors and their affiliates may have an interest in directly or indirectly pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their other equity investments, even though such transactions might involve risks to us, including risks to our liquidity and financial condition. Our large investors and their affiliates are in the business of making or advising on investments in companies, including businesses that may directly or indirectly compete with certain portions of our business. They may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

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A concentration of ownership within our large investors could potentially be disadvantageous to, or conflict with, interests of our debtholders or smaller shareholders. In addition, if any significant shareholder were to sell or otherwise transfer all or a large percentage of its holdings, we could find it difficult to raise capital, if needed, through the sale of additional equity securities.

**Item 6. Exhibits**

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

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**SIGNATURES**

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

SUNOPTA INC.

Date: November 9, 2016

/s/ Robert McKeracher  
Robert McKeracher  
Vice President and Chief Financial Officer  
(Authorized Signatory and Principal Financial Officer)

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**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
4.1	Amended and Restated Shareholder Rights Plan Agreement, dated November 10, 2015, amended and restated as of April 18, 2016, between SunOpta Inc. and American Stock Transfer & Trust Company LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 20, 2016).
4.2	Amended and Restated Certificate of Incorporation of SunOpta Foods Inc., setting forth the terms of its Series A Preferred Stock, which is exchangeable for Common Shares of SunOpta Inc. (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 12, 2016).
4.3	Articles of Amendment of SunOpta Inc., setting forth the terms of its Special Shares, Series 1 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 12, 2016).
4.4	Indenture, dated as of October 20, 2016, among SunOpta Foods, the guarantors named therein and U.S. Bank National Association, as trustee and notes collateral agent (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.5	Form of 9.5% Senior Secured Second Lien Notes due 2022 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.6	Second Lien U.S. Security Agreement, dated as of October 20, 2016, among the grantors referred therein and the Notes Collateral Agent (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.7	Second Lien Canadian Security Agreement, dated as of October 20, 2016, among the grantors referred therein and the Notes Collateral Agent (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on October 26, 2016).
4.8	Amended and Restated Intercreditor Agreement, dated as of October 20, 2016, among Bank of America, N.A. as first lien collateral agent, the Notes Collateral Agent and the grantors referred therein (incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on October 26, 2016).
10.1	Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit C to the Company's Definitive Proxy Statement on Schedule 14A filed on March 31, 2016).
10.2	Form of Incentive Stock Option Award Agreement under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).
10.3	Form of Restricted Stock Unit Award Agreement (Non-Employee Directors) under Amended 2013 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 2, 2016).
10.4	Form of 2016 Performance Share Unit Award Agreement under 2013 Amended Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the

quarter ended July 2, 2016).

10.5 \* Employment Agreement, dated March 17, 2013, by and between SunOpta Inc. and Michelle Coleman.

10.6 \* Employment Agreement, dated August 18, 2016, by and between SunOpta Inc. and Jill E. Barnett.

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- 10.7 \* Employment Agreement, dated August 18, 2016, by and between SunOpta Inc. and James P. Gratzek.
- 10.8 \* Employment Agreement Amendment, dated August 18, 2016, by and between SunOpta Inc. and Edward Haft.
- 10.9 \* Employment Agreement Amendment, dated August 19, 2016, by and between The Organic Corporation B.V. and G.J.M. Versteegh.
- 10.10 \* Separation Agreement, dated August 22, 2016, by and between SunOpta Inc. and Daniel Turney.
- 10.11\* First Amendment, dated as of October 7, 2016, to the Credit Agreement, dated as of February 11, 2016, among SunOpta Inc., SunOpta Foods Inc., The Organic Corporation B.V., each of the other borrowers and guarantors party thereto from time to time, the lenders party thereto from time to time, Bank of America, N.A., as U.S. Administrative Agent, Bank of America, N.A. (acting through its Canada Branch), as Canadian Administrative Agent, Bank of America, N.A. (acting through its London Branch), as Dutch Administrative Agent under the Dutch, and Bank of America, N.A. as Collateral Agent.
- 10.12\* First Amendment, dated as of October 7, 2016, to the Second Lien Loan Agreement, dated as of October 9, 2015, among SunOpta Inc., SunOpta Foods Inc., certain subsidiaries of SunOpta Inc., the several banks and other financial institutions or entities from time to time party thereto, and Bank of Montreal, as Administrative Agent and Collateral Agent.
- 10.13 Subscription Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc. and Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 12, 2016).
- 10.14 Investor Rights Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc. and Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 12, 2016).
- 10.15 Exchange and Support Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc., Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. and any person that becomes a Holder of Preferred Stock, from time to time (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on October 12, 2016).
- 10.16 Voting Trust Agreement, dated October 7, 2016, between SunOpta Inc., SunOpta Foods Inc., the trustee named therein, Oaktree Organics, L.P. and Oaktree Huntington Investment Fund II, L.P. and any other Holder of Preferred Stock, from time to time (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on October 12, 2016).
- 31.1 Certification by Hendrik Jacobs, President and Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- 31.2 Certification by Robert McKeracher, Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.
- 32 Certifications by Hendrik Jacobs, President and Chief Executive Officer, and Robert McKeracher, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
- 101.INS XBRL Instance Document



101.SCH XBRL Taxonomy Extension Schema Document

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101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

Indicates management contract or compensatory plan or arrangement.

\* Filed herewith.

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