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PRESENTATION

Operator

Good morning and welcome to SunOpta's second-quarter 2015 earnings conference call and business update.

By now, everyone should have access to the earnings press release that was issued this morning. The release is available on the investor relations page on SunOpta's website at www.SunOpta.com. This call is being webcast and its transcription will be available on the Company's website.

As a reminder, please note that the prepared remarks, which will follow, contain forward-looking statements and management may make additional forward-looking statements in the response to your questions. These statements do not guarantee future performance and therefore undue reliance should not be placed upon them. We refer you to all risk factors obtained in SunOpta's press release issued earlier today, the Company's annual report filed with the Form 10-K, and other filings with the Securities and Exchange Commission for more detailed discussions of the factors that could cause actual results to differ materially from those projections and any other forward-looking statements.

Finally, we would like to remind listeners that the Company may refer to certain non-GAAP financial measures during the teleconference. A reconciliation of these non-GAAP financial measures was included with the Company's press release issued earlier today.

Also, please note that, unless otherwise stated, all figures discussed today are in US dollars and are occasionally rounded to the nearest million.

And now, I would like to turn the conference over to SunOpta's CEO, Steve Bromley.

Steve Bromley *- SunOpta Inc. - CEO*

Good morning, everyone. On the call with me today are Rob McKeracher, our Vice President and Chief Financial Officer, and Rik Jacobs, our President and Chief Operating Officer, who, as you know, will take over for me as CEO as of October.

2015 has been a very busy and exciting year for all of us at SunOpta as we accelerate our transformation to a global leader in natural and organic foods.

In the last six months, we have announced three strategic accretive acquisitions -- Citrusource, Sunrise Growers, and our most recent announcement today on the acquisition of Niagara Natural Fruit Snack Company. We also opened our new innovation center and became the first company in the US to receive USDA non-GMO process verified recognition. Rik will discuss these activities in greater detail in a few moments.

From an operational standpoint, we remain committed to making further improvements to better position our business for long-term revenue and profitability growth. We continue to significantly invest in our value-added foods operations with the continued expansion of our healthy beverages platform and specifically our integrated aseptic beverage and refrigerated juice operations in San Bernardino, which officially became operational in the second quarter.

The Allentown aseptic processing and filling expansion activities remain on track, with a scheduled start-up in the fourth quarter of 2015, and when complete will position us with strategically located processing facilities in the West, Midwest, and the East. In addition, we expect to complete our capability upgrades in our Carson City nutritional bar facility by the end of August and are in the process of completing packaging and efficiency upgrades at a number of other operations.

As mentioned, we became the first company in the US to have a food manufacturing facility receive PVP verified non-GMO recognition from the USDA. This is consistent with our commitment to non-GMO and organic food products, which are in high demand with today's consumers. We look forward to implementing the USDA PVP program at other SunOpta facilities across our vertically integrated platform.

There is a very tight supply of organic raw materials and we continue to take proactive steps to secure ingredients from all over the world to support our global customers, as demand continues to outpace supply. During the quarter, we increased our ownership position in our organic sesame hulling joint venture in Ethiopia, assuming management control of the operation in order to expand volumes and improve profitability. Our global ingredient segment exports these materials to worldwide markets to be used in the food industry, including our own business, and we believe this is an important step as we continue to leverage our global sourcing portfolio.

Another exciting development is the opening of our new SunOpta Innovation Center at our offices in Edina, Minnesota. We strongly believe product innovation is a key element of our strategy to bring compelling and on-trend better-for-you product offerings to our customers. Thus far, we are receiving great feedback from the development of this strategic initiative, which enhances the way we do R&D, taking innovative ideas proactively to our extensive customer base, as well as through the traditional, more reactive partnerships we have developed.

Focusing on the second-quarter results, our global ingredient segment continued to perform very well as we leverage our platform across the Company, but this performance wasn't enough to offset a challenging quarter in the consumer products segment. Our adjusted earnings were $0.08 per diluted common share, excluding the results of noncore and discontinued operations, as well as severance and acquisition-related expenses. Rob will discuss our financial performance in greater detail in a moment.

We realize we have work to do in order to get our consumer products segment where we expect it to be, but we believe the future outlook is positive, based on the number of opportunities in our pipeline, as well as we diversify the business and better position for our long-term growth.

Our foundation is in place and our transformation is accelerating. We're playing in the right markets at the right time, with organic and better-for-you ingredients and consumer products increasingly important to today's consumer.

To conclude, we have accomplished a great deal in the first six months of 2015, and our team remains focused on enhancing our performance in the consumer products segment, integrating and realizing the benefits of our acquisitions and growth projects, as well as the continued execution of our core strategies across our portfolio to better leverage our integrated platform over the next several years.

With that, I will turn the call over to Rik, who will provide further details on our food business. Rik?

Rik Jacobs - *SunOpta Inc. - President, COO*

Thanks, Steve, and good morning, everyone. I will first focus on the performance of our two reporting segments within SunOpta foods, global ingredients and consumer products. Then I will review the accretive strategic acquisitions that position us well for the future and how they help us transform our Company.

First, our global ingredients segment continued to perform well. The revenue with the internationally sourced organic raw materials and ingredients grew 19% on a like-for-like basis, driven by higher volume of cocoa, sweeteners, fruits and vegetables, as well as ancient grains.

On the domestic side, strong volumes in feed and non-GMO corn and soy were offset by lower sunflower sales as a result of our facility rationalization and a strong US dollar that hurt our export sales.

On a like-for-like basis, revenue here has declined about 3%, but became more profitable as we exited low-margin business. Operating margins were strong at 6.4%, and while this was in the long-term target range of 6% to 8%, keep in mind that the second quarter is typically the strongest for this segment from a margin perspective as there is a higher mix of crop input sales in the April to June time frame.

Nonetheless, we are extremely pleased to see this segment accelerate as progress toward the long-term operating margin target that we've established, and so far our 2015 North American crops are doing well.

The key to further top- and bottom-line growth for this segment is access to the right raw materials at the right time and at a right cost. Given our extensive worldwide expertise and network, we are confident that we can do so better than anyone in the business.

Now moving on to our consumer products segment, we had a challenging quarter where revenue was down 7.3% versus the same quarter last year and gross margins were significantly impacted. The primary cause for this was lower volume in our aseptic plants, where our biggest customer was down more than 20% as a result of them losing distribution with a key natural foods retailer, a redesign of their package, coupled with an increase in their shelf price with all other retailers mainly due to an increase in their input cost.

At the same time, as you know, our capacity went up following the commissioning of new equipment, and the net result was lower fixed-cost absorption in our aseptic plants. Lower fixed-cost absorption also [burdened] our frozen fruit business, partially as a result of taking meaningful price increases. Volumes slowed down temporarily due to heavy customer buying in advance of the price increase going into effect.

And finally, we have been staffing up our San Bernardino plant where we are now bottling and extracting citrus products, but until we get to increased rates of utilization, facility profitability will be challenged.

Despite this difficult quarter in consumer products, we are confident that the business will begin to demonstrate year-over-year revenue increases in the back half of 2015, with increased acceleration as we approach 2016. Our confidence stems from our rebuilt pipeline, which was all made possible by our investment in incremental capacity and capability. Our job now is to convert this pipeline of opportunities to real sales volume.

Filling up the plants where we have underutilization, especially the aseptic and the juice plants, is a key first steps towards reaching our long-term target margins for the segment. Our pipeline in consumer products is made up of significant retailers and branded food companies and much of the growth is attributed to our focus on providing the lowest landed cost for our customers, as well as our proactive innovation efforts.

While we don't expect all of this to convert to sales in 2015, we will see growth and believe our positioning with many of these key accounts bodes well for us in 2016 and beyond.

Now, add to that our recent and transformative acquisitions of Citrusource, Sunrise Growers, and Niagara Natural, and all of you will appreciate that we're building a strong consumer products segment with leadership positions in three key categories -- healthy beverages, healthy frozen fruits, and healthy snacks.

Citrusource is part of our healthy beverage category, which also encompasses our aseptic offerings and other shelf-stable beverages. Growing our citrus platform with the key talent acquired with Citrusource is expected to fill up our San Marino plant over time and we are happy to report that Citrusource is performing in line with our expectations.

Our investment in aseptic facilities both in Allentown and Modesto positions us to provide an ever-growing customer base with the lowest landed cost covering a truly national footprint. For example, in our Modesto facility, we expect to more than double the number of customers serviced from that facility by the end of 2015. As volumes to these customers ramp up, it will mitigate the impact of any individual customer not performing to expectation, as was the case in this quarter.

The Sunrise Growers acquisition will be the largest acquisition we have undertaken and we see it as truly transformative. Sunrise is expected to position us as a leader in the $1 billion-plus and rapidly growing frozen fruit category. This category is dominated by private label, which is estimated to hold more than a 65% share.

Combined with emerging consumer trends and potential for substantially increased household penetration, we believe this acquisition presents us with a tremendous opportunity, which is both accretive and synergistic to our base business. We expect to realize over $10 million in procurement, logistical, and other operating synergies by the end of 2017 and Sunrise Growers allows us to deepen our relationship with a number of large customers. They will also bring with it a new set of customers in both the retail and food service channels, which we believe provides us with another avenue to further expand our consumer product and ingredient offerings.

Now, finally, the accretive agreement announced today to acquire Niagara Natural Fruit Snack Company is a highly complementary and strategic acquisition to build out our healthy snacks category. With Niagara Natural, we will now be able to extend our market presence in fruit snacks, with coverage on both the East on the West Coast providing a competitively positioned platform to improve our customer service and generate operational and logistical synergies.

The owners of Niagara Natural have been in the fruit snacking business for more than 20 years and they will be a tremendous asset to our Company.

All three categories -- healthy beverages, healthy frozen fruit, and healthy snacks -- take full advantage of our vertically integrated platform as the vast majority of product inputs can be procured by leveraging our global sourcing capability. We also have aligned our R&D resources with these categories to ensure we will be at the forefront of innovation that satisfied emerging consumer trends.

We believe our focus on these key categories, in conjunction with our efforts to further streamline our portfolio, will expand our operating margins and accelerate our topline growth. With additional topline growth, we also expect to increasingly benefit from leveraging our scalable cost base.

So that concludes my review. I will turn the call over to Rob for a more detailed review of our financials.

Rob McKeracher - *SunOpta Inc. - VP, CFO*

Thanks, Rik, and good morning, everyone. I will focus more specifically on our financial results for the first quarter of 2015. Please note that the financial figures -- I am sorry, that's the second quarter of 2015.

Please note that the financial figures referenced on this call exclude the fiber and starch business, which was sold on December 22, 2014, and is reported as a discontinued operation.

Revenues for the second quarter of 2015 were $307 million, as compared to $328 million for the second quarter of 2014. After adjusting for the impact of changes, including commodity prices, foreign exchange rates, and product rationalizations, consolidated revenues decreased 3.2%. Revenues of Opta Minerals decreased 11.5% and SunOpta foods revenues decreased 2.2% versus the prior year.

The decrease in revenues is primarily due to lower volumes of aseptic beverages, snacks, and frozen retail products that is in the consumer products segment; decreased sunflower sales as a result of our footprint rationalization in that business in 2014; the effect of the decline in the euro on translating foreign revenues; and lower volumes of certain steel and industrial mineral products in Opta Minerals. Partially offsetting these declines were increased sales of organic raw materials and increased refrigerated juice sales as a result of the March 2015 acquisition of Citrusource.

We generated operating income of $9.7 million or 3.2% of revenues in the second quarter, compared to $16.7 million or 5.1% of revenues in the second quarter of 2014. The decline in operating income was primarily due to lower sales volume in consumer products, which also contributed to decreased plant efficiency via lower production volumes in our aseptic and frozen fruit plants; increased costs associated with the ramp-up of our premium juice operation; costs associated with our aseptic expansion in Allentown; and lower volumes of higher-margin steel products at Opta Minerals.

These pressures were partially offset by increased sales volume of organic ingredients and improved performance across our rationalized sunflower operations.

SunOpta foods' operating income, including corporate services, was $9 million or 3.2% of revenues, compared to $15.1 million or 5.2% of revenues in the second quarter of 2014.

Earnings for the second quarter of 2015 were $2 million or $0.03 per diluted common share, compared to $8.7 million or $0.13 per diluted common share in the second quarter of 2014. Excluding the results of non-core and discontinued operations, as well as severance and acquisition-related expenses, adjusted earnings were $0.08 per diluted common share in the second quarter of 2015. These earnings include approximately $300,000 of incremental costs related to the expansion activities at the Allentown aseptic facility scheduled to come online in the fourth quarter of 2015 and, as Rik alluded to previously, we continue to incur incremental cost as we ramp up our San Bernardino premium juice facility.

From a cash flow perspective, in the first half of 2015 we used $16.6 million in cash from continuing operations, compared to $20.8 million of cash provided from continuing operations during the first half of 2014. The decrease in cash provided from operations is mainly due to increased working capital levels as we continue to strategically secure organic raw materials that are often in short supply, thus fueling the growth in our global ingredients segment.

From an investing perspective during the first half of 2015, we used $28.7 million in cash, of which $14 million was used to fund the acquisitions of Citrusource and our increased ownership stake in Selet Hulling, while $15.4 million was used to fund capital expenditures mainly within our consumer products segment to expand our healthy beverages footprint and capabilities.

Our balance sheet remains strong, and at July 4, 2015, our consolidated debt, net of cash, was $153.5 million, reflecting a net debt to equity ratio of 0.43 to 1. Of this net debt, $42.5 million belongs to Opta Minerals, which is nonrecourse to SunOpta. Excluding this amount, our net debt to equity ratio is 0.31 to 1 within our core foods business at July 4, 2015.

Our acquisition of Niagara Natural, which was announced today, consisted of upfront cash consideration of approximately $6.7 million financed via our existing North American credit facilities.

Looking ahead, we expect to complete the previously announced acquisition of Sunrise Growers in the fall of 2015. Our intention is to finance the acquisition through a combination of debt and equity. We have received committed financing in support of the transaction from our lenders, subject to customary conditions. The transaction is valued at approximately $450 million, and following close, we expect to continue to have access to capital to support further strategic growth and acquisition initiatives, aided by the increased collateral base and the expanded free cash flow that is expected to come from the combined business.

I will now turn the call over to Steve for some closing remarks. Steve?

Steve Bromley - *SunOpta Inc. - CEO*

Thanks, Rob.

We believe SunOpta's strategic foundation is in place and we have many exciting growth opportunities ahead as we continue to transform our business. Our Board of Directors and management have confidence in SunOpta's strategies and competitive positioning and growing sectors through our global ingredients and consumer product segments.

SunOpta's focus has been and must continue to be on leveraging the competitive advantages of the integrated global operating platform we have created to accelerate growth and performance. I am proud of what we have accomplished at SunOpta, including refocusing and realigning our business on core growing segments, disposing of non-core assets, and creating competitive advantage through our global operating platform.

I wanted to take this opportunity to congratulate Rik on his promotion to CEO this fall. I have worked hand in hand with Rik over the last three years. He is a dynamic, talented leader and is well suited to lead SunOpta with his relentless focus on execution to facilitate our next level of growth.

Many of you know Rik from your exposure to him through quarterly conference calls or at industry trade shows. What you may not have as much visibility into is the extraordinary work Rik has undertaken since he joined SunOpta in late 2012. Together, we have enhanced and revitalized our strategies and operating targets, improved processes, and changed the structure and the talent required to execute.

In addition to his deep insight and knowledge of SunOpta and the industry, Rik has exceptional global food industry experience, developed over many years internationally at Tetra Pak, Pepsico, Royal Dutch Ahold, and The Coca-Cola Company. I look forward to his future contributions as CEO and I will continue to support him and the Board in the transition and on key corporate development activities as the year unfolds. In the coming weeks and months, the two of us look forward to meeting with many of you from the investment community.

Going forward, our management team remains focused on our three key drivers to improve our overall business. One, to grow areas of our business that offer the highest margins and enhance our integrated field-to-table business model. Two, cost management, with over 150 active cost-reduction projects identified primarily as we evaluate efficiencies across our supply chain. And three, increased platform leverage as we accelerate our growth and optimize our existing infrastructure.

So that concludes our prepared remarks. I would like to thank you for joining us on the call today, and with that, Rob, Rik, and I will turn it back over to the operator and we are available to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Bob Gibson, Octagon.

Bob Gibson - *Octagon Capital - Analyst*

A couple of quick things. First, on your recent acquisition, I just noticed that they have got a sales facility in England. Do you think this might be a big push for you as far as Europe and just some color on that?

Steve Bromley - *SunOpta Inc. - CEO*

Yes, they did have a small sales office there, but they've consolidated that in with their existing operation, so in fact I don't believe that exist anymore, although they still (multiple speakers) that market.

Bob Gibson - *Octagon Capital - Analyst*

Okay. And maybe you could just quantify the effects of foreign exchange, commodity prices in your topline.

Rob McKeracher - *SunOpta Inc. - VP, CFO*

It's Rob. The biggest impact for us in terms of foreign exchange in the course is a large component of the global ingredients segment is European functional currency. So, the effect of the rate this year versus last year is between $9 million and $10 million on our topline. And from a commodity perspective and rationalization, so that would be equally sized mainly again within that segment.

Of course, a lot of the commodities that we handle, whether it be soy, corn, or even some of the organic commodities, are generally trending down across the board versus a year ago.

Bob Gibson - *Octagon Capital - Analyst*

Okay, great. Thanks very much, guys.

Operator

Mitch Pinheiro, Imperial Capital.

Mitch Pinheiro - *Imperial Capital - Analyst*

Rob, staying on the last question, you say equally sized, the commodity and the SKU rationalization. How big would those two be together? Could you --

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Rob McKeracher - *SunOpta Inc. - VP, CFO*

Yes, so the $9 million, the $10 million in the foreign exchange and a little bit less than that would have been the commodities and the footprint rationalization, which to me is almost a SKU rationalization, so you're talking $15 million, $16 million there, Rich. (multiple speakers)

Mitch Pinheiro - *Imperial Capital - Analyst*

$15 million, $16 million in total of the commodity and the rationalization?

Rob McKeracher - *SunOpta Inc. - VP, CFO*

Yes, exactly. That is on the key to take away, obviously, and that is why we report the adjusted revenue number because certainly that segment of ours, more than any other one, can be heavily influenced by those extraneous market factors, being commodity prices and foreign exchange.

Mitch Pinheiro - *Imperial Capital - Analyst*

Okay. Now, so, a couple questions, one on San Bernardino. Why is that still being commissioned? Shouldn't that be commissioned last quarter and ready to roll? And why -- I would think, wouldn't this be ramping? Wouldn't you be bringing back in the business that you have said to third parties? Wouldn't that be coming back in by now?

Rik Jacobs - *SunOpta Inc. - President, COO*

Yes, you are absolutely right. In the second quarter, we did commission it. We did start to ramp up.

The ramp-up is going to take a little bit of time with both our volume, as well as the Citrusource volume. One other key element of San Bernardino is extraction, which is basically more than 50% of that facility, if you look at the revenue and the profitability stream. And on that one, we are having a solid pipeline over there, but have not yet converted enough of that to keep pace with the ramp-up that we have been doing in terms of the cost base that we've established there now.

So, we expect that to continue to ramp on the bottling side, for sure, that's going very rapidly now, and on the extraction side as we basically get new customers in, especially on the organic side when it comes to both orange and lemon.

Mitch Pinheiro - *Imperial Capital - Analyst*

So when does San Bernardino -- this has probably been a question on every conference call for the last two years, but when does San Bernardino become -- reach the right level of ROI that was expected at the beginning of the project?

Rik Jacobs - *SunOpta Inc. - President, COO*

That should happen in 2016, so I would say that going forward San Bernardino will stop taking away as much as it has been over the last two years, as you pointed out, and in 2016 it will start contributing.

Mitch Pinheiro - *Imperial Capital - Analyst*

Okay. But it will still be a drag to the remainder of this year?

Rik Jacobs - *SunOpta Inc. - President, COO*

As we ramp up, depending on the speed of us converting the pipeline, it will either be a drag or be a zero maybe towards the end of the fourth quarter. 2016, it should contribute.

Mitch Pinheiro - *Imperial Capital - Analyst*

Okay. And then with regard to Modesto, I think you talked about you expect that to ramp up, but what gives you the confidence in that? Do you have an order book that's full or why does Modesto ramp when the whole aseptic business has been struggling here last couple quarters?

Rik Jacobs - *SunOpta Inc. - President, COO*

I think, as I alluded to in my prepared remarks, it is not the entire business that has been struggling. It has been our largest customer that has struggled very, very significantly as a result of them taking a price increase while others did not, which made them, obviously, a lot less attractive on the shelf.

The reason that I have the confidence is because of our order book, and order book consists of contracts signed, as well as the pipeline, which consists of customers that we will convert and don't have the contract yet. I am confident that we will grow that business in Q3 and Q4.

Mitch Pinheiro - *Imperial Capital - Analyst*

Okay. And as far as Allentown, I forgot. I can't remember what you said about Allentown. I know there is some expansion costs there, but could you talk about when you think it is going to be up and running?

Rik Jacobs - *SunOpta Inc. - President, COO*

Yes, it will be up and running in the fourth quarter is what we said. We expect it to be up and running by the middle of October. Basically, if you were to go there now, the processing equipment is in, the line is in. And it is all about doing the proper testing right now before we run the food products across the line.

Mitch Pinheiro - *Imperial Capital - Analyst*

Okay. Thanks for your time.

Operator

Chris Krueger, Lake Street Capital.

Chris Krueger - *Lake Street Capital - Analyst*

You indicated -- you went through this quickly on the call -- on your presentation on the aseptic beverage. You talked about -- I believe you said your largest customer was down 20%. Can you go over that again and is it expected to come back?

Rik Jacobs - *SunOpta Inc. - President, COO*

Yes, I can go over that again. So the largest customer, they decreased by 20%. We already saw some of those trends in Q1 accelerated into Q2, three primary reasons.

One, they lost distribution with a significant natural foods retailer. Two, they went through a redesign of their packaging, which means that you try and run your inventories down to zero before you build them back up again. And number three, they took a price increase across the retail landscape in order to keep up with their increased input costs. Basically, it is in the nondairy segment and it is on a nut-based nondairy segment. I can't say more than that.

Chris Krueger - *Lake Street Capital - Analyst*

Okay. All right. Can you give us an update on the aseptic pouch business? I don't think you said much about that.

Rik Jacobs - *SunOpta Inc. - President, COO*

The aseptic pouch business is good. Our facilities are full -- well, are fairly full, and in fact, we will be launching new pouches with the two largest retailers in the land in Q4.

Chris Krueger - *Lake Street Capital - Analyst*

Okay. And then, last, can you remind me what your operating-margin goal is for the consumer products segment, and when do you think you can get to that range?

Rik Jacobs - *SunOpta Inc. - President, COO*

Yes, the targets have not changed. We have basically said -- go ahead, Rob, sorry.

Rob McKeracher - *SunOpta Inc. - VP, CFO*

Yes, well, of course, Chris, 11% to 13% is our target operating margin range and we are staying firm that's a 2017 time frame to achieve that.

Chris Krueger - *Lake Street Capital - Analyst*

All right, thanks. That's all I got.

Operator

(Operator Instructions). Eric Gottlieb.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

I'm trying to get some details into -- you mentioned the volume was down in aseptic beverages, snacks, and frozen retail. Can you detail exactly how much it was down in each one of those?

Rob McKeracher - *SunOpta Inc. - VP, CFO*

Yes, sure. And, obviously, this will be published as our 10-Q gets filed, which we expect to be filed no later than tomorrow.

In terms of the beverage side of the business, you're looking at about a $9.4 million decrease quarter over quarter and really driven by the main reasons that Rik has already alluded to, I guess, on the questions fielded by the last two callers.

The balance of that, you're looking at across our fruit business and consumer, frozen fruit, as well as we have the fruit ingredient, fruit topping business, that was about a $2.7 million decline. And about $4.9 million in the rest of our snack business, and that really comprises the bulk of the change you can see quarter over quarter on the consumer products segment.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Okay, and how much (multiple speakers)

Rob McKeracher - *SunOpta Inc. - VP, CFO*

All offset, of course, by the increase in the juice business as a result of our Citrusource acquisition.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Okay, and how much of that -- I will get to that off-line. Utilization rate at Modesto, how much was it down and what do you think it exactly cost you?

Rik Jacobs - *SunOpta Inc. - President, COO*

I can talk to Rob, but what we had to do in the quarter because of the declined volumes, we actually had to go dark in our facility for about a week, and obviously we had to change our shift pattern as well.

But as we look at Modesto right now with the new shift pattern, it is full and looking forward to, as we convert our pipeline, to them going back to a full 24/7 schedule.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Okay, great. And then, that large customer that was down 20%, that price gap on shelf that they experienced due to their price increase, have you seen their competitors come up and meet them at all?

Rik Jacobs - *SunOpta Inc. - President, COO*

No, we have not. That's the biggest issue why they have such a significant slowdown.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Okay, fair enough. Turning back to your business, you briefly mentioned packaging and efficiency projects underway. How much do you plan on gaining on those and at what cost?

Rik Jacobs - *SunOpta Inc. - President, COO*

If you look at the packaging projects we have got underway, we have basically -- we are in the process of installing three different standup pouch lines at three different facilities right now. That is really a package that is ramping up.

If you look at our efficiency projects -- I think Steve in his closing comments alluded to it -- that we have 150 cost projects ongoing. I think the most significant ones of those are -- that should be coming to fruition the soonest are sitting in the logistics and the supply chain.

We have outsourced our volume to a third-party logistics provider that is consolidating. Just as a reminder, logistics is about a $40 million cost to the Company if you include warehousing in that. So, we see that that is a very significant -- one of the more significant and close-in opportunities to reduce our costs in the supply chain.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Got it.

Rik Jacobs - *SunOpta Inc. - President, COO*

The other one that I think is obviously -- that is the biggest impact on cost, as everybody will realize, is getting the right absorption in your factories, and that is driven by getting the right volume, and that is driven by making sure we have the right pipeline.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Okay. Then lastly, you mentioned that the cost of fruit increased. I'm wondering why you weren't able to pass along those costs, and is there a lag there? Do you expect to recoup some of that in the Q3?

Rik Jacobs - *SunOpta Inc. - President, COO*

What we did in Q2 is we did increase the prices. What we had a lag of and we didn't increase the prices in Q1, which is why the results in Q1 weren't good. Then in Q2, we increased the prices and that has led to a temporary volume decline as the retailers basically lowered in at the cheaper prices. Let's put it that way. So (multiple speakers)

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Got it. Was that in any specific fruit or any specific category or just general?

Rik Jacobs - *SunOpta Inc. - President, COO*

No, that's basically on our IQF fruit business, which is a significant business. That's about $70 million on an annual basis in terms of its revenue.

So when you look at the temporary revenue decline in that segment, it is because of both load in, but obviously the load in was at the low price and now that we've taken the price increases, we should see that volume coming -- starting to come back in Q3.

Eric Gottlieb - *D.A. Davidson & Co. - Analyst*

Got it. All right. Thanks for the color. I will pass it on.

Operator

Christine Healy, Scotiabank.

Christine Healy - *Scotiabank - Analyst*

I think we have gone over a lot of the key operating questions. I have some questions for Rob, actually, just on the financials.

I guess, first, I noticed that you guys adjusted your earnings to exclude Opta Minerals. I think this is the first time I have seen you guys do this and I have covered you quite a while, so I am just wondering if we should read something into this, if there is any particular reason why you did that? Couldn't help but notice that Opta was supposed to report today and they didn't, so maybe you can tell me why you guys did that?

Rob McKeracher - *SunOpta Inc. - VP, CFO*

To be honest, Christine, for the most part as we have been having to put out adjusted earnings, whether it be to non-cash impairment or things that are truly what we believe nonrecurring, more often than not they come from minerals. We thought it was meaningful for investors to see more deeply into what the core business is doing, and for that reason we said why don't we, as part of our definition of adjusted earnings, take minerals out altogether or at least highlight what the true contribution, or in this case, take, was that impacted the quarter.

Christine Healy - *Scotiabank - Analyst*

Okay, fair enough. And then, a couple of more questions for you, Rob. Normally, I would ask these off-line because they are more housekeeping, but in this case there are pretty big differences and drove a good chunk of the EPS miss, for me anyways. The first is your interest expense was quite a bit higher and, secondly, your tax rate was 80% in the quarter, so maybe you can speak to those two.

Rob McKeracher - *SunOpta Inc. - VP, CFO*

Yes, sure. What I can say is that the deviation from expectation is really, again, a minerals affect, so minerals certainly reported a much larger -- contributed much more interest expense on us this quarter.

A big factor of that had to do with an acceleration of the, I guess, amortization of their deferred financing fees, which typically amortize through the [agency] expense line, so that caused a spike there. Again, on the adjusted earnings side, that is removed.

And similarly from a tax perspective, minerals was forced to take a valuation allowance against some of their tax assets, thereby increasing our tax rates, I believe, 80% in the quarter. I would suggest that without that -- without the valuation allowances and the discrete tax adjustments they took, our effective tax rate would've been more in the range of 35 -- 34%, 35%. So, all the anomalies there are minerals driven.

Christine Healy - *Scotiabank - Analyst*

Okay, thanks. That's really helpful. Normally, I have picked through their financials already.

And then, I guess, just lastly your CapEx. It is trending below, I guess, where you guys said you would be for the year. So has there been a change in your spending timing or should we expect it maybe to pick up more in the second half?

Rob McKeracher - *SunOpta Inc. - VP, CFO*

Definitely, certainly. There has been no change, like I said, in the projects, so to speak. Of course, we have got some fairly sizable ones on the go, most notably Allentown and that expansion. So you should see some pick up there through the back half. There is no big deviation, certainly in our expectation, on our capital investment.

Christine Healy - *Scotiabank - Analyst*

So $35 million to $40 million, that's still where you are targeting?

Rob McKeracher - *SunOpta Inc. - VP, CFO*

In the $40 million, give or take, range I think would be a fair expectation.

Christine Healy - *Scotiabank - Analyst*

Okay, thanks so much. Appreciate it.

Operator

(Operator Instructions). Ladies and gentlemen, this concludes today's question-and-answer session. I would now like to turn the call back over to Mr. Bromley for any closing remarks.

Steve Bromley - *SunOpta Inc. - CEO*

Okay, thanks very much, everyone, for joining the call today. We look forward to speaking with everyone over the next period of time. Hope you have a great day and we will talk soon. Thank you.

Operator

Ladies and gentlemen, thank you for attending today's conference. This does conclude today's program. You may now disconnect. Everyone, have a great day.
