PARTICIPANTS

Corporate Participants

Steven R. Bromley – Chief Executive Officer & Non-Independent Director, SunOpta, Inc.
Robert McKeracher – Chief Financial Officer & Vice President, SunOpta, Inc.
Hendrik Jacobs – President & Chief Operating Officer, SunOpta, Inc.
John M. Ruelle – Chief Administrative Officer & Vice President, SunOpta, Inc.

Other Participants

Christine Healy – Analyst, Scotia Capital Markets
Tim J. Tiberio – Analyst, Miller Tabak + Co. LLC
Mitch B. Pinheiro – Analyst, Imperial Capital LLC
Chris Krueger – Analyst, Lake Street Capital Markets LLC
Scott Van Winkle – Analyst, Canaccord Genuity, Inc.
Keith E. Howlett – Analyst, Desjardins Securities, Inc.
Brennan J. Matthews – Analyst, Northland Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to SunOpta, Inc.'s Third Quarter Fiscal 2013 Earnings Conference Call. By now, everyone should have had access to the earnings press release that was issued after the close of business yesterday. If you've not received this release, it is available on the Investor Relations portion of SunOpta's website at www.sunopta.com. This call is being webcast and a transcription will be available on the company's website.

Before we begin, we would like to remind everyone that the prepared remarks contain forward-looking statements, and management may make additional forward-looking statements in response to your questions. These statements do not guarantee future performance, and therefore undue reliance should not be placed upon them.

We refer you all to the risk factors contained in SunOpta's press release issued yesterday, the company's third quarter fiscal 2013 quarterly report on Form 10-Q that will be issued at close of business today, 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 in any forward-looking statements.

Finally, we would also 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 in the company's press release issued yesterday.

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

Steven R. Bromley, Chief Executive Officer & Non-Independent Director

Thank you. Good morning, everyone. Thanks for joining us on the call today. With me today are Rob McKeracher, our Vice President and Chief Financial Officer; Rik Jacobs, our President and Chief Operating Officer; and John Ruelle, our Senior Vice President of Corporate Development and Chief Administrative Officer.

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On today's call, I will provide you with a brief overview of our third quarter 2013 financial results and the status of our key strategic initiatives; then, Rob will discuss our third quarter financial results in more detail; and Rik will provide an update on our core foods operating segments. Finally, I will provide a few closing remarks, and then we'll open up the call to questions.

In the third quarter of 2013, we generated record revenues due to continued momentum in our core natural and organic foods business. Specifically, our growth was driven by our consumer products categories including re-sealable pouches and aseptic beverages, increased demand and prices for internationally sourced organic raw materials and higher sales of value-added food ingredients.

This strong growth across our key product categories enabled us to achieve record third quarter revenues of $303 million, an increase of 8.4% versus the third quarter last year. 2013 has thus far been a year of record performance from a revenue point of view. We continued to see strong growth in our value-added product offerings during the quarter, and with a number of our expansion projects now coming online and starting to ramp-up; we should realize the benefits of these investments going forward.

Despite our strong record – strong revenue growth, pardon me, we incurred incremental expenses in the quarter related to start-up and plant retrofit costs and these weighed on our operating earnings. Rik will explain these in further detail on the call.

In addition, our results were impacted by continued processing challenges in our sunflower operations, as well as cyclical weakness in the steel and infrastructure segments within our non-core holding Opta Minerals.

We also recognized non-cash impairment charges in Opta Minerals along with other expenses totaling $1.9 million after-tax or $0.03 per diluted common share. While we experienced several challenges during the quarter, our team continued to focus on our core strategies, and we believe these efforts will lead to increased operating margins and profitability long-term. We will discuss these in further detail on the call today.

As I mentioned last quarter, we are currently realigning our food operations to align with our strategies, simplify our operations, better serve our customers, and maximize our growth potential. We are on track with these changes and began operating in our new segments at the start of the fourth quarter.

This realignment results in three food-based operating segments, raw materials sourcing and supply, value-added ingredients, and consumer packaged products, each of which will be focused on growth in line with consumers' demands for healthy, natural and organic food products.

At the same time, we have added a number of key leadership resources in sales, operations, human resources, and information technology to help drive our strategic priorities and objectives.

I would, once again, like to reiterate our three core strategies, which form the basis of our ongoing initiatives. One, to focus on becoming a pure-play natural and organic foods company; two, to aggressively grow our value-added consumer packaged foods and ingredients portfolio; and three, to leverage our integrated platform.

We are progressing on all these fronts, and when combined with growing interest in healthy eating and healthy living around the world, we believe we are well positioned to capitalize on this long-term trend.

With that, I will turn the call over to Rob to discuss our financial performance. Rob?

Robert McKeracher, Chief Financial Officer & Vice President

Thanks, Steve, and good morning, everyone. I'll take the next few minutes to review our financial results for the third quarter and nine months ended September 28, 2013. Please note that, unless otherwise noted, all figures discussed today are in U.S. dollars and are occasionally rounded to the nearest million.

As Steve mentioned, for the third quarter of 2013, the company reported record revenues of $303 million, an increase of 8.4% compared to revenues of $279 million during the third quarter last year. Excluding the impact of changes, including acquisitions, foreign exchange, commodity pricing and rationalized product lines, the consolidated base growth rate for the company was approximately 8% and over 10% within SunOpta Foods.

All operating segments of the company reported increased revenues versus the third quarter of 2012. Operating income for the third quarter of 2013 was $9.8 million versus $12.7 million in the prior year. While progress is made in ingredient and consumer product categories, we experienced an overall decline versus the third quarter of last year, which can be explained by three primary areas.

First, operating margin during the quarter was negatively impacted by startup costs related to our cocoa processing facility located in The Netherlands, as well as retrofit cost related to our premium juice facility in California.

Second, lower sunflower processing yields and reduced by-product values, due mainly to smaller and lighter weight seeds, put downward pressure on operating income in the Grains and Foods Group.

And third, Opta Minerals continued to incur costs related to the integration of recent acquisitions in addition to the continued cyclical weakness in both the steel and infrastructure sectors. On the positive side, Ingredients Group experienced a $0.8 million improvement in operating income compared to the third quarter of 2012 due mainly to increased sales and improved pricing for industrial and food service fruit ingredients.

As well, the Consumer Products Group increased operating income by $1.2 million, as a result of increased sales of re-sealable pouch products and healthy snacks, all despite ongoing costs associated with our integrated juice facility expansion. Rik will provide further details on a number of ongoing business developments within SunOpta Foods during his operational update in a few moments.

For the third quarter of 2013, the company reported earnings from continuing operations of $2.9 million or $0.04 per diluted common share, compared to earnings from continuing operations of $5.8 million or $0.09 per diluted common share for the third quarter of 2012. Included in the results for the third quarter is a non-cash goodwill impairment charge of $3.6 million related to Opta Minerals, as well as severance, facility restructuring, and long-lived asset write downs all reported in other expense for $0.8 million.

Excluding the non-cash goodwill impairment charge and the other expense, adjusted earnings from continuing operations in the third quarter of 2013 were $4.8 million, or $0.07 per diluted common share. In addition, adjusted earnings for the third quarter included approximately $2.6 million in pre-tax start-up, expansion and integration costs, or roughly $1.7 million after tax and minority interest. These costs have not been factored into the adjusted earnings amount that I just mentioned.

On a year-to-date basis, we reported record revenues of $897 million, an increase of 9.2% versus revenues of $821 million during the first three quarters of 2012 and realized EBITDA of $50.2

million and adjusted earnings from continuing operations of $17.1 million or $0.25 per diluted common share.

At September 28, 2013, we had total assets of $689 million and a net book value of $4.88 per outstanding common share. Our balance sheet remains strong reflecting a net debt to equity ratio of 0.57 to 1.00.

On a year-to-date basis, the company generated $31.8 million in cash from continuing operations as compared to $38 million during the first three quarters of 2012. The reduction in operating cash flows reflects increased investment in working capital to support our growing business.

At September 28, 2013, we had approximately $100 million in unused capacity within our current debt facilities that funds SunOpta Foods. When combined with our positive operating cash flows, we continue to have sufficient access to capital to support our growth projects.

For fiscal 2013, we expect capital spending to be in the range of $38 million to $43 million with most of the investment allocated to our consumer packaged and value-added ingredient operations.

Our third quarter capital expenditures of $10.8 million and $32.8 million year-to-date include spending on our new cocoa processing facility in Holland, expansion activities to install three new lines in our aseptic beverage facilities, processing and capabilities enhancements at our premium juice, snack and pouch businesses within the Consumer Products Group, plus investment and maintenance spending across a number of other business units.

With that, I'll now turn the call over to Rik, who will discuss our third quarter operational performance in more detail.

Hendrik Jacobs, President & Chief Operating Officer

Thanks, Rob, and good morning, everyone. In the third quarter, we continued to focus on our strategy to expand and enhance our value-added consumer packaged and ingredients capabilities. These efforts have enabled us to increase operating income in the consumer packaged and ingredients segment versus the prior year period. We believe that consumer packaged goods and value-added ingredients offer the strongest growth and profitability potential for the company and we will continue to invest in these areas long-term.

While we're still in the early stages, we've continued with our plan to leverage our integrated foods platform across the business, which will allow us to proactively share best practices from sales and administration through procurement manufacturing and logistics. As Steve mentioned earlier, we have added a number of resources to help drive these efforts.

Moving on, I will now discuss the performance of each of our operating groups within SunOpta Foods. In the Grains and Foods Group revenue increased compared to the same quarter last year. This was primarily due to sales of raw grains including soybean, corn and organic feed, as well as higher revenues in the packaged aseptic business.

As Steve mentioned, we realized strong demand for our products. As a reminder, last year, we generated exceptional margins on organic feed, during Q2 and Q3, due to the drought conditions, which drove up prices of raw input materials, while we were carrying lower cost inventory.

Going forward, we expect organic feed to generate additional margins as we return to a normal position in the market. While the quality of the crop coming off the field this year appears to be good, as we mentioned on the last call, due to the wet spring, a number of acres went unplanted,

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which will impact the quantity for sale from North American sources. In 2014, we will, once again, leverage our unique international sourcing capabilities to somewhat offset North American supply.

Our aseptically packaged beverage platform continued to grow in the quarter and we continue to realize strength in this key segment of our consumer products portfolio. Last quarter, we announced three new lines and we began shipping new products as planned in July. The expansions further enhanced growth in our current non-dairy categories, as well as open up new opportunities in adjacent categories.

We are now entering the organic dairy and nutritional beverage segments, both of which are large and growing. Looking ahead, we plan to aggressively pursue market share, customer share, and new product categories, which you believe will continue to position us as the leading integrated aseptic manufacturer in North America.

Turning to our sunflower business, we have continued to experience lower revenue and gross margins versus prior year. These results were due to a shift in our customer mix, increased cost related to processing, low by-product pricing, and increased international competition. To address the continued margin pressure, we are aggressively pursuing cost reductions in our factories and supply chain.

For example, we have reduced our international shipping cost by transloading at various ports, which will save us more than $300,000 a year and in our factories, we are putting new operating procedures in place to further increase our yields.

Finally, we are evaluating our seed development and planting strategy in conjunction with our recently acquired Bulgarian operations so that we are more closely aligned with the demand from our customers all over the world. The harvest is much later this year and as a result, the impact of new crops will be realized much later in the year versus what we experienced last year. We are building a sustainable global platform based on marketing competitive trends and should therefore see significant improvement in 2014.

Now, focusing on our Ingredients Group, we realized solid revenue growth of 20% versus the third quarter last year and increased operating income although operating margin remained relatively flat. Performance in the food side of the business continued to be ahead of our expectations, while somewhat lower in the fiber business, which means we continue to experience under-utilization in some of the fiber plants. We believe that while cost controls in this segment remain top priority, ultimately, we have to attract new customers with new applications for our pure products as well as new ones.

It is encouraging to note that these new customers and applications are now offsetting the continued weakness in the cereal and bakery categories, which have been our traditional strong holds. Overall, we have a good platform in our Ingredients Group and are optimistic about our longer term potential.

Turning our attention to the Consumer Products Group, we also realized increases in both revenue and operating income vis-à-vis the third quarter last year. Revenue in the Consumer Products Group increased 14% and our gross margin is now north of 7%, while operating margins are at 1%. The targeted for operating margin will ultimately be above 10% when we realize all the benefits of ongoing investments. While we're not quite able to repeat the performance of the second quarter of this year, due to the timing of several promotions, which I mentioned in the last update, we expect that the investments in our business will lead to continued top and bottom line growth also in the short-term.

After all, the natural and organic category we participate in are by and large continuing to grow and we aim to get more than our fair share of this growth. The IQF frozen fruits business continues to

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outperform our internal expectations and revenue was up 14% on a year-over-year basis. We remain optimistic for this business as we continue to look at new products and customers to fill the land capacity.

As I reported last time, we have planned to bring our San Bernardino, California refrigerated premium juice facility fully online in the third quarter. Unfortunately, delays in both the arrival of the equipment as well as government permits have led to timing setbacks which contributed to sizable margin loss in that facility, which, therefore, also had a negative impact on our overall Consumer Products operating margins in the quarter. We continue to work through these efforts and now expect these costs to extend through the full fourth quarter and into the first quarter of 2014 as the facilities run online.

Finally, in our healthy snacks business, we saw increases in both revenue and margin versus the same quarter last year. We expect this growth will continue and Q4 should be the strongest of the year for both food and protein. We are pleased with our progress in this area of our business and is evident that our cost control bade off and that have led to improved operating margins. Looking ahead, we will continue to innovate to drive revenue and margin growth in these categories.

In conclusion, our Consumer Products Group continues to grow double-digits from a revenue standpoint and we anticipate incremental margin improvement to accelerate as more of a capital investments take hold to either drive more output with the same SG&A or improve our efficiencies. This is the segment where we add most value to our customers, which should allow us to retain the highest margins of all the segments we do business in long-term.

Finally, our International Foods Group revenue performed well with an increase of approximately 15% as demand remained strong in the North American business while trends in Europe are improving. The increase in revenue was not matched by a similar increase in margin. One of the key factors was the start-up and related inventory buildup for our cocoa factory. We build up stock in order to feed into cocoa factory, and in the meantime, the price of cocoa has sought to new heights.

Of course, we hedged our cocoa position. But until we sell our inventory, we are required to record mark-to-market adjustments to reflect unrealized losses of these hedges. The cocoa facility has now been commissioned, so we expect to unwind our hedges over the coming quarters. With positive sign on global customer deals and an overall improving economic environment in Europe, we remain optimistic in our ability to continue to grow our revenue and margin in this segment.

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

Steven R. Bromley, Chief Executive Officer & Non-Independent Director

Thanks, Rik. In closing, we continue to believe that interest in healthy eating is a key long-term global trend and feel we are well positioned to capitalize on future industry growth. We remain committed to our three core strategies of one, becoming a pure-play natural and organic foods company; two, aggressively growing our value-added ingredient and consumer products portfolios and three, leveraging our integrated platform.

Through our continued growth and realignment initiatives, we are progressing on these fronts and we remain committed to reviewing all options as it relates to our non-core holdings and to maximize shareholder value, and in doing so, create additional capital that can be reinvested in our global foods platform.

To conclude, we believe we are taking necessary steps that will position our company well in the growing healthy food space. Our team, which includes recent key additions, is working to

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consistently manage the controllable aspects of our business and to progress on the execution of our core strategies.

With that – and I apologize for the frog in my throat, with that, I'll turn the call over to the operator for questions. Operator?

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Christine Healy from Scotia Bank. Your line is open.

<Q – Christine Healy – Scotia Capital Markets>: Hi, guys.

<A – Steve Bromley – SunOpta, Inc.>: Hello.

<Q – Christine Healy – Scotia Capital Markets>: First question is just on the Consumer Products segment, can you talk about how the Allentown plant has been performing in the fourth quarter? Is it ramping up as planned? Are volumes being taken up? And when would you expect that – those additional two lines could reach capacity?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, in the third quarter you mean, and...

<Q – Christine Healy – Scotia Capital Markets>: Oh sorry, in the fourth quarter, could you just put it on line in the third, so how is it doing, I guess, since commissioning?

<A – Rik Jacobs – SunOpta, Inc.>: Okay. So since commissioning, it's doing well. We are now about 75% full on the four lines that we have there. And so we – and we have a new customer in a new category coming on board in Q4. So we expect to continue to fill up these lines over the course of the next two quarters I would say.

<Q – Christine Healy – Scotia Capital Markets>: Okay. And then in the International segment, you mentioned just that you're seeing some good trends in Europe. Can you speak to that? Are you seeing the levels get back to pre-downturn levels or is it more gradual than that?

<A – Rik Jacobs – SunOpta, Inc.>: It is a bit more gradual, but in the third quarter, they have seen significant growth and what is encouraging to see is that in Europe, we've been able to make some deals for next year that we haven't done in the last two years. So old customers are returning so to speak and that's encouraging to see. Especially, one of the key markets – our biggest market in Europe is actually Germany, and that one seems to be turning around the most.

<Q – Christine Healy – Scotia Capital Markets>: Okay. So your expectation that you should be able to see good demand for your new cocoa plant in Europe?

<A – Rik Jacobs – SunOpta, Inc.>: Absolutely, in Europe and as well as in the United States, in fact. So we do have some customers also in the United States. But the majority of that will indeed be sold in Europe. But – and again, we have made a lot of investments in our cocoa facility and in the Bulgarian sunflower facility internationally. Those obviously will not repeat in the next year. So we should see improved margins as well.

<Q – Christine Healy – Scotia Capital Markets>: Okay, great. I guess just lastly, probably, for Steve, Opta Minerals have some negative headlines early this morning that they have reached some financial covenant, so just wanted to confirm with you that [ph] that is (21:11) fully non-recourse to SunOpta.

<A – Steve Bromley – SunOpta, Inc.>: Yeah, Christine, they did reach their third quarter covenant. They have a waiver from the bank, and they're in the process of putting an amendment in place going forward. And so, I think everything is under control there. And yes, it is fully non-recourse to SunOpta.

<Q – Christine Healy – Scotia Capital Markets>: Great. Thanks, guys.

<A – Steve Bromley – SunOpta, Inc.>: Thanks, Christine.

Operator: Thank you. Our next question comes from Tim Tiberio from Miller Tabak. Your line is open.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Good morning, everyone. Thanks for taking my question. Can you maybe just give us a little bit more background of what's happening at San Bernardino? And did you have, I guess, contracts and customers that were committed there ahead of this announcement and how all that potentially play out both on the customer sourcing side and then resolving the ramp issue?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, so, first of all, if I take the second part of your question first, which is ramping up, so we have expected to start up this facility in the third quarter or in September basically. The first impact that we have was equipment delivery delays, because they are coming from overseas. And the second part is that we have permitting issues as well. So that's causing a significant delay.

Now, when you look at this facility, it is made up of two parts really. It's the extraction, so we start with oranges, organic oranges. I would add comments from Mexico and places in Southern California and bottling side of it. So the major part of where we can – the unique element of our facility is like – is on the extraction side and that's – and so until we get that online and that we now expect to happen in the first quarter of 2014, that's when we will start making money. So we have the expecting customers lined up. We also have the bottling customers lined up, but without us extracting does not much sense in bottling whole bunch of customers, because it just leads to incremental cost.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Okay. Is there any costs related to your commitments to customers if you can't actually ramp this in the targeted timeframe? I mean how is that working on the customer relationship side?

<A – Rik Jacobs – SunOpta, Inc.>: I think on the customer relationship side, we are fine. We are continuing to service our customers. But when you only have a small part of your factory open, with the full factory overhead, that is really what's leading to the loss that we're incurring over there.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Okay.

<A – Rik Jacobs – SunOpta, Inc.>: But we're fulfilling all of our commitments at present, but the real – as I said, the real [indiscernible] (24:10) once we are able to open the extraction side of the plant.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Okay. And maybe it will be helpful just for certain 2014 expectations, I mean, what type of EBITDA run rate would you be expecting from this expansion once you are at full run rate?

<A – Rik Jacobs – SunOpta, Inc.>: I think if you're looking at the – if you're looking at on an annualized basis, once this plant is up and running, we would really expect to see operating income of around $600,000, $700,000 and EBITDA obviously...

<A – Rob McKeracher – SunOpta, Inc.>: Yeah, EBITDA generally about two percentage points higher on average above our operating income. So if you're looking at our ramp up, but we consider trajectory in that business fit into our overall target within the Consumer Products Group of gradually getting to the double-digit EBITDA percentage NOI.

<A – Steve Bromley – SunOpta, Inc.>: And it's ramping up through the course of next year, right.

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<A – Rob McKeracher – SunOpta, Inc.>: Yeah.

<A – Steve Bromley – SunOpta, Inc.>: Next year is not going to be a full deal.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Okay. And then just one follow-up question on Opta Minerals, I would assume that this is kind of delaying that process on a full divestiture at some point, maybe you can just give us an update, now with this news is out on the debt covenants?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, so it doesn't change our position on the business at all, Tim. I've been pretty consistent that we wanted to see it – see this business through the end of the year and see the full benefit of the integration of the recent acquisition, et cetera, which as I – as – which we haven't noted, but they've now completed the integration of WGI, which was the latest acquisition. So they're spending on that.

Now, it's behind them and they have the savings. We've been pretty consistent around the fact that we wanted to see that completed and see that get into the run rates and then we'd be – we'd look at going forward, none of that has changed. Has this moved it around by a couple of months? Sure, but we're still very consistent about our intentions and I wouldn't call them long-term intentions, because they're not long-term intentions. They're intentions – we intend to move forward. The exact month, I wouldn't quote to you, but nothing's changed nothing.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: Okay. Just one last question before I hand it back over. As far as the timing of lines five and six in Allentown, you mentioned that you're roughly 75% full on lines four – for the first four lines. Any thinking as far as the timing of that in 2014? Are you starting to actually go out and contract new business for those lines? Maybe you can just provide a little bit more color there. Thanks.

<A – Rik Jacobs – SunOpta, Inc.>: Yes. We are – of course, we are continuously looking for more business. We have more room in that facility and we fully intend to fill that facility up over the course of 2014. Now as we don't own our own brands, as you know, we are obviously contracting business with retailers as well as with brand owners.

And so, we're also a little bit dependent on their appetite, if you like, but we think that the pouch is still in its very early ramp up stages in North America, if you compare to any other region in the world. This format is really way under its normal market share. So we should see continued good growth in that format.

I think importantly, it is also for us. We have – a lot of our current volumes are in one category and I think it's the one category that you see the most penetration of these pouches on today, which is in baby food. As we go out and contract enough volume, we also want to make sure that we – that are spread across multiple categories. That's good for us and that's good for the pouch.

<Q – Tim Tiberio – Miller Tabak + Co. LLC>: All right. Thanks for your time guys.

<A – Steve Bromley – SunOpta, Inc.>: Thanks, Tim.

<A – Rik Jacobs – SunOpta, Inc.>: Thanks.

Operator: Thank you. Our next question comes from Mitch Pinheiro from Imperial Capital. Your line is open.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Yeah, hey, good morning.

<A – Steve Bromley – SunOpta, Inc.>: Good morning, Mitch.

<Q – Mitch Pinheiro – Imperial Capital LLC>: So Steve can you talk maybe broadly about your – the cost of goods inflation outlook for the next quarter and into 2014?

<A – Steve Bromley – SunOpta, Inc.>: Yeah. General sort of the large grain commodities, Mitch, are – the prices are in decline versus sort of 2013 prices, if you will.

<A – Rik Jacobs – SunOpta, Inc.>: The drought crops.

<A – Steve Bromley – SunOpta, Inc.>: Sort of the – yeah, the drought crops. So corn and soy are down in price, so that's inflationary. We also see some deflation in some of the smaller grains. And you see things like cocoa, organic cocoa way up in price. Rik what else is way up, there's one more...

<A>: [ph] Tea and water (29:28).

<A – Steve Bromley – SunOpta, Inc.>: Tea and water.

<A – Rik Jacobs – SunOpta, Inc.>: Tea and water way up and then coffee is at an all-time lower.

<A – Steve Bromley – SunOpta, Inc.>: Coffee is at an all-time low. But I'd say generally deflationary versus inflationary there.

<Q – Mitch Pinheiro – Imperial Capital LLC>: And is any feel for like – can you put any sort of range of percentage down on that relative to 2013?

<A – Steve Bromley – SunOpta, Inc.>: It varies by profit. So – John, can you think about an overall percentage?

<A – John Ruelle – SunOpta, Inc.>: It would be hard to tell [ph] on a specific data (29:57) overall as each crop is dependent on...

<A – Steve Bromley – SunOpta, Inc.>: And then traditionally, Mitch, as well, the organic and non-GMO crop don't move rock step with the conventional crop. So the decline would be less on those that are more suppliers [ph] directed (30:16).

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay. How about – could you also explain on the sunflower business? You sort of with the later harvest – and I guess, I don't know how the supply is looking, but you said that you should see significant improvement in 2014. How does that come about?

<A – John Ruelle – SunOpta, Inc.>: Yeah. Well, I think overall, the cost of the raw material that will be coming off the field here this fall is lower than the previous year. So as well, we've made investments and changes in our processing capabilities that will improve our processing yield.

So net-net, my expectation year-over-year is that we will see some improvement in the spread between sell price and cost, but at this point, only about 10% of the crop is off the field. So we could have some muting of our expectations depending on when the crop is actually harvested and what the ultimate yields are.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay.

<A – Steve Bromley – SunOpta, Inc.>: But we also expect to have less small seeds this year.

<A – John Ruelle – SunOpta, Inc.>: Correct.

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<A – Steve Bromley – SunOpta, Inc.>: Given some of the [ph] growth in seed (31:32).

<A – John Ruelle – SunOpta, Inc.>: Yeah.

<A – Steve Bromley – SunOpta, Inc.>: Yeah.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay. And then just last question is on fruit. Can you – it was ahead of plan you said in the quarter. What's driving that? Can you just give a little more color around that business? And when you talk fruit, is that including the – your frozen?

<A – Rik Jacobs – SunOpta, Inc.>: No. When we are talking fruit ingredient, what that really is, is on the one hand side all of your Greek yogurts that have the fruit on the bottom. We are supplying a lot of that. It's basically on the branded side as well as on the private label side and obviously, mostly located on the West Coast, since that's where our plant is.

So that's the fruit ingredient to the dairy industry. That's growing quite nicely and we are doing a fantastic job and by the way, evidenced by a press release that came out from IHOP as well as from ourselves, where we're made Vendor of the Year by them. So that's also very important and growing part of our business, which is the food service side of things.

<Q – Mitch Pinheiro – Imperial Capital LLC>: And how about on the frozen food side?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, on the frozen food side, most of what we do is actually on the private label and think about all the natural and organic private label that you see out there. And there again, we have – that's where we're actually no longer really participating in the food service side, but much more on the retail side.

We have done significant upgrades to our facility over there in Buena Park, and we have now actually as of last week we are SQF 2 certified there now, so now, we – that means that we can also grow more aggressively after [ph] other bids (33:20) that makes sense to us.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Are you matching the growth? I mean we're seeing the whole frozen food category retail up in the mid-teens, are you seeing that type of growth in your private label customers?

<A – Rik Jacobs – SunOpta, Inc.>: Well, yeah, as I mentioned, I think, during the remarks, the frozen food business and this is really the first quarter that you can have a clean comparison to prior year, because we exited the food service business.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Right.

<A – Rik Jacobs – SunOpta, Inc.>: And in this quarter, frozen foods up 14%.

<Q – Mitch Pinheiro – Imperial Capital LLC>: Okay. All right. That's all I had. Thank you very much.

<A – Rik Jacobs – SunOpta, Inc.>: Thank you, Mitch.

<A – Steve Bromley – SunOpta, Inc.>: Thanks.

Operator: Thank you. Our next question comes from Chris Krueger from Lake Street Capital. Your line is open.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Hi, good morning, guys.

<A>: Good morning, Chris.

<A>: Hey, Chris.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Hi. I noted a variety of start-up costs with your growth initiatives and your expansions, particularly, at aseptic and cocoa and the juice facility. Which of these expenses are going to carry into the fourth quarter and into the first quarter?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, so Chris, as Rob commented on, the cocoa plant is now commissioned. So we are – we will have some small trailing costs on the cocoa plant, as we get into the fourth quarter, as it was commissioned right sort of on the border of the two quarters.

I mean the biggest part of the cost that we experienced and which Rob talked about was this unrealized cocoa hedging loss, mark-to-market loss on the hedge that we had, that comes back over the next couple of quarters, as that inventory is moved. So that's temporary, and we won't experience that again. There will be some costs, but don't look for the cocoa plant to be material at least not at this stage of the game. We don't see anything.

The aseptic lines are up and running. And as Rik had mentioned in his comments, so there is nothing more to come on those. Same to the pouch line, they're all up and running. And we had these integration costs at Opta Minerals by integrating WGI, and they should go away as they're done now.

The one that will carry over and as we indicated in the press release and as Rik indicated in his comments, will carry on for the next quarter, at least then into 2014 based on the timing that we're seeing for the project now are the costs of San Bernardino for the premium juice facility. So to answer your question, sort of the major is going away. All those are going away with the exception of cost that we'll have at San Bernardino.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Okay. On the – kind of on a same note, are there expansion plans for later in 2014? In places you have, like, more pouch lines or anything or is that too early to say?

<A – Steve Bromley – SunOpta, Inc.>: Well, go ahead, Rik.

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, we are obviously right now in the middle of our final budgeting process. But it is fair to say that the budget for 2014 will definitely include further expansion plans on our consumer product platform and as well as on our ingredients platform where that make sense.

One of the smaller expansions that we're currently undergoing is, for example, in the ingredient side, is on the new corn business, that's – that has seen very, very good growth and we just want to keep up with that growth.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Being driven by demand for non-GMO?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, yeah. So will we continue to further expand? Absolutely. Where will we expand? it is going to be in Consumer Products and Ingredients and that's consistent with our strategy of continuously wanting to move up the value chain if you like.

<A – Steve Bromley – SunOpta, Inc.>: But Chris to put it all into perspective, when you think about this year, we – at one point in time, we had pouch lines going into Allentown. We had the

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cocoa plant being built. We had three aseptic lines going in and then the process we're going in and I'm missing a couple of other things.

<A>: San Bernardino.

<A – Steve Bromley – SunOpta, Inc.>: And San Bernardino underway and there was the fifth project, which [ph] I just sorry (37:24) off the top, I can't remember. Do we expect? It would be wonderful to have the demand to have to be proceeding at that pace, but we don't have that in our budget, because we do have some capacity that's now being booked that we can sell through. So should you expect more filling lines next year? Yeah. At the pace that we've had in this year that would be great, but I think we are – we got capacity to fill here which is the good news.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: One last question on the San Bernardino facility, how big is that business as far as whether it's in terms of units or sales or percent of food group sales or something like that?

<A – Steve Bromley – SunOpta, Inc.>: Well, when fully – sort of when fully in line and operating near sort of good capacity levels and generate around $30 million in revenues, it's less than $10 million right now and of course, because of what we're doing and being shutdown, it's even less than that right now.

<Q – Chris Krueger – Lake Street Capital Markets LLC>: Okay. That helps. Thanks a lot.

<A – Steve Bromley – SunOpta, Inc.>: Okay.

Operator: Thank you. Our next question comes from Scott Van Winkle from Canaccord Genuity. Your line is open.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Thank you.

<A – Steve Bromley – SunOpta, Inc.>: Hi, Scott.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: So first question is a lot like the last one, but related to cocoa, you had some one-time cost here in cocoa and juice and others. How significant a business is cocoa? Is it on the order of where you are today in premium juice?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, I would say so. I think it's a little bit bigger than that at the moment. But obviously, we have expectations of being able to get that to grow further, Scott. And the main reason being and it's consistent with our strategies, we used to sell the raw beans or have the cocoas from somewhere else.

Now we're taking into raw beans and processing it ourselves. So we see significant growth for that category going forward, especially, because even if you go to grocery stores in North America, you see all the specialty chocolate [ph] line is (39:27) actually growing as well.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Yeah. Yeah. And I apologize, I missed any commentary on gross margin, was there any mix driven margin shift gross margin maybe towards more higher percentage of sales being less processed raw materials or is it the same thing we've seen over the last couple of quarters on the gross margin?

<A – Rik Jacobs – SunOpta, Inc.>: I think on the gross margin side, the – so if you look at our international raw materials, they were impacted obviously by this cocoa. So that basically led to them, because that is really a cost of goods issue there. So that has really impacted their gross margins. And I think on the raw materials side, obviously that's been impacted by the sunflower, which we talked about earlier, but also realize that we're now coming out of our inventory position that we had though at the end of the drought year, right, so.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Yeah. So probably the sunflower has been then ongoing, but if we take out the sunflower issue and take out the hedge loss, which I assume is right in that cost of goods sold, was there any gross margin? I guess what I'm asking is, was raw materials as a percentage of your sales – I guess, going towards your future disclosure, was raw material as a percentage of sales, was it higher, and therefore, mixed for little parts on gross margin too?

<A – Rob McKeracher – SunOpta, Inc.>: No, and this is Rob, Scott. It's not so much of a mix more than the cost that are putting the pressure on the margin. But if you're looking top-line and the mix across the various components, that was not very influential on driving the margins down. It's more about the costs that we've mentioned.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Got you. Got you. And then Steve, in your opening comments, you talked about kind of realignment of the business. Can you go further into what SunOpta looks like in 2014, as we kind of focused on different segments?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, sure. And I appreciate the opportunity to do that. So our business model is based on an integrated platform that starts with raw material sourcing and supply. And those raw materials are both used internally or sold externally. The internal are moved through and transformed into value-added ingredients, which are sold externally or used internally and moved right through into consumer packaged products.

And so, as we describe our business, and really what our business model is, is we are an integrated processor of natural and organic foods, integrated from raw materials through ingredients and in the packaged products.

For those who have known business for a period of time, we have various operating segments and today, we operate in four operating segments; Grains and Foods, Ingredients, Consumer Packaged Products and International.

What there is in all of those business units, well not in all of them, but it's across those business units, is a lot of overlapping. In Grains and Foods, they do raw; they do ingredients; and they do consumer package. And as you move through the different businesses, they do various components of our model.

What we have done, Scott, is realign the business around raw material sourcing and supply, around ingredients and around consumer packaged products. And it's really based on the customer. So for customers that are buying consumer packaged products, we now have a very much more streamlined go-to-market to provide our entire portfolio of products to a specific customer and that not only simplifies our relationship with the customer, it also simplifies our internal operations and streamlines how we go to those particular customers. And the groups now have greater capacity to focus on their spot in our supply chain.

And so what we've been doing is realigning all the management structures, realigning our reporting systems, realigning our go-to-market strategy, realigning our marketing, and we started this process really over a year ago, and we're now to the point where we have changed and are now operating in a new leadership structure in these segments. And we believe that that will drive much improved performance across the organization.

In hand with that, we have added new internal resources to support those new operating segments. So we have a new Senior Vice President of Operations, whose whole job is around cost, quality, delivery and safety. We have a new Chief Information Officer, who is all about the information that

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these groups need to operate effectively. And so we've added support resources, where we thought it was really important, as we take our existing operating resources and get them realigned.

The nice by-product of that will be commencing this quarter, we'll report in those new segments and so for people trying to understand our business, that will be greatly simplified, because we talk about raw materials sourcing and supply segment, that's how you're going to see it reported.

When we talk about consumer packaged products, you're going to see all of our consumer packaged products. So where all of the aseptic business was sitting in Grains and Foods and then we had a Consumer Products business, we've now completed that realignment under one management structure. So we're now allowed to report the new segment in that manner.

I think it will simplify for everyone. And we'll report that way in the fourth quarter and we will issue an 8-K at the right time to go back and restate the historical, so all our users can see that information in a consistent format. So it's a big undertaking, Scott, across the organization. We've invested in it. I mean we've had a lot of project management and extra IT resources here to help us, but we're well along the way and operating in the new segment, and we're really excited about it.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Great. And then take all that and kind of roll that into centralization, I always thought of SunOpta historically as being relatively decentralized with [indiscernible] (45:53) running your segments, the SunOpta that starts this quarter, is it more centralized than it was in the past?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, absolutely. Just to put it into perspective, Scott, over the last, call it 18 months, we now have centralized and standardized shared services, so all of the administration across the organization, which was spread out is now centralized. Our Human Resources Group is centralized. Our Information Technology Group are centralized and provide services across all of our businesses. Many of our financial components are now centralized. I mean, there's still financial people in the operating plants, because they need to be there for costs and that sort of thing.

And then as you take a look at the go-to-market – and by the way, all of the operating facilities report to one person. So they're becoming – you can't centralize the operations, but you can certainly standardize some. So there's been a massive push underway to do that. And then our go-to-market resources, while not centralized, are much more standardized than allowing within the operating groups. And those three food operating groups all report to Rik, who...

<A – Rik Jacobs – SunOpta, Inc.>: And all the operations.

<A – Steve Bromley – SunOpta, Inc.>: ...as well as the operations, all report directly, so they're under direct control of one person. So what we're really attempting to do is gain. And our third quarter strategy is to leverage the platform. This is all about leveraging the platform. And we believe and I don't want to commit to this, but as we get better at doing this, it's going to free up resources to focus on the customer in a much more enhanced manner than we've been able to do in the past.

<Q – Scott Van Winkle – Canaccord Genuity, Inc.>: Okay. Thank you very much.

<A – Steve Bromley – SunOpta, Inc.>: Thanks, Scott.

Operator: Thank you. Our next question comes from Keith Howlett from Desjardins Capital. Your line is open.

<Q – Keith Howlett – Desjardins Securities, Inc.>: Yes. Just I want to make sure on the juice business, it's sort of longer term, I know it's ramping up. It's a $30 million business at a 10% EBIT margin. Is that sort of objective roughly speaking?

<A>: Yeah.

<A>: Yeah.

<A>: Yeah.

<Q – Keith Howlett – Desjardins Securities, Inc.>: And then the cocoa business, I was just trying to – I guess you got a bean business and now you're going to be processing some beans. So what will be the size of the bean business? And are you intending to sort of process a 100% of those beans?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, so just – and I'm going to let Rik handle it, but Keith, just to be clear, we had a cocoa ingredient business for some time, with our international operations. We moved from just being a cocoa bean supplier, organic cocoa bean supplier to being a supplier of ingredients, but we used third-parties to do those.

And the challenge – and it's a nice profitable and growing business. As our business got bigger, the availability of reliable co-processing for us became a challenge and we see good growth in this business. So we said well, let's take the existing business and let's grow it. So that's we've always been there. So I don't want to [ph] leave you assuming (49:04) all of a sudden we're just moving and we've had these butter, powder and liquor, cocoa liquors for some time. But now we see a real opportunity to grow now that we have our own facility, because we have sources of supply. Rik, do you want to?

<A – Rik Jacobs – SunOpta, Inc.>: Yeah, no, I think you answered it. But the only thing that I would add is and we are unique in the world in terms of being an organic cocoa bean processor. There is nobody else that does that. The only thing I would add is, it's kind of odd, maybe that it's built the Netherlands to some of you, but for some historical reasons, more than 60% of the real cocoa bean actually go to Port of Amsterdam with no changes.

<Q – Keith Howlett – Desjardins Securities, Inc.>: Okay. And so, if I understand it right, you're sort of internalizing margin that was elsewhere I guess, the actual-

<A – Steve Bromley – SunOpta, Inc.>: [ph] Currently (49:54), we're internalizing margin that was elsewhere and we're taking the opportunity to get more margin by processing more than we were able to do.

<Q – Keith Howlett – Desjardins Securities, Inc.>: And right now, if I understand that the business would – the cocoa business would be sort of around $15 million, is that correct?

<A – Steve Bromley – SunOpta, Inc.>: Yeah, I think that's right in the zone, Keith.

<Q – Keith Howlett – Desjardins Securities, Inc.>: And then just on the hedge, you have to sort of pay for the hedge in advance. But will you get the benefit of the – presumably the rise in cocoa prices when you sell what you have in inventory, will you not get it back so to speak?

<A – Steve Bromley – SunOpta, Inc.>: Yeah.

<A – Rob McKeracher – SunOpta, Inc.>: Yeah, in essence, we've – the whole point of entering the hedge is to give us some cost certainty on our long position in inventory. So that – as we sell through that inventory, we will realize some benefit there.

<Q – Keith Howlett – Desjardins Securities, Inc.>: And then just on the new segments, will you – will it be show all the movements between the segments, or it will be sort of based on third-party sales from each segment?

<A – Rob McKeracher – SunOpta, Inc.>: Yeah, Keith, we're going to recast for everyone via an 8-K what the new segments are. At this stage, what you'll see is very similar. So now we're not going to bridge the change for folks. And I – what you'll primarily see is our external sales and not the internal moving parts, if you will, behind the scenes, but you will see the external sales for each of those go-to-market segments.

<Q – Keith Howlett – Desjardins Securities, Inc.>: And then just as you – as we move forward next – could you see providing guidance in the future or not?

<A – Steve Bromley – SunOpta, Inc.>: We evaluate it every year, Keith, and as we get larger, it's a topic that we have all the time. We're not prepared to commit for providing guidance, but I can assure you it's on our agenda.

<Q – Keith Howlett – Desjardins Securities, Inc.>: And maybe just lastly on the Opta Minerals, is it – do you think it's the WGI, it's mostly just a cyclical issue on the steel business and that anyone who might want to buy the business would be – would obviously understand that because they're in the business?

So I guess what I'm asking, do you have to wait for results to improve or could you sell it because everyone who would buy it already knows that it's a cyclical business?

<A – Steve Bromley – SunOpta, Inc.>: Sure. Look, Keith, the strategists that are the buyers for this business all understand the cyclicality. So there's really not an issue there. People do understand that. To your – to the point that you're asking what's really caused some of the downturn in the business and it's two-fold; one is the steel industry, which has been difficult this year and then the infrastructure business, which uses a lot of the abrasives has also been challenged this year.

Sequestration and reduced spending on military cleaning of ships and all that sort of thing has slowed that down. The good news for them is that be it a bridge or be it a ship, it's got to get cleaned up over a period of time. So you can delay it, but you can't stop it. It's got to get down there or things start to crumble.

So now, are there [ph] strategist that look to buy I don't (53:05) understand the cyclicality? That's why I don't think we're in a position where we're going to wait for two years to let the cyclicality wash its way through.

<Q – Keith Howlett – Desjardins Securities, Inc.>: And do the two components, the two segments of Opta Minerals, are they typically bound together amongst the prospective purchasers sort of thing?

<A – Steve Bromley – SunOpta, Inc.>: Yes and no. There are some that do both, but more of the buyers would be really dominant in one or the other. They're complementary, so they can certainly reside well together. And there are some that do both and – or some strategists that do both and will do more categories and there is others who are primarily focused on one. But having the other is complementary.

<Q – Keith Howlett – Desjardins Securities, Inc.>: Great. Thanks very much.

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Operator: Thank you. Our next question comes from Brennan Matthews from Northland Securities. Your line is open.

<Q – Brennan Matthews – Northland Securities, Inc.>: Hi. This is Brennan on for Reed Anderson.

<A – Steve Bromley – SunOpta, Inc.>: Hi, Brennan.

<Q – Brennan Matthews – Northland Securities, Inc.>: I was just wondering given the late crop this year from soy and corn, are you expecting quantities to be sufficient and do you expect any extra milling and drying costs?

<A – Steve Bromley – SunOpta, Inc.>: Well, first-off, we – what we said from the beginning is that in some of the growing areas that we grew and there is late harvest, and in some areas, they went to prevent plants or they didn't plant at all. And so not all of the acreage that we had contracted for got planted. And what we said from the beginning is that's why we have an international sourcing platform and we'll utilize that international sourcing platform.

At this stage of the game, there's no problem in doing all the value-added products that we do, but inevitably, depending on how our sourcing goes on international basis, we may have a little less [ph] so (54:55) as raw commodity, which is our lowest margin business. And again, we may have – it depends on how all the, sort of, global sourcing and growing that we have going on in other areas plays out, but we're not in a not-being-able-to-supply situation on soy, corn and that stuff. And sorry, Brennan, the other part of your question was-

<Q – Brennan Matthews – Northland Securities, Inc.>: I was just wondering if you're expecting any extra milling or drying costs.

<A – Steve Bromley – SunOpta, Inc.>: John, [ph] how has the margins just been (55:26)? I think that they're pretty-

<A – John Ruelle – SunOpta, Inc.>: Yeah, they're a little bit elevated, but it's not dramatic.

<A – Steve Bromley – SunOpta, Inc.>: Yeah, yeah.

<A – John Ruelle – SunOpta, Inc.>: Corn and soy are just pretty much all harvested at this point and both fields and quality were good to average. So we don't see any issues there. And sunflower is the last crop to be harvested and that's coming off the field now. So time will tell on that one, but we should know on that one in the next couple of weeks.

<Q – Brennan Matthews – Northland Securities, Inc.>: All right, fantastic. Thank you very much guys.

<A>: Thank you.

<A – Steve Bromley – SunOpta, Inc.>: Thanks a lot.

Operator: Thank you. [Operator Instructions]

<A – Rik Jacobs – SunOpta, Inc.>: Is there anybody else?

<A – Steve Bromley – SunOpta, Inc.>: Operator, do we have any other questions?

Operator: One moment, please.

<A>: We're not on mute or anything like that?

<A – Steve Bromley – SunOpta, Inc.>: No. Hello, operator?

Operator: [Operator Instructions]

Operator: Thank you. I show no further questions at this time and would like to turn the conference back to Mr. Steven Bromley.

Steven R. Bromley, Chief Executive Officer & Non-Independent Director

All right. Well, on that note, thanks everyone for joining today. I appreciate you joining the call and we look forward to talking with everybody over the next quarter. As always, if you have any questions, please feel free to give us a call. Thanks. Have a great day.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect at this time.

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