SunOpta Inc.
Form 10-Q
August 11, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **June 30, 2008**

Commission File No. 0-9989

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

SUNOPTA INC.

(Exact name of registrant as specified in its charter)

CANADA

(Jurisdiction of Incorporation)

Not Applicable

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

2838 Bovaird Drive West

Brampton, Ontario L7A 0H2, Canada

(Address of Principal Executive Offices)

(905) 455-1990

(Registrant's telephone number, including area code)

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

Yes Q No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act)

Large accelerated filer £ Accelerated filer Q Non-accelerated filer £

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

Yes £ No Q

At July 31, 2008 registrant had 64,206,533 common shares outstanding, the only class of registrant's common stock outstanding. There were no other classes of stock outstanding and the aggregate market value of voting stock held by non-affiliates at such date was $333,478,530. The Company s common shares are traded on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol STKL and on the Toronto Stock Exchange under the symbol SOY.

There are 48 pages in the June 30, 2008 10-Q and the index follows the cover page.

SUNOPTA INC.

FORM 10-Q

For the quarter ended June 30, 2008

PART I - FINANCIAL INFORMATION

Item 1.

Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Earnings and Comprehensive Income for the three and six months ended June 30, 2008 and 2007.

Condensed Consolidated Balance Sheets as at June 30, 2008 and December 31, 2007.

Condensed Consolidated Statements of Shareholders Equity for the six months ended June 30, 2008 and 2007.

Condensed Consolidated Statements of Cash Flow for the three and six months ended June 30, 2008 and 2007.

Notes to Condensed Consolidated Financial Statements.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3.

Quantitative and Qualitative Disclosure about Market Risk

Item 4.

Disclosure Controls and Procedures

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits

All financial information is expressed in United States Dollars. The closing rate of exchange on July 31, 2008 was CDN $1 = U.S. $0.9766

Forward-Looking Financial Information

This report contains forward-looking statements based on current expectations that involve a number of risks and uncertainties. Generally, forward looking statements do not relate strictly to historical or current facts and include words or phrases such as management anticipates, we believe, we anticipate, we expect, we plan, we will, a and phrases of similar impact and include, but are not limited to references to business strategies, competitive strengths, goals, capital expenditure plans, business and operational growth plans and references to the future growth of the business. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward looking statements are based on certain assumptions and analyses made by the Company in light of its experience and its interpretation of current conditions, historical trends and expected future developments as well as other factors that the Company believes are appropriate in the circumstance.

Whether actual results and developments will agree with expectations and predictions of the Company is subject to many risks and uncertainties including, but not limited to, general economic, business, weather or market risk conditions; the Company s ability to address inventory issues in its berry operations; the achievement of business forecasts; the outcome of any pending litigation; competitive actions by other companies; changes in laws or regulations or policies of local governments, provinces and states as well as the governments of the United States and

Canada, many of which are beyond the control of the Company. Consequently all forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized. Please refer to the Company s most recent Annual Report on Form 10-K for a discussion of the risks facing the Company and its operations.

PART I - FINANCIAL INFORMATION

Item 1 -

Condensed Consolidated Financial Statements

SunOpta Inc.

For the Three and Six Months Ended June 30, 2008

(Unaudited)

SunOpta Inc.

Condensed Consolidated Statements of Earnings and Comprehensive Income

For the three months ended June 30, 2008 and 2007

Unaudited

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

	June 30, 2008 $	June 30, 2007 $
Revenues	**291,945**	206,378
Cost of goods sold	**246,077**	170,828
Gross profit	**45,868**	35,550
Warehousing and distribution expenses	**5,448**	4,969
Selling, general and administrative expenses (note 15)	**34,700**	23,138
Intangible asset amortization	**1,508**	1,012
Other expense, net	**-**	217
Foreign exchange (note 10)	**(1,279)**	(378)
Earnings before the following	**5,491**	6,592
Interest expense, net	**(3,601)**	(1,817)
Earnings before income taxes	**1,890**	4,775
Provision for income taxes	**473**	1,048
Earnings before minority interest	**1,417**	3,727
Minority interest	**698**	322
Earnings for the period	**719**	3,405
Other comprehensive income for the period	**1,880**	5,546
Comprehensive income for the period	**2,599**	8,951
Earnings per share for the period (note 5)		

Basic	**0.01**	0.05
Diluted	**0.01**	0.05

(See accompanying notes to condensed consolidated financial statements)

SunOpta Inc.

Condensed Consolidated Statements of Earnings and Comprehensive Income

For the six months ended June 30, 2008 and 2007

Unaudited

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

	June 30, 2008 $	June 30, 2007 $
Revenues	**522,389**	389,878
Cost of goods sold	**436,320**	323,607
Gross profit	**86,069**	66,271
Warehousing and distribution expenses	**10,894**	9,907
Selling, general and administrative expenses (note 15)	**62,511**	44,187
Intangible asset amortization	**2,766**	1,995
Other expense, net	**-**	406
Foreign exchange (note 10)	**(991)**	(449)
Earnings before the following	**10,889**	10,225
Interest expense, net	**(6,501)**	(3,729)
Earnings before income taxes	**4,388**	6,496
Provision for income taxes	**1,122**	1,513
Earnings before minority interest	**3,266**	4,983
Minority interest	**1,061**	524
Earnings for the period	**2,205**	4,459
Other comprehensive income for the period	**471**	6,211
Comprehensive income for the period	**2,676**	10,670
Earnings per share for the period (note 5)		
Basic	**0.03**	0.07

Diluted	**0.03**	0.07

(See accompanying notes to condensed consolidated financial statements)

SunOpta Inc.

Condensed Consolidated Balance Sheets

As at June 30, 2008 and December 31, 2007

Unaudited

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

	June 30, 2008	**December 31, 2007**
	$	**$**
Assets		
Current assets		
Cash and cash equivalents (note 13)	**9,123**	30,302
Short-term investments (note 14)	**20,000**	-
Accounts receivable	**131,719**	87,729
Inventories (note 3)	**239,033**	182,729
Prepaid expenses and other current assets	**8,525**	10,201
Current income taxes recoverable	**-**	1,491
Deferred income taxes	**1,756**	1,749
	410,156	314,201
Property, plant and equipment	**115,466**	116,389
Goodwill	**66,450**	55,503
Intangible assets	**68,433**	62,076
Deferred income taxes	**14,281**	14,110
Other assets	**2,103**	2,261
	676,889	564,540
Liabilities		
Current liabilities		
Bank indebtedness (note 6)	**112,551**	58,806
Accounts payable and accrued liabilities	**124,422**	93,462
Income taxes payable	**292**	-
Customer and other deposits	**617**	1,300
Current portion of long-term debt (note 7)	**12,261**	13,119
Current portion of long-term liabilities	**863**	1,304
	251,006	167,991
Long-term debt (note 7)	**104,985**	85,595

Long-term liabilities	**5,995**	3,275
Deferred income taxes	**13,625**	11,430
	375,611	268,291
Minority interest	**15,035**	13,863
Preferred shares of a subsidiary company	**27,601**	27,409
Shareholders Equity		
Capital stock (note 4)		
64,214,373 common shares (December 31, 2007 64,149,593)	**176,807**	176,547
Contributed surplus (note 4)	**6,696**	5,967
Retained earnings	**54,050**	51,845
Accumulated other comprehensive income	**21,089**	20,618
	258,642	254,977
	676,889	564,540

Commitments and contingencies (note 9)
Subsequent events (note 16)

(See accompanying notes to condensed consolidated financial statements)

SunOpta Inc.

Condensed Consolidated Statements of Shareholders Equity

As at June 30, 2008 and 2007

Unaudited

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

	Capital stock $	**Additional paid in capital $**	**Retained earnings $**	**Accumulated other comprehensive income $**	**Total $**
Balance at December 31, 2007	**176,547**	**5,967**	**51,845**	**20,618**	**254,977**
Options exercised	**260**	**-**	**-**	**-**	**260**
Stock-based compensation	**-**	**729**	**-**	**-**	**729**
Earnings for the period	**-**	**-**	**2,205**	**-**	**2,205**
Currency translation adjustment	**-**	**-**	**-**	**695**	**695**
Change in fair value of interest rate swap, net of tax	**-**	**-**	**-**	**(224)**	**(224)**
Balance at June 30, 2008	**176,807**	**6,696**	**54,050**	**21,089**	**258,642**

	Capital stock $	**Additional paid in capital $**	**Retained earnings $**	**Accumulated other comprehensive income $**	**Total $**
Balance at December 31, 2006	112,318	4,188	51,338	8,859	176,703
Options exercised	1,237	-	-	-	1,237
Employee stock purchase plan	417	-	-	-	417
Equity offering	51,882	-	-	-	51,882
Warrants issued	762	-	-	-	762
Stock-based compensation	-	780	-	-	780
Adoption of new accounting policy	-	-	100	-	100
Earnings for the period	-	-	4,459	-	4,459
Currency translation adjustment	-	-	-	6,211	6,211
Balance at June 30, 2007	166,616	4,968	55,897	15,070	242,551

(See accompanying notes to condensed consolidated financial statements)

SunOpta Inc.

Condensed Consolidated Statements of Cash Flow

For the three months ended June 30, 2008 and 2007

Unaudited

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

	June 30, 2008 $	June 30, 2007 $
Cash provided by (used in)		
Operating activities		
Earnings for the period	**719**	3,405
Items not affecting cash		
Amortization	**5,135**	3,496
Unrealized loss on foreign exchange	**389**	-
Minority interest	**698**	322
Stock-based compensation	**491**	222
Deferred income taxes	**(413)**	(265)
Other	**443**	85
Changes in non-cash working capital, net of businesses acquired (note 8)	**(13,780)**	(17,359)
	(6,318)	(10,094)
Investing activities		
Acquisition of companies, net of cash acquired (note 2)	**(4,111)**	(13,380)
Increase in short-term investments	**(20,000)**	-
Purchases of property, plant and equipment, net	**(3,164)**	(7,104)
Purchase of patents, trademarks and other intangible assets	**(32)**	(88)
Other	**117**	-
	(27,190)	(20,572)
Financing activities		
Increase in line of credit facilities	**12,129**	32,306
Borrowings under long-term debt	**-**	-
Repayment of long-term debt	**(2,296)**	(1,518)
Proceeds from the issuance of common shares, net of issuance costs	**41**	887
Proceeds from the issuance of preference shares by subsidiary	**-**	27,954
Payment of deferred purchase consideration	**(255)**	-
Other	**16**	54
	9,635	59,683

Foreign exchange (loss) gain on cash held in a foreign currency	**(5)**	214
(Decrease) increase in cash and cash equivalents during the period	**(23,878)**	29,231
Cash and cash equivalents beginning of the period	**33,001**	449
Cash and cash equivalents end of the period	**9,123**	29,680

Supplemental cash flow information (notes 8 and 13)

(See accompanying notes to condensed consolidated financial statements)

SunOpta Inc.

Condensed Consolidated Statements of Cash Flow

For the six months ended June 30, 2008 and 2007

Unaudited

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

	June 30, 2008 $	June 30, 2007 $
Cash provided by (used in)		
Operating activities		
Earnings for the period	**2,205**	4,459
Items not affecting cash		
Amortization	**9,513**	6,927
Unrealized loss on foreign exchange	**389**	-
Minority interest	**1,061**	524
Stock-based compensation	**729**	780
Deferred income taxes	**75**	(1,295)
Other	**267**	(236)
Changes in non-cash working capital, net of businesses acquired (note 8)	**(25,207)**	(49,531)
	(10,968)	(38,372)
Investing activities		
Acquisition of companies, net of cash acquired (note 2)	**(4,111)**	(13,380)
Increase in short-term investments	**(20,000)**	-
Purchases of property, plant and equipment, net	**(5,530)**	(12,481)
Purchase of patents, trademarks and other intangible assets	**(122)**	(887)
Decrease (increase) in other assets	**169**	(1,331)
	(29,594)	(28,079)
Financing activities		
Increase in line of credit facilities	**16,981**	21,734
Borrowings under long-term debt	**13,075**	1,500
Repayment of long-term debt	**(10,253)**	(7,504)
Proceeds from the issuance of common shares, net of issuance costs	**260**	52,616
Proceeds from the issuance of preference shares by subsidiary	**-**	27,954
Payment of deferred purchase consideration	**(755)**	(1,089)
Other	**100**	-
	19,408	95,211

Foreign exchange loss on cash held in a foreign currency	**(25)**	(34)
(Decrease) increase in cash and cash equivalents during the period	**(21,179)**	28,726
Cash and cash equivalents beginning of the period	**30,302**	954
Cash and cash equivalents end of the period	**9,123**	29,680

Supplemental cash flow information (notes 8 and 13)

(See accompanying notes to condensed consolidated financial statements)

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
1.

Basis of presentation and new accounting pronouncements

The interim condensed consolidated financial statements of SunOpta Inc. (the Company) have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X and in accordance with accounting principles generally accepted in the United States. Accordingly, these financial statements do not include all of the disclosures required by generally accepted accounting principles for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2008. For further information, see the Company s consolidated financial statements, and notes thereto, included in the Annual Report on Form 10-K for the year ended December 31, 2007.

The interim condensed consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the financial statements for the year ended December 31, 2007. As a result of the acquisition of The Organic Corporation (TOC), the Company acquired a 65% interest in Trabocca B.V. which has been consolidated and the non-controlling interest recorded for the ownership interest not acquired. All significant intercompany accounts and transactions have been eliminated on consolidation.

On July 22, 2008, the Company filed amended quarterly condensed consolidated financial statements on Form 10-Q/A restating the previously issued Form 10-Q for the period ended June 30, 2007. The comparative balances in this Form 10-Q represent the restated balances for the six months ended June 30, 2007 as filed on Form 10-Q/A on July 22, 2008.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measures (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. SFAS No. 157 applies to fair value measurements that are already required or permitted by other accounting standards, except for measurements of share-based payments and measurements that are similar to, but not intended to be, fair value, and does not change existing guidance as to whether or not an instrument is carried at fair value. The provisions of SFAS No. 157 are effective for the specified fair value measures for financial statements issued for years beginning after November 15, 2007. The adoption of SFAS No. 157 did not have a material impact on the Company s consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Liabilities (SFAS No. 159). SFAS No. 159 allows companies to voluntarily choose, at specific election dates, to measure certain financial assets and liabilities, as well as certain non-financial instruments that are similar to financial instruments, at the fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair vale option is elected for an instrument, SFAS No. 159 specifies that all subsequent changes in fair value for that instrument be reported in income. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. This statement significantly changes the financial accounting and reporting of business combination transactions. The provisions of this statement are to be applied prospectively to business combination transactions in the first annual reporting period beginning on or after December 15, 2008. The Company expects this to have an impact on its accounting for future business combinations once adopted but the effect is dependent upon acquisitions made in the future.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
1.

Basis of presentation and new accounting pronouncements continued

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 establishes accounting and reporting standards for noncontrolling interests in subsidiaries. This statement requires the reporting of all noncontrolling interests as a separate component of stockholders equity, the reporting of consolidated net income (loss) as the amount attributable to both the parent and the noncontrolling interests and the separate disclosure of net income (loss) attributable to the parent and to the noncontrolling interests. In addition, this statement provides accounting and reporting guidance related to changes in noncontrolling ownership interests. Other than the reporting requirements described above which require retrospective application, the provisions of SFAS 160 are to be applied prospectively in the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the impact of this standard will have on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statements No. 133 (SFAS 161). SFAS No. 161 enhances disclosures about the Company s derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS No. 161 will have on its consolidated financial statements.

2.

Business acquisitions

During the six months ended June 30, 2008, the Company completed one acquisition. This acquisition has been accounted for using the purchase method and the condensed consolidated financial statements include the results of operations for this business from the date of acquisition. The following is the preliminary purchase price allocation:

	TOC
Net assets acquired	$
Cash	1,205
Current assets	50,443
Property, plant and equipment	1,187
Goodwill	11,495
Intangible assets	6,815
Other long-term assets	358
Current liabilities	(45,582)

Subordinated debt payable to former shareholders	(4,685)
Deferred income tax liability	(1,990)
Other long-term debt	(1,502)
	17,744
Consideration	
Cash consideration including transaction costs	5,316
Note payable to former shareholders	1,562
Deferred consideration	10,866
	17,744

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
2.

Business acquisitions continued

On April 2, 2008, the Company acquired 100% of the outstanding common shares of The Organic Corporation B.V., operating as Tradin Organic Agriculture B.V. ("TOC") for total consideration of $17,744 (€11,361), including acquisition costs of $631 (€404). At closing, the Company paid $9,371 (€6,000) in cash and concurrently received $4,685 (€3,000) by way of subordinated debt payable to the former shareholders. A promissory note for $1,562 (€1,000) was also issued bearing interest at 7.0%. Both the subordinated debt and promissory note are payable March 31, 2010 (note 7(f)). Additional consideration payable on March 31, 2010 will be the greater of $12,494 (€8,000) or 2.5 times 2009 EBITDA (as defined in the purchase and sale agreement). At a minimum, the Company is obligated to pay €8,000 if pre-determined earnings targets are met in March 2009. If the pre-determined earnings target is not met the payment of €8,000 will be made in 2011 and as a result is not contingent. Due to its non-contingent nature, the present value of this deferred consideration has been calculated for the purpose of determining the total consideration. The €8,000 is payable in cash of €6,000 and €2,000 worth of common shares to be issued from treasury in either 2010 or 2011. The shares to be issued as part of the deferred consideration are not contingently issuable; accordingly they are included in the calculation of diluted earnings per share (note 5). The intangible assets, consisting of customer relationships, customer order backlog and non-compete agreements, acquired in this acquisition are not deductible for income tax purposes and are being amortized over their estimated useful lives between one and twelve years. The Company has not finalized the allocation of fair values to tangible assets, intangible assets and goodwill as of the release date of these financial statements. The purchase price allocation is expected to be completed by December 31, 2008. Goodwill acquired in this acquisition is not deductible for tax purposes.

Headquartered in Amsterdam, the Netherlands, TOC is a provider of globally sourced organic food ingredients and a key supplier of a wide variety of organic products including frozen fruits and vegetables, dried fruits, coffee, cocoa, cereals, rice, soy, beans and more.

TOC s results have been consolidated since April 2, 2008, and are included in the SunOpta Fruit Group.

3.

Inventories

	June 30, 2008 $	**December 31, 2007 $**
Raw materials and work in process	**82,947**	37,268

Finished goods	**137,627**	135,136
Grain	**27,284**	21,184
Inventory reserve	**(8,825)**	(10,859)
	239,033	182,729
Grain inventories consist of the following:		
Company owned grain	**24,391**	19,915
Unrealized gain (loss) on		
Sale and purchase contracts	**7,261**	3,864
Future contracts	**(4,368)**	(2,595)
	27,284	21,184

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
4.

Capital stock and additional paid in capital

	June 30, 2008 $	December 31, 2007 $
Capital stock	**176,807**	176,547
Additional paid in capital	**6,696**	5,967

(a)

In the six months ended June 30, 2008, employees exercised 64,780 (June 30, 2007   213,175) common share options and an equal number of common shares were issued for net proceeds of $260 (June 30, 2007 - $1,237).

(b)

In the six months ended June 30, 2008, nil (June 30, 2007   40,655) common shares were issued for net proceeds of $nil (June 30, 2007 - $417) as part of the Company s employee stock purchase plan. As a result of the restatement of the 2007 quarterly financial statements and the resulting delay in filing the December 31, 2007 year-end and the March 31, 2008 first quarter financial results, the Company s employee share purchase program was temporarily suspended pending these filings. The suspension of the program was lifted on August 4, 2008 with the filing of the first quarter financial results on Form 10-Q on July 30, 2008.

(c)

In the six months ended June 30, 2008, nil (June 30, 2007   250,000) options were granted to employees at a price of $nil (June 30, 2007 - $10.86 - $11.60). The fair value of the options granted was $nil (June 30, 2007 $1,209). The estimates used in the Black-Scholes option-pricing model for the options granted in 2007 were a dividend yield of 0%, an expected volatility of 53.5%, a risk-free interest rate of 4%, a forfeiture rate of 15% and an expected life of five to six years.

(d)

In the six months ended June 30, 2008, the Company recognized stock-based compensation of $729 (June 30, 2007 - $446) related to the Company s stock option plans, including the plan within Opta Minerals Inc. Included in stock-based compensation for the six months ended June 30, 2008 is $254 related to the accelerated vesting of stock options for the Company s Chief Executive Officer and Chief Financial Officer as part of their severance agreements.

(e)

As per an employment contract, the Company s Chief Executive Officer received an award of 10,000 common shares of the Company s stock in the first quarter of 2007. One-quarter of the total award was granted on February 8, 2007, with the remaining three-quarters of the award to be issued in equal instalments on the anniversary through February 8, 2010. As a result, 2,500 common shares were issued from treasury in the first quarter of 2007. Due to the delay in filing the first quarter 2008 financial statements on Form 10-Q, there were no shares granted in the six months ended June 30, 2008, and there was no stock-based compensation recognized (2007 $29). The 2,500 common shares relating to 2008 will be granted to the Chief Executive Officer, as the Company is now current with its regulatory filings.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
5.

Earnings per share

The calculation of basic earnings per share is based on the weighted average number of shares outstanding. Diluted earnings per share reflect the dilutive effect of the exercise of warrants and options. The number of shares for the diluted earnings per share was calculated as follows:

	Three months ended		**Six months ended**	
	June 30, 2008	**June 30, 2007**	**June 30, 2008**	**June 30, 2007**
	$	**$**	**$**	**$**
Earnings for the period	**719**	3,405	**2,205**	4,459
Weighted average number of shares used in basic earnings per share	**64,211,284**	63,040,567	**64,187,785**	61,738,081
Dilutive potential of the following:				
Employee/director stock options	**38,239**	830,011	**81,786**	782,080
Dilutive warrants	**-**	9,931	**-**	-
Dilutive impact of share consideration	**606,204**	-	**606,204**	-
Diluted weighted average number of shares outstanding	**64,885,727**	63,880,509	**64,875,775**	62,520,161
Earnings per share:				
Basic	**0.01**	0.05	**0.03**	0.07
Diluted	**0.01**	0.05	**0.03**	0.07

Options to purchase 1,252,200 and 1,137,200 common shares in the three and six months ended June 30, 2008 (June 30, 2007 nil and 117,000) have been excluded from the calculations of diluted earnings per share due to their anti-dilutive effect. Warrants to purchase 648,300 common shares in the six months ended June 30, 2007 have been excluded from the calculation of diluted earnings per share due to their anti-dilutive nature.

6.

Bank indebtedness

	June 30, 2008	**December 31, 2007**
		$

	$	
Canadian Line of Credit Facility (a)	**10,787**	15,132
U.S. Line of Credit Facility (b)	**51,931**	37,685
Opta Minerals Canadian Line of Credit Facility (c)	**7,843**	5,989
TOC Line of Credit Facilities (d)	**41,990**	-
	112,551	58,806

The Company has certain financial covenants that are calculated quarterly and annually. See note 7 for discussion of the Company s compliance with respect to these financial covenants.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
6.

Bank indebtedness continued

(a)

Canadian Line of Credit Facility:

The Company has a Canadian line of credit of Cdn $25,000 (US $24,517). As of June 30, 2008, $10,787 (2007 - $15,182) of this facility was utilized, including $nil (2007 - $50) committed through letters of credit. Interest on borrowings under this facility accrues at the borrower s option based on various reference rates including Canadian or U.S. bank prime, or Canadian bankers acceptances, plus a margin based on certain financial ratios. At June 30, 2008, the interest rate on this facility was 6.5%, calculated as Canadian prime plus a premium of 1.75%. The maximum availability of this line is based on a borrowing base which includes certain accounts receivables and inventories of the Company s Canadian business as defined in the Credit Agreement. At June 30, 2008, the borrowing base supported draws to the maximum line of credit.

(b)

U.S. Line of Credit Facility:

The Company has a U.S. line of credit of $60,000. As at June 30, 2008, $51,964 (2007 - $37,685) of this facility was utilized, including $33 (2007 - $nil) committed through letters of credit. Interest on borrowings under this facility accrues at the borrower s option based on various reference rates including U.S. bank prime, or U.S. LIBOR, plus a margin based on certain financial ratios. At June 30, 2008, the weighted average interest rate on this facility was 6.50%, based on U.S. prime plus 1.75% or U.S. LIBOR loans plus a premium of 3.25%. The maximum availability of this line is based on the borrowing base which includes certain accounts receivables and inventories of the Company s U.S. business as defined in the Credit Agreement. At June 30, 2008, the borrowing base supported draws to the maximum line of credit.

The Canadian and U.S. line of credit facilities are subject to annual extensions, and were extended on July 14, 2008 until June 29, 2009.

The above facilities and long-term loans (note 7) are collateralized by a first priority security against substantially all of the Company s assets in both Canada and the United States, excluding the assets of Opta Minerals, SunOpta BioProcess and TOC.

(c)

Opta Minerals Canadian Line of Credit Facility:

Opta Minerals has a line of credit facility of $12,259 (Cdn - $12,500). At June 30, 2008, $8,841 (2007 - $6,995) of this facility has been utilized, including letters of credit in the amount of $998 (2007 - $1,606). Interest on borrowings under this facility accrues at the borrower s option based on various reference rates including prime, U.S. dollar base rate, bankers acceptances or LIBOR plus a margin based on certain financial ratios of the Company. At June 30, 2008, the interest rate on this facility was 5.80%.

Opta Minerals line of credit facility, along with its unused portion of the revolving acquisition facility (note 7(e)), is subject to annual extensions, and were extended on July 17, 2008 to June 30, 2009.

(d)

TOC Line of Credit Facilities:

TOC has a line of credit facility of €30,000 (US - $47,193). At June 30, 2008, €24,008 (US - $37,768) of this facility had been utilized. Interest on borrowings under this facility accrues at the borrower’s option based on various reference rates including U.S. LIBOR, Euro LIBOR plus a premium 1.25%. At June 30, 2008, the weighted average interest rate on this facility was 5.65%. The maximum availability of this line is based on a borrowing base which includes certain accounts receivables and inventories of TOC and its subsidiaries. At June 30, 2008, the borrowing base supported draws to the maximum line of credit.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

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

6.

Bank indebtedness continued

A Chinese subsidiary of TOC has a line of credit facility denominated in Chinese Renminbi (RMB) of RMB 55,000,000 (US - $8,004). At June 30, 2008, RMB 29,000,000 (US - $4,222) of this facility had been utilized. Interest on borrowings under this facility accrues at the borrower s option calculated as 110% of the interest rate issued by the People s Bank of China. At June 30, 2008, the interest rate on this facility was 8.20%.

7.

Long-term debt

	June 30, 2008 $	**December 31, 2007 $**
Syndicated Lending Agreement:		
Term Loan Facility (a)	**45,000**	45,000
Non-revolving Acquisition Facility (b)	**6,900**	7,500
Revolving Acquisition Facility (c)	**17,550**	9,500
Other Long-Term Debt:		
Opta Minerals Term Loan Facility (d)	**11,339**	12,610
Opta Minerals Revolving Acquisition Facility (e)	**12,475**	10,481
Subordinated debt to former shareholders of TOC (f)	**6,218**	-
Promissory Notes (g)	**17,106**	12,626
Term Loan Payables (h)	**369**	654
Capital Lease Obligations (i)	**289**	343
	117,246	98,714
Less: Current Portion	**12,261**	13,119
	104,985	85,595

Details of the Company s long-term debt are as follows:

(a)

Term Loan Facility:

The term loan facility balance at June 30, 2008 was $45,000 (2007 - $45,000). The entire loan principal is due December 20, 2010, and at that time is renewable at the option of the lender and the Company. Interest on the term loan facility is payable at a fixed rate of 6.44% plus a margin of up to 250 basis points based on certain financial ratios of the Company. At June 30, 2008, the interest rate was 7.94%.

(b)

Non-revolving Acquisition Facility:

The non-revolving acquisition facility balance at June 30, 2008 was $6,900 (2007 - $7,500). Minimum quarterly repayment amounts in 2008 and 2009 are $300, with any remaining outstanding principal balance due June 30, 2010. At June 30, 2008, the interest rate on this facility was 5.92%, calculated as LIBOR plus a premium of 3.25%.

(c)

Revolving Acquisition Facility:

The revolving acquisition facility balance at June 30, 2008 was $17,550 (2007 - $8,500). Principal payments on this facility are payable quarterly equal to the greater of (a) 1/20 of the initial drawdown amount of the facility, or (b) 1/20 of the outstanding principal amount as of the date of the last draw. At June 30, 2008, the interest rate on this facility was 5.63%, calculated as LIBOR plus a premium of 3.25%. The Company borrowed $10,000 on the revolving acquisition facility at the end of the first quarter in advance of closing the acquisition of TOC (see note 2).

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
7.

Long-term debt continued

The above term loan facility, non-revolving acquisition facility, revolving acquisition facility and the U.S. line of credit facility (note 6(b)), are collateralized by a first priority security against substantially all of the Company s assets in Canada, the United States and Mexico excluding the assets of Opta Minerals, SunOpta BioProcess and TOC.

(d)

Opta Minerals Term Loan Facility

The term loan facility has a maximum available borrowing amount of $12,259 (Cdn - $12,500). This facility matures on July 30, 2012, is renewable at the option of the lender and Opta Minerals, and has quarterly principal repayments of Cdn $312 (US - $306). The outstanding balance on the term loan facility at June 30, 2008 was $11,339 (Cdn - $11,562) and was fully drawn at December 31, 2007. At June 30, 2008, the weighted average interest rate on this facility was 5.77%.

(e)

Opta Minerals Revolving Acquisition Facility

The revolving acquisition facility has a maximum available borrowing amount of $19,614 (Cdn - $20,000) to finance future acquisitions and capital expenditures. Principal is payable quarterly equal to 1/40 of the drawdown amount. Any remaining outstanding principal under this facility is due upon maturity. The outstanding balance on the revolving acquisition facility at June 30, 2008 was $12,475 (Cdn - $12,721) (2007 - $10,481 (Cdn - $10,390)). At June 30, 2008, the weighted average interest rate on this facility was 5.28%.

The unused portion of the term loan facility is subject to an annual extension and was extended on July 17, 2008 to June 30, 2009. The credit facilities described above are collateralized by a first priority security against substantially all of the Opta Minerals assets in both Canada and the United States.

Opta Minerals entered into a cash flow hedge in 2007. The cash flow hedge entered into exchanged a notional amount of Cdn $17,200 (US - $16,868) from a floating rate to a fixed rate of 5.25% from August 2008 to August 2012. The estimated fair value of the interest rate swap at June 30, 2008 was a loss of $852 (2007 loss of $539). The incremental loss in fair value net of income taxes has been recorded in other comprehensive loss (income) for the period.

(f)

Subordinated debt to former shareholders of TOC:

In conjunction with the acquisition of The Organic Corporation on April 2, 2008, its former shareholders provided a subordinated loan to TOC in the amount of €3,000 (U.S. - $4,718). The loan bears interest at 7% payable to the former shareholders on a semi-annual basis. The subordinated loan, as well as €453 (U.S. - $713) previously loaned to TOC, is repayable in full on March 31, 2010. Additionally, a related party to the former shareholders holds a demand loan with TOC in the amount of €500 (U.S. - $787) which bears interest at 7.0% payable on a quarterly basis.

(g)

Promissory Notes:

Promissory notes consist of notes issued to former shareholders as a result of business acquisitions bearing a weighted average interest rate of 6.4% (2007 5.5%), unsecured, due in varying installments through 2010 with principal repayments of $3,464 due in the next 12 months. As a result of the acquisition of TOC, the Company issued $9,954 of promissory notes due March 31, 2010 with an interest rate of 7%.

(h)

Term Loans Payable:

Term loans payable bear a weighted average interest rate of 4.6% (2007 4.5%) due in varying installments through 2010 with principal payments of $237 due in the next 12 months.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
7.

Long-term debt continued

(i)

Capital Lease Obligations:

Capital lease obligations due in monthly payments, with a weighted average interest rate of 6.6% (2007 6.5%).

As part of its lending agreements, the Company is required to maintain compliance with certain financial covenants. As a result of the adjustments and provisions recorded in the SunOpta Fruit Group in 2007, the Company was not in compliance with these covenants at March 31, 2008 and December 31, 2007. The Company received a permanent waiver to these covenants which allowed the Company to be in compliance at March 31, 2008 and December 31, 2007. The Company was not required to recalculate the covenants for previous periods based on restated quarterly financial statements. In addition, the Company has negotiated amended financial covenants for June 30, 2008, September 30, 2008, December 31, 2008 and March 31, 2009. As a result of the Company s expectation of compliance with these amended covenants the term loan of $45,000 and the non-current portion and revolving acquisition facilities totaling $19,350 continue to be classified as non-current. Should the Company fail to comply with any one of these or other covenants the lenders would have the option to accelerate repayment of these outstanding balances or enforce their security rights against the Company, which would result in these amounts being reclassified to current liabilities.

At June 30, 2008, the Company was in compliance with its amended financial covenants.

8.

Supplemental cash flow information

	Three months ended		**Six months ended**	
	June 30, 2008 $	**June 30, 2007 $**	**June 30, 2008 $**	**June 30, 2007 $**
Changes in non-cash working capital:				
Accounts receivable	**(10,014)**	(7,411)	**(24,793)**	(21,680)
Inventories	**(23,629)**	(31,113)	**(25,894)**	(33,043)
Income tax recoverable	**1,193**	3	**1,783**	1,829

Prepaid expenses and other current assets	**2,161**	652	**1,538**	682
Accounts payable and accrued liabilities	**19,282**	21,323	**22,843**	3,068
Customer and other deposits	**(2,773)**	(813)	**(684)**	(387)
	(13,780)	(17,359)	**(25,207)**	(49,531)
Cash paid for:				
Interest	**3,123**	1,945	**5,922**	3,926
Income taxes	**1,368**	701	**1,378**	1,099

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
9.

Commitments and contingencies

(a)

Subsequent to the Company s press release on January 24, 2008, in which it downgraded previously issued earnings expectations and announced the restatement of prior quarterly financial statements due to a significant write-down and other adjustments, the Company and certain officers (one of whom is a director) and a former director were named as defendants in several proposed class action lawsuits in the United States. These lawsuits were filed in the United States District Court for the Southern District of New York on behalf of shareholders who acquired securities of the Company between May 8, 2007 and January 25, 2008. The lawsuits allege, among other things, violations of United States federal securities laws, misrepresentations and insider trading. These lawsuits are in a preliminary phase and are expected to be consolidated in one class action with a lead plaintiff. Similarly, a proposed class action lawsuit has also been filed in Canada in the Ontario Superior Court of Justice on behalf of shareholders who acquired securities of the Company between May 8, 2007 and January 25, 2008 against the Company and certain officers (one of whom is a director), alleging misrepresentation and proposing to seek leave from the Ontario court to bring statutory misrepresentation civil liability claims under Ontario s Securities Act. The Canadian Action claims damages of Cdn $100,000 plus punitive damages of Cdn $10,000 and other monetary relief. This action is also in its preliminary phase and, may be consolidated if additional class actions are commenced. Management intends to vigorously defend these actions. These claims and possible claims are at an early stage and it is not possible to determine the probability of liability, if any, or estimate the loss, if any, that might arise from these lawsuits. Accordingly, no accrual has been made at this time for these contingencies.

(b)

The Company announced suit on January 17, 2008 against Abengoa New Technologies Inc. (Abengoa) and a former employee of SunOpta Inc. for theft of trade secrets, breach of contract, tortious interference with contract and civil conspiracy, along with motions for expedited discovery and a preliminary injunction. Abengoa has filed a counterclaim alleging breach of contract, misappropriation of trade secrets and other contractual violations. The United States District Court, Eastern District of Missouri, recently referred the core claims to arbitration and stayed the rest pending outcome of the arbitration. While management is confident in its position, the outcome of this matter cannot be predicted at this time.

In January 2008, a customer of the Company, Abener Energia S.A. (an affiliate of Abengoa), terminated a contract for the delivery of equipment and related services, forcing the matter into arbitration under the contract s provisions. Both parties have alleged violations under the contract. Arbitration proceedings on this matter have commenced, as both parties filed claims in the courts on June 30, 2008. The outcome of this arbitration cannot be predicted at this time.

(c)

In addition, various claims and potential claims arising in the normal course of business are pending against the Company. The amount of potential liability arising from these claims, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

10.

Foreign exchange transactions

The Company will enter into Canadian dollar, U.S. dollar and Euro forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. At quarter end the open forward foreign exchange contracts with a notional value of €6,250 at June 30, 2008 were marked-to-market (since they do not qualify as hedges for accounting purposes), resulting in an unrealized loss of $241 (2007 - $nil) which is included in foreign exchange in the Condensed Consolidated Statements of Earnings and Comprehensive Income. During the quarter, the Company entered into a number of Canadian dollar and Euro forward contracts which were closed prior to reaching their maturity. Due to the volatility of exchange rates in these currencies the Company realized a gain of approximately $1,600 which has been included in the foreign exchange gain in the consolidated statement of earnings.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
11.

Pro-forma data

Condensed pro-forma income statement, as if all acquisitions completed in 2008 and 2007 had occurred at the beginning on 2007 is included in the table below.

	Three months ended		Six months ended	
	June 30, 2008 $	June 30, 2007 $	June 30, 2008 $	June 30, 2007 $
Pro-forma revenue	291,945	240,265	555,093	459,902
Pro-forma earnings	719	3,517	2,288	4,568
Pro-forma earnings per share:				
- Basic	0.01	0.06	0.04	0.08
- Diluted	0.01	0.06	0.04	0.07

12.

Segmented information

The Company operates in three industries divided into six operating segments as follows:

(a)

SunOpta Food Group (Food Group) processes, packages, markets and distributes a wide range of natural, organic, kosher and specialty food products and ingredients with a focus on soy, corn, sunflower, fruit, fiber and other natural and organic food and natural health products. There are four segments in the Food Group:

i)

SunOpta Grains and Foods Group (Grains and Foods Group) is focused on vertically integrated sourcing, processing, packaging and marketing of grains and grain-based ingredients and packaged products;

ii)

SunOpta Ingredients Group (Ingredients Group) works closely with its customers to identify product formulation, cost and productivity opportunities, and focuses on transforming raw materials into value-added food ingredient solutions, with a focus on insoluble oat and soy fiber products;

iii)

SunOpta Fruit Group (Fruit Group) focuses on providing natural and organic frozen fruits, vegetables and related products to the private label retail, food service and industrial markets; and

iv)

SunOpta Distribution Group (Distribution Group) represents the final layer of the Company s vertically integrated natural and organic foods business model. This group operates a national natural, organic and specialty foods and health and beauty aids, vitamins, supplements and neutraceutical distribution network in Canada.

(b)

Opta Minerals processes, sells and distributes silica-free loose abrasives, roofing granules, industrial minerals specialty sands, and recycles inorganic materials for the foundry, steel, roofing shingles and bridge- and ship-cleaning industries.

(c)

SunOpta BioProcess provides a wide range of research and development and engineering services and owns numerous patents on its proprietary steam explosion technology. It designs and subcontracts the manufacture of these systems, which are used for processing biomass for use in the biofuel, paper, and food industries.

The Company s assets, operations and employees are principally located in Canada, the United States, Mexico, Europe and China. Revenues from external countries are allocated to the United States, Canada and Other external markets based on the location of the customer. Other expense, net, interest expense, net, provision of income taxes and minority interest are not allocated to the segments.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
12.

Segmented information continued

Effective January 1, 2008, two divisions previously included within the SunOpta Ingredients Group have been transferred, one to the SunOpta Grains and Foods Group and the other to the SunOpta Distribution Group. The segmented information for the comparative three and six month periods ended June 30, 2007 has been updated to reflect the current period s segment presentation.

				Three months ended June 30, 2008
	Food Group	Opta Minerals	SunOpta BioProcess and Corporate	Consolidated
	$	$	$	$
External revenues by market:				
United States	138,036	16,776	471	155,283
Canada	77,222	5,907	-	83,129
Other	50,968	2,565	-	53,533
Total revenues from external customers	266,226	25,248	471	291,945
Segment earnings before other expense, net	9,051	3,351	(6,911)	5,491
Other expense, net				-
Earnings before the following				5,491
Interest expense, net				(3,601)
Provision for income taxes				473
Minority interest				698
Earnings for the period				719

The SunOpta Food Group has the following segmented reporting:

Three months ended

June 30, 2008

	Grains and Foods Group	Ingredients Group	Fruit Group	Distribution Group	Food Group
	$	$	$	$	$
External revenues by market:					
United States	69,517	14,163	54,060	296	138,036
Canada	5,097	1,644	1,950	68,531	77,222
Other	11,873	1,019	38,022	54	50,968
Total revenues from external customers	86,487	16,826	94,032	68,881	266,226
Segment earnings before other expense, net	5,601	586	(281)	3,145	9,051

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
12.

Segmented information continued

				Three months ended June 30, 2007
	Food Group	Opta Minerals	SunOpta BioProcess and Corporate	Consolidated
	$	$	$	$
External revenues by market:				
United States	121,193	13,729	293	136,404
Canada	57,112	4,491	-	61,603
Other	9,360	174	26	8,371
Total revenues from external customers	187,665	18,394	319	206,378
Segment earnings before other expense, net	7,319	2,061	(2,571)	6,809
Other expense, net				217
Earnings before the following				6,592
Interest expense, net				1,817
Provision for income taxes				1,048
Minority interest				322
Earnings for the period				3,405

The SunOpta Food Group has the following segmented reporting:

					Three months ended June 30, 2007
	Grains and Foods Group	Ingredients Group	Fruit Group	Distribution Group	Food Group
	$	$	$	$	$
External revenues by					

market:					
United States	55,263	15,093	50,513	324	121,193
Canada	1,855	1,552	2,114	50,591	57,112
Other	8,036	642	682	-	9,360
Total revenues from external customers	65,154	17,287	53,309	51,915	187,665
Segment earnings before					
other expense, net	5,051	1,488	(1,137)	1,917	7,319

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
12.

Segmented information continued

				Six months ended June 30, 2008
	Food Group	Opta Minerals	SunOpta BioProcess and Corporate	Consolidated
	$	$	$	$
External revenues by market:				
United States	257,914	31,604	603	290,121
Canada	153,726	10,304	-	164,030
Other	63,528	4,710	-	68,238
Total revenues from external customers	475,168	46,618	603	522,389
Segment earnings before other expense, net	15,279	5,355	(9,745)	10,889
Other expense, net				-
Earnings before the following				10,889
Interest expense, net				(6,501)
Provision for income taxes				1,122
Minority interest				1,061
Earnings for the period				2,205

The SunOpta Food Group has the following segmented reporting:

					Six months ended June 30, 2008
	Grains and Foods Group	Ingredients Group	Fruit Group	Distribution Group	Food Group
	$	$	$	$	$
External revenues by market:					
United States	128,183	28,889	100,415	427	257,914
Canada	8,837	2,973	4,027	137,889	153,726
Other	22,022	1,912	39,487	107	63,528

Total revenues from external customers	159,042	33,774	143,929	138,423	475,168
Segment earnings before					
other expense, net	11,094	1,604	(4,089)	6,670	15,279

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
12.

Segmented information continued

				Six months ended June 30, 2007
	Food Group	Opta Minerals	SunOpta BioProcess and Corporate	Consolidated
	$	$	$	$
External revenues by market:				
United States	218,867	26,338	991	246,196
Canada	117,622	8,176	-	125,798
Other	17,498	343	43	17,884
Total revenues from external customers	353,987	34,857	1,034	389,878
Segment earnings before other expense, net	11,100	3,508	(3,977)	10,631
Other expense, net				406
Earnings before the following				10,225
Interest expense, net				(3,729)
Provision for income taxes				1,513
Minority interest				524
Earnings for the period				4,459

The SunOpta Food Group has the following segmented reporting:

					Six months ended June 30, 2007
	Grains and Foods Group	Ingredients Group	Fruit Group	Distribution Group	Food Group
	$	$	$	$	$
External revenues by market:					
United States	98,547	29,921	89,819	580	218,867
Canada	4,297	2,912	4,178	106,235	117,622
Other	15,338	1,354	806	-	17,498

Total revenues from external customers	118,182	34,187	94,803	106,815	353,987
Segment earnings before					
other expense, net	7,990	2,188	(3,836)	4,758	11,100

13.

Cash and cash equivalents

Included in cash and cash equivalents is $4,955 (December 31, 2007 - $26,556) of cash relating to SunOpta BioProcess that was raised as a result of a preferred share issuance in 2007. These funds are specific to SunOpta BioProcess and can only be used by SunOpta BioProcess, which will use these funds for the continued development of biomass conversion technologies and to build and operate commercial-scale facilities for the conversion of cellulosic biomass to ethanol. In June 2008, $20,000 of the SunOpta BioProcess cash was deposited into a short-term investment (note 13). Also included in cash and cash equivalents are funds of $2,832 (December 31, 2007 - $2,336) that are specific to Opta Minerals.

SunOpta Inc.

Notes to Condensed Consolidated Financial Statements

For the three and six months ended June 30, 2008 and 2007

Unaudited

(Expressed in thousands of U.S. dollars, except per share amounts)
13.

Cash and cash equivalents continued

These funds of $7,787 (December 31, 2007 - $28,892) are consolidated for financial statement reporting purposes due to the Company s ownership; however, these funds cannot be utilized by the Company for general corporate purposes and are maintained in separate bank accounts of the legal entities.

14.

Short-term investments

SunOpta BioProcess entered into a $20,000 short-term investment on June 27, 2008. The investments mature on December 24, 2008, and earn interest at a rate of 3.05% annually. This investment is specific to SunOpta BioProcess and can only be used by SunOpta BioProcess; and cannot be utilized by the Company for general corporate purposes.

15.

Selling, general and administrative expenses

Included in selling, general and administrative expenses (SG&A) for the three and six months ended June 30, 2008 is approximately $1,916 (2007 - $nil) of severance costs (including the acceleration of unvested stock options) related to the termination of the Company s Chief Executive Officer and Chief Financial Officer. Also included in SG&A expenses is approximately $4,304 (2007 - $nil) in the three months ended June 30, 2008 and approximately $5,672 (2007 - $nil) in the six months ended June 30, 2008 related to professional fees and related costs incurred with respect to the investigation within the SunOpta Fruit Group s Berry Operations.

16.

Subsequent events

Acquisition of MCP Mg-Serbian SAS

On July 10, 2008, Opta Minerals Inc announced that it had acquired 67% of the outstanding common shares of MCP Mg-Serbian SAS (MCP) of France for $1,100 in cash. Included in the acquisition is the option for Opta Minerals to acquire the remaining 33% minority interest under similar terms. Opta Minerals has also secured an option to purchase a majority position in an associated company located in Europe. MCP sells ground magnesium products to a variety of industries in Europe including integrated steel mills. The addition of MCP increases Opta Minerals position as a service provider to the steel industry.

PART I - FINANCIAL INFORMATION

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

Significant Developments

Corporate Developments

The Company received Staff Determination notices on April 2, 2008 and May 20, 2008 from The Nasdaq Stock Market ("Nasdaq") stating that the Company was not in compliance with the Nasdaq Marketplace Rules as a result of the delay in the filing of its Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and its Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2008, and that as a result the Company's securities could be delisted. The Company appealed the determination to delist the Company's securities, and a Listing Qualifications Panel of Nasdaq notified the Company that it would continue to list the Company's securities if (1) the Company reported to the Panel the findings of the Audit Committee investigation by July 20, 2008, and (2) the Company filed delinquent reports by July 31, 2008. The Company has reported the Audit Committee's findings to the Panel, filed its delinquent annual report on Form 10-K on July 22, 2008 and filed its delinquent first quarter Financial results on Form 10-Q on July 30, 2008.

The Company has also received letters from the Securities and Exchange Commission and from the Ontario Securities Commission requesting additional information related to the write-down and restatements described in its January 24, 2008 press release and it received an additional request from the Ontario Securities Commission for information regarding its stock option granting process. The Company is cooperating with the requests from these agencies.

Subsequent to the Company's press release on January 24, 2008, in which it downgraded previously issued earnings expectations and announced the restatement of prior quarterly financial statements due to a significant write-down and other adjustments, the Company and certain officers (one of whom is a director) and a former director were named as defendants in several proposed class action lawsuits in the United States. These lawsuits were filed in the United States District Court for the Southern District of New York on behalf of shareholders who acquired securities of the Company between May 8, 2007 and January 25, 2008. The lawsuits allege, among other things, violations of United States federal securities laws, misrepresentations and insider trading. These lawsuits are in a preliminary phase and are expected to be consolidated in one class action with a lead plaintiff. Similarly, a proposed class action lawsuit has also been filed in Canada in the Ontario Superior Court of Justice on behalf of shareholders who acquired securities of the Company between May 8, 2007 and January 25, 2008 against the Company and certain officers (one of whom is a director), alleging misrepresentation and proposing to seek leave from the Ontario court to bring statutory misrepresentation civil liability claims under Ontario's Securities Act. The Canadian Action claims damages of Cdn $100,000,000 plus punitive damages of Cdn $10,000,000 and other monetary relief. This action is also in its preliminary phase. Management intends to vigorously defend these actions.

On April 24, 2008, the Company announced the appointment of Mr. Tony Tavares to the position of Vice President and Chief Operating Officer, effective June 2, 2008. In this role, Mr. Tavares will assume operational and strategic responsibility for the SunOpta Food Group operations and global supply chain initiatives. Mr. Tavares brings over 20 years of food industry experience to this role.

On June 26, 2008, the Company announced that its Board of Directors had accepted recommendations of its Audit Committee regarding changes to a number of internal processes and procedures and certain management positions. It announced that Steve Bromley, CEO, and John Dietrich, CFO, would transition from their current positions by December 31, 2008. During this transition period the Company will search for suitable replacements. Steve Bromley will continue to serve on the Board of Directors until his term ends at the Annual Meeting in 2009.

On July 11, 2008, the Company received a waiver from its lenders for its inability to achieve certain ratios required under its syndicated lending agreement for the three month period ended March 31, 2008 and the year ended December 31, 2007. The Company also amended its lending agreement with its lending syndicate, primarily to adjust certain covenant ratio calculations and ratio targets.

Strategic Agreements

On March 11, 2008 the Company announced that it had entered into an agreement to establish a joint venture with Colorado Mills LLC ("Colorado Mills") of Lamar, Colorado, to build and operate an organic and natural vegetable oil refining facility. The venture will operate as Colorado Sun Oil Processing LLC and will be owned 50% by SunOpta and 50% by Colorado Mills. The processing facility will be located in Lamar, Colorado, adjacent to Colorado Mills' existing crude oil processing facility, and will be capable of refining approximately 35 million pounds annually of natural and organic sunflower, soybean and canola oils. The refining facility is expected to be operational in early 2009.

Acquisition of The Organic Corporation B.V.

On April 2, 2008, the Company announced that it had acquired all of the outstanding shares of The Organic Corporation B.V. ("TOC"), a global supplier of a wide variety of globally sourced organic food ingredients including frozen and fresh fruits and vegetables, dried fruits, coffee, cocoa, cereals, rice, soy, beans, pulses, seeds, nuts, oils, dairy products, seasonings, sweeteners and more. Tradin's organic foods sourcing and processing expertise complements the Company's broad natural and organic foods platform, sourcing and processing from diverse geographies and serving a global customer base. The combination of these capabilities is expected to lead to further integrated sourcing and processing opportunities around the globe. The Company paid 6,000,000 (U.S. $9,370,000) in cash and concurrently received 3,000,000 (U.S. $4,685,000) by way of subordinated debt payable to the former shareholders. A promissory note for 1,000,000 (U.S. $1,562,000) was also issued bearing interest at 7% and payable March 31, 2010. Additional consideration is payable on March 31, 2010 in the amount of the greater of 8,000,000 (U.S. $12,494,000) or 2.5 multiplied by 2009 earnings before interest, taxes, depreciation and amortization. Under the terms of the agreement, a minimum of 8,000,000 will be paid in 2010 or 2011 in satisfaction of the deferred consideration.

Acquisition of MCP Mg-Serbien SAS

On July 10, 2008, Opta Minerals acquired 67% of MCP of France. The transaction included an option to acquire the remaining 33% minority interest on similar terms. For fiscal 2007 MCP recorded revenues of approximately $6,300,000 selling ground magnesium products to a variety of industries in Europe including integrated steel mills. This acquisition expands business capabilities in Europe and complements existing operations in the U.S., Canada and Eastern Europe. Opta Minerals also secured an option to purchase a majority position in an associated company located in Europe which is focused on the production of magnesium ingots.

Operations for the Three Months ended June 30, 2008 Compared With the Three Months Ended June 30, 2007

Consolidated

	June 30, 2008	June 30, 2007	Change	Change
	$	$	$	%
Revenue				
SunOpta Food Group	266,226,000	187,665,000	78,561,000	41.9%
Opta Minerals	25,248,000	18,394,000	6,854,000	37.3%
SunOpta Bio Process	471,000	319,000	152,000	47.6%
Total Revenue	291,945,000	206,378,000	85,567,000	41.5%
Operating Income[1]				
SunOpta Food Group	9,051,000	7,319,000	1,732,000	23.7%
Opta Minerals	3,351,000	2,061,000	1,290,000	62.6%
SunOpta Bio Process & Corporate	(6,911,000)	(2,571,000)	(4,340,000)	168.8%
Total Operating Income	5,491,000	6,809,000	**(1,318,000)**	**(19.4%)**
Other Expense, net	-	(217,000)	217,000	(100.0%)
Interest Expense	3,601,000	1,818,000	1,783,000	98.1%
Income Tax Provision	473,000	1,048,000	(575,000)	(54.9%)
Minority Interest	698,000	321,000	377,000	117.4%
Net earnings	719,000	3,405,000	**(2,686,000)**	**(78.9%)**

1

(Operating Income is defined as "Earnings before the following" excluding the impact of "Other expense, net")

Revenues for the second quarter in 2008 as compared to the second quarter of 2007 increased by 41.5% to $291,945,000 based on consolidated internal growth of 20.8% and acquisition revenues of $35,298,000. Internal growth includes growth on base business plus growth on acquisitions from the date of acquisition over the previous year in addition to the impact of foreign exchange translations. Revenue growth continues to be driven by the SunOpta Food Group which realized internal revenue growth of 20.5% in 2008.

Operating income in the second quarter of 2008 decreased 19% to $5,491,000, compared to the same period in 2007. The SunOpta Food Group's operating income increased by $1,732,000 as increases within the SunOpta Grains and Foods Group, SunOpta Fruit Group and the SunOpta Distribution Group were offset by declines within the SunOpta Ingredients Group. Operating improvements of $1,290,000 were realized in Opta Minerals. The combined SunOpta BioProcess and Corporate Group realized losses and cost increases of $4,340,000. Approximately $6,352,000 of this loss was due to professional fees and related costs incurred as a result of the restatement of prior quarters and investigation into the Berry Operations in addition to severance accruals related to the transitioning of certain members of the senior management. Further details on revenue and operating income, including the impact of the corporate cost allocations, are provided by operating group below.

Interest expense increased by 98.1% to $3,601,000 for the three months ended June 30, 2008 as compared to the second quarter of 2