LABORATORY CORP OF AMERICA HOLDINGS
Form 10-K
February 26, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)
þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2007

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____ to ____

Commission file number 1-11353

LABORATORY CORPORATION OF AMERICA HOLDINGS
(Exact name of registrant as specified in its charter)

Delaware	**13-3757370**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
358 South Main Street, Burlington, North Carolina	**27215**
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) **(336) 229-1127**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of exchange on which registered**
Common Stock, $0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is well-known seasoned issuer, as defined in Rule 405 of Regulation S-K. Yes þ No ¨

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes ¨ No þ

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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer þ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes ¨ No þ

As of June 30, 2007, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $9.2 billion, based on the closing price on such date of the registrant s common stock on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 110.5 million shares as of February 18, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated: Portions of the Registrant's Notice of Annual Meeting and Proxy Statement to be filed no later than 120 days following December, 31, 2007 are incorporated by reference into Part III.

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PART I

Item 1. BUSINESS

Laboratory Corporation of America Holdings and its subsidiaries (the Company), headquartered in Burlington, North Carolina, is the second largest independent clinical laboratory company in the United States based on 2007 net revenues. Since the Company s founding in 1971, it has grown into a national network of 37 primary laboratories and over 1,600 patient service centers along with a network of branches and STAT laboratories (which are laboratories that have the ability to perform certain routine tests quickly and report the results to the physician immediately). Through its national network of laboratories, the Company offers a broad range of clinical laboratory tests that are used by the medical profession in routine testing, patient diagnosis, and in the monitoring and treatment of disease. In addition, the Company has developed specialty testing businesses based on certain types of specialized testing capabilities and client requirements, such as oncology testing, HIV genotyping and phenotyping, diagnostic genetics and clinical trials.

With over 26,000 employees, the Company processes tests on more than 420,000 patient specimens daily and provides clinical laboratory testing services to clients in all 50 states, the District of Columbia, Puerto Rico and three provinces in Canada. Its clients include physicians, hospitals, managed care organizations, governmental agencies, large employers, pharmaceutical companies and other independent clinical laboratories that do not have the breadth of its testing capabilities. Several hundred of the Company s tests are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or to search for an otherwise undiagnosed condition. The most frequently-requested of these routine tests include blood chemistry analyses, urinalyses, blood cell counts, thyroid tests, Pap tests, HIV tests, microbiology cultures and procedures, and alcohol and other substance-abuse tests. The Company performs this core group of routine tests in each of its major laboratories using sophisticated and computerized instruments, with most results reported within 24 hours. In addition, the Company provides specialty testing services in the areas of allergy, clinical trials, diagnostic genetics, identity, infectious disease, oncology and occupational testing.

The Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports are made available free of charge through the Media and Investor Relations section of the Company s internet website at www.labcorp.com as soon as practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission.

The Company is committed to providing the highest quality laboratory services to its clients in full compliance with all federal, state and local laws and regulations. The Company s Code of Business Conduct and Ethics outlines ethics and compliance policies adopted by the Company to meet this commitment. These policies apply to all employees of the Company and its subsidiaries as well as the Company s Board of Directors. The Code of Business Conduct and Ethics, as well as the Charters for the Audit, Compensation, Ethics and Quality Assurance, and Nominating and Corporate Governance Committees, and the Company s Corporate Governance Guidelines, are posted on the Company s website www.labcorp.com. The Company has established a Compliance Action hotline (1-800-801-1005), which provides a confidential and anonymous method to report a possible violation of a LabCorp compliance policy or procedure, or a federal or state law or regulation; a HIPAA Privacy hotline (1-877-234-4722), which provides a confidential and anonymous method to report a possible violation of a HIPAA privacy, security or billing policy or procedure; and an Accounting hotline (1-866-469-6893), which provides a confidential and anonymous method to report a possible violation of internal accounting controls or auditing matters.

The Clinical Laboratory Testing Industry

Laboratory tests and procedures are used generally by hospitals, physicians and other health care providers and commercial clients to assist in the diagnosis, evaluation, detection, therapy selection, monitoring and treatment of diseases and other medical conditions through the examination of substances in the blood, tissues and other specimens. Clinical laboratory testing is generally categorized as either clinical pathology testing, which is performed on body fluids including blood, or anatomical pathology testing, which is performed on histologic or cytologic samples (e.g., tissue and other samples, including human cells). Clinical and anatomical pathology procedures are frequently ordered as part of regular

physician office visits and hospital admissions in connection with the diagnosis and treatment of illnesses. Certain of these tests and procedures are used in the diagnosis and management of a wide variety of medical conditions such as cancer, AIDS, endocrine disorders, cardiac disorders and genetic disease.

The clinical laboratory industry consists primarily of three types of providers: hospital-based laboratories, physician-office laboratories and independent clinical laboratories, such as those owned by the Company. The Company believes that in 2007 the entire United States clinical laboratory testing industry had revenues of approximately $50 billion; approximately 54% of such revenues were attributable to hospital-affiliated laboratories, approximately 41% were attributable to independent clinical laboratories and others, and approximately 5% were attributable to physicians in their offices and laboratories. The Centers for Medicare and Medicaid Services (CMS) of the Department of Health and Human Services (HHS) has estimated that in 2007 there were approximately 5,350 independent clinical laboratories in the United States.

The clinical laboratory business is intensely competitive. There are presently two major national independent clinical laboratories: the Company and Quest Diagnostics Incorporated (Quest), which had approximately $6.7 billion in revenues from clinical laboratory testing in 2007. The remaining estimated $39 billion of testing performed in the United States is performed by hospitals (approximately $27 billion) and regional, specialty, and physicians laboratories (approximately $12 billion). In addition to Quest, the Company competes with many smaller independent clinical and anatomical laboratories as well as laboratories owned by hospitals and physicians. The Company believes that health care providers in selecting a laboratory often use the following factors, among others:

accuracy, timeliness and consistency in reporting test results;

reputation of the laboratory in the medical community or field of specialty;

service capability and convenience offered by the laboratory;

number and type of tests performed;

connectivity solutions offered; and

pricing of the laboratory s test services.

The Company believes that it competes favorably with its principal competitors in each of these areas and is currently implementing strategies to improve its competitive position.

The Company believes that large scale consolidation has decelerated, but will continue in the clinical laboratory testing business. In addition, the Company believes that it and the other large independent clinical laboratory testing companies will be able to increase their share of the overall clinical laboratory testing market due to a number of external factors including cost efficiencies afforded by large-scale automated testing, reimbursement reductions and the growth of managed health care entities which require cost efficient testing services and large service networks. In addition, legal restrictions on physician referrals and their ownership of laboratories as well as increased regulation of laboratories are expected to contribute to the continuing consolidation of the industry.

Effect of Market Changes on the Clinical Laboratory Business

Many market-based changes in the clinical laboratory business have occurred over the past ten years, primarily as a result of the shift away from traditional, fee-for-service medicine to managed-cost health care. The growth of the managed care sector and consolidation of managed care companies present various challenges and opportunities to the Company and other independent clinical laboratories. During 2006, the Company signed a ten-year agreement with UnitedHealthcare to become its exclusive national laboratory. This agreement represents an industry first in terms of its length and exclusivity at a national level. The various managed care organizations (MCOs) have different contracting philosophies. Some MCOs contract with a limited number of clinical laboratories and negotiate discounts to the fees charged by such laboratories. Other MCOs allow any willing provider to be contracted at specified discounted rates. The Company s ability to attract and retain managed care clients is critical given these new and evolving models. In addition, some MCOs have used capitated payment contracts in an attempt to fix the cost of laboratory testing services for their enrollees. Under a capitated payment contract, the clinical laboratory and the managed care organization agree to a per member, per month payment to pay for all

authorized laboratory tests ordered during the month by the physician for the members, regardless of the number or cost of the tests actually performed. The Company makes significant efforts to ensure that esoteric tests (which are more sophisticated tests used to obtain information not provided by routine tests and generally involve a higher level of complexity and more substantial human involvement than routine tests) are excluded from capitated arrangements and therefore paid for separately by the managed care organization. Capitated payment contracts shift the risks of additional testing beyond that covered by the capitated payment to the clinical laboratory. For the year ended December 31, 2007, such capitated contracts accounted for approximately $167.5 million, or 4.1%, of the Company s net sales.

In addition, Medicare (which principally services patients 65 and older), Medicaid (which principally services low-income patients) and insurers have increased their efforts to control the cost, utilization and delivery of health care services. Measures to regulate health care delivery in general and clinical laboratories in particular have resulted in reduced prices, added costs and decreased test utilization for the clinical laboratory industry by increasing complexity and adding new regulatory and administrative requirements. From time to time, Congress has also considered changes to the Medicare fee schedules, and the Company believes that pressure to reduce reimbursement for Medicare services will continue. Similar pressure for reductions in the reimbursement rates of other third-party payers is likely to occur as well.

Despite the potential market changes discussed above, the Company believes that the volume of clinical laboratory testing will be positively influenced by several factors, including increased knowledge of the human genome leading to an enhanced appreciation of the value of gene-based diagnostic assays and the development of new therapeutics that have a companion diagnostic to help identify the sub-set of the population for whom it is effective or who may suffer adverse events.

The Company believes its enhanced esoteric menu and larger geographic footprint provides a strong platform for growth. Additional factors which may lead to future volume growth include an increase in the number and types of tests which are readily available (due to advances in technology and increased cost efficiencies) for testing of cancer and infectious diseases and the general aging of the population in the United States. The impact of these factors is expected to be partially offset by declines in volume as a result of increased controls over the utilization of laboratory services by Medicare and other third-party payers, particularly managed care organizations. In addition, movement by patients into consumer driven health plans may have an impact on the utilization of laboratory testing.

Company Strategy

The Company s strategic plan focuses on three critical priorities that provide maximum opportunity for continued growth and profitability. They are scientific differentiation, managed care and customer service.

Scientific Differentiation

The Company believes that it has differentiated itself from its competition and positioned itself for continued strong growth by building a leadership position in genomic and other advanced testing technologies. This leadership position enables the Company to provide a broad menu of testing services in the genetics and cancer markets, which it believes represents two of the most significant areas of future growth in the clinical laboratory industry. The Company s strategic objective is to expand its leadership position in genomic and other advanced testing technologies to deliver outstanding and innovative clinical testing services to patients and physicians nationwide.

The Company s licensing of ovarian cancer technology from Yale University in 2006 and lung cancer technology from Duke University in 2008, positions the Company with a pipeline of innovation from two of the country s leading universities.

As the promise of genomic medicine begins to be fulfilled with the introduction of new therapeutics that have associated companion diagnostics to identify targeted or at-risk subsets of the population, guide dosing strategies, etc., the Company is well positioned to continue to leverage its position as the scientific leader in the clinical laboratory industry. In 2007, the Company announced a partnership with ARCA Discovery to commercialize a companion diagnostic for the first personalized cardiovascular

therapy, Bucindolol, a genetically-targeted beta-blocker. The new test will identify patients more likely to have an adverse drug event, as well as patients more likely to have a positive response to the drug. Additionally, in January 2008, the Company announced a definitive agreement to acquire Tandem Labs, a leading bioanalytical and immunoanalytical clinical research testing laboratory supporting pharmaceutical and biotechnology companies with their discovery, preclinical and clinical drug development programs. With broad scientific expertise and clinical trial capabilities, the Company can provide assistance in the development and validation of these companion diagnostics as well as an international infrastructure to allow them to be broadly used within the market.

Managed Care

Strong managed care partnerships are key to the Company, both to secure appropriate payment for its services and as distribution channels for the Company s new and existing tests. They also contribute to the Company s priorities as it extends its scientific leadership priorities. The Company has devoted substantial business and scientific resources to its managed care customers to ensure that it is providing this growing segment with the creative solutions and quality services that they expect.

The Company has worked to develop deeper relationships with managed care companies around the provision and analysis of laboratory data. The Company provides managed care companies access to LabCorp DataLink, a self-service on-line tool that allows managed care companies to analyze data on their enrollees nationwide. The Company has also developed numerous data sharing arrangements with managed care companies to support their efforts in disease management and other initiatives focused on improving care and decreasing costs.

The Company s growing national presence provides a number of significant benefits and it intends to maintain and continue to build this presence. The Company s national network enables it to provide high-quality services to physicians, hospitals, managed care organizations and other customers across the United States. The Company s managed care contracts with Cigna, Humana, UnitedHealthcare, and Wellpoint demonstrate the importance of delivering services on a nationwide basis, which was a factor in the selection of the Company by UnitedHealthcare as its exclusive national laboratory. Since the signing of the UnitedHealthcare contract, the Company has expanded its national network by adding over 400 new patient service centers. The Company s scale also provides it with significant cost structure advantages, particularly related to supply and other operating costs.

Customer Service

Providing exceptional customer service is one of the Company s highest priorities. Customer retention requires understanding the unique needs and challenges that face each of the Company s customer segments and providing solutions that address those needs. The Company continually seeks to improve its offerings in physician education tools, integrated information management solutions, improved customer care initiatives and innovative patient information guides. These customer retention activities are designed to further the Company s success in all aspects of its business.

The Company offers a variety of connectivity solutions including *e*LabCorp, a web-based connectivity solution. The Company s connectivity platform integrates easily with a wide variety of existing electronic medical records systems, practice management systems, and procedure writing systems, allowing physicians to access testing services without changing the software systems they use for the rest of their practice needs. As part of its commitment to expand patient access in the fourth quarter of 2006, the Company entered a partnership with Duane Reade, Inc. (Duane Reade) to locate patient service centers in certain Duane Reade drugstores in the New York metropolitan area. The Company believes that the addition of these and other new access points will continue to make the Company the most convenient laboratory for doctors and their patients.

Laboratory Testing Operations and Services

The Company has a national network of primary laboratories, branches, patient service centers and STAT laboratories. A branch is a central facility which collects specimens in a region for shipment to one of the Company s laboratories for testing. A branch is also frequently used as a base for sales and distribution staff. Generally, a patient service center is a facility maintained by the Company to serve the patients of physicians in a medical professional building or other strategic location. The patient service center collects the specimens as requested by the physician. The specimens are sent, principally through the Company s in-house courier system (and, to a lesser extent, through independent couriers), to one of the Company s primary testing facilities for testing. Some of the Company s patient service centers also function as STAT labs, which are laboratories that have the ability to perform certain routine tests quickly and report results to the physician immediately. Patient specimens are typically delivered to the Company accompanied by a test request form. These forms, which are completed by the client or transcribed by a Company patient service technician from a client order, indicate the tests to be performed and provide the necessary billing information.

Each specimen and related request form is checked for completeness and then given a unique identification number. The unique identification number assigned to each specimen helps to ensure that the results are attributed to the correct patient. The test request forms are sent to a data entry operator who ensures that a file is established for each patient and the necessary testing and billing information is entered. Once this information is entered into the software system, the tests are performed and the results are entered through EDI interface or manually, depending upon the tests and the type of equipment involved. Most of the Company s automated testing equipment is connected to the Company s information systems. Most routine testing is completed by early the next morning and test results are in most cases electronically delivered to clients via smart printers, personal computer-based products or computer interfaces.

Testing Services

Routine Testing

The Company offers a broad range of clinical laboratory tests and procedures. Several hundred of these are frequently used in general patient care by physicians to establish or support a diagnosis, to monitor treatment or medication, or to search for an otherwise undiagnosed condition. The most frequently requested tests include blood chemistry analyses, thyroid tests, urinalyses, blood cell counts, Pap tests, HIV tests, microbiology cultures and procedures and alcohol and other substance-abuse tests. These routine procedures are most often used by physicians in their outpatient office practices. Physicians may elect to send such procedures to an independent laboratory or they may choose to establish their own laboratory to perform some of the tests.

The Company performs this core group of routine tests in each of its primary laboratories, which constitutes a majority of the testing performed by the Company. The Company generally performs and reports most routine procedures within 24 hours, utilizing a variety of sophisticated and computerized laboratory testing instruments.

Specialty Testing

While the information provided by many routine tests may be used by nearly all physicians, regardless of specialty, many other procedures are more specialized in nature. One of the growth strategies of the Company is the continued expansion of its specialty testing businesses, which involve certain types of unique testing capabilities and/or client requirements. In general, the specialty testing businesses serve two market segments: (i) markets that are not typically served by the clinical testing laboratory; and (ii) markets which are served by the clinical testing laboratory and offer the possibility of adding related services (such as clinical trials or occupational drug testing) from the same supplier. The Company s research and development group continually seeks new and improved technologies for early diagnosis. For example, the Company s Center for Molecular Biology and Pathology (CMBP) is a leader in molecular diagnostics and polymerase chain reaction (PCR) technologies, which are often able to provide earlier and more reliable information regarding HIV, genetic diseases, cancer and many other viral and bacterial diseases. In August 2000, the Company acquired National Genetics Institute, Inc.

(NGI), a leader in the development of PCR assays for Hepatitis C (HCV). In June 2001, the Company acquired Viro-Med Laboratories, Inc., which offers molecular microbial testing using real time PCR platforms. In January 2003, the Company acquired DIANON Systems, Inc. a leader in anatomic pathology testing. In February 2005, the Company acquired US LABS, a leader in anatomic pathology and oncology testing services. In May 2005, the Company acquired Esoterix, a leading provider of specialty reference testing. In November 2006, the Company acquired Litholink Corporation (Litholink), a nationally-recognized kidney stone analysis laboratory known for its extensive stone management program. Management believes these technologies may represent a significant savings to the healthcare system either by increasing the detection of early stage (treatable) diseases or by more effectively managing chronic disease conditions. The following are specialty testing businesses in which the Company offers testing and related services:

Infectious Disease. The Company provides complete viral load testing as well as HIV genotyping and phenotyping. In 2000, the Company added HIV GenoSure to its portfolio of HIV resistance testing services. The Company s use of this leading-edge technology puts it in the forefront of HIV drug resistance testing, one of the most important issues surrounding the treatment of HIV. In 2007, the Company became the first commercial laboratory to offer fully automated real-time HIV testing from Roche Diagnostics. Additionally, the Company provides comprehensive testing for HCV including both PCR testing and genotyping at CMBP, NGI and Viro-Med.

Diagnostic Genetics. The Company offers cytogenetic, molecular cytogenetic, biochemical and molecular genetic tests. In 2007, the Company added integrated and sequential prenatal screening for more sensitive assessment of Down syndrome risk. Additionally, in January 2008, the Company announced the introduction of the Affymetrix whole genome microarray technology offering enhanced detection of the etiology of mental retardation, developmental delay and autism.

Oncology Testing. The Company offers an extensive series of testing technologies that aid in diagnosing and monitoring certain cancers and predicting the outcome of certain treatments. The acquisitions of Dianon, US LABS and Esoterix further expanded the Company s capabilities in specialized pathology; including hematopathology, dermatopathology and uropathology.

Clinical Trials Testing. The Company regularly performs clinical laboratory testing for pharmaceutical companies conducting clinical research trials on new drugs. This testing often involves periodic testing of patients participating in the trial over several years.

Identity Testing. The Company provides forensic identity testing used in connection with criminal proceedings and parentage evaluation services which are used to assist in determining parentage for child support enforcement proceedings and determining genetic relationships for immigration purposes. Parentage testing involves the evaluation of immunological and genetic markers in specimens obtained from the child, the mother and the alleged father. The Company also provides testing services in reconstruction cases, which assist in determining parentage without the presence of the parent in question. Management believes the Company is now the largest provider of identity testing services in the United States.

Allergy Testing. The Company offers an extensive range of allergen testing services as well as computerized analysis and a treatment program that enables physicians to diagnose and treat many kinds of allergic disorders.

Occupational Testing Services. The Company provides urine and blood testing services for the detection of drug and alcohol abuse for private and government customers. These testing services are designed to produce forensic quality test results that satisfy the rigorous requirements for admissibility as evidence in legal proceedings. The Company also provides other analytical testing and a variety of management support services.

The specialized testing services noted above, as well as other complex procedures, are sent to designated facilities where the Company has concentrated the people, instruments and related resources for performing these procedures so that quality and efficiency can be most effectively monitored. CMBP, NGI, Viro-Med, Dianon, US LABS and Esoterix also specialize in new test development and related education and training.

Development of New Tests

Advances in medicine have begun to fundamentally change diagnostic testing, and new tests are allowing clinical laboratories to provide unprecedented amounts of health-related information to physicians and patients. Significant new tests introduced over the past several years include a gene-based test for human papillomavirus as well as tests for HIV phenotyping and cystic fibrosis. As science continues to advance, the Company expects new testing technologies to emerge; therefore, it intends to continue to invest in advanced testing capabilities so that it can remain on the cutting edge of diagnostic laboratory testing. The Company has added, and expects to continue to add, new testing technologies and capabilities through a combination of internal development initiatives, technology licensing and partnership transactions and selected business acquisitions. Through its national sales force, the Company rapidly introduces new testing technologies to physician customers. This differentiation is important in the retention and growth of business.

In 2007, the Company continued its long-standing tradition of scientific vision and leadership with the introduction of more than 40 significant test menu and automation enhancements. The Company s focus is specifically in areas where novel diagnostic assays provide actionable results for unmet clinical needs. Also, the Company introduced six new companion diagnostic tests, providing clinicians with innovative ways to avoid adverse drug reactions in their patients. These tests are particularly important for patients with breast and other cancers, HIV and Hepatitis B. In October 2007, the Company entered into a strategic research agreement with Medco Health Solutions, Inc. to advance the field of pharmacogenomics by exploring the use of personal genetics in patients taking the drug tamoxifen.

Additionally, in 2008, the Company announced an exclusive licensing agreement with Duke University to commercialize Duke s new blood-based assay for early detection of lung cancer.

The Company continued its industry leadership in gene-based and esoteric testing, generating $1.4 billion in revenue, and growing at more than 12 percent. The Company has pioneered a cheek swab format for most genetic tests, making them easier to perform and sparing patients the necessity of blood draws. The Company also introduced test menu enhancements in areas such as autism, oncology, endocrinology, coagulation and infectious diseases.

The Company continued to expand its capabilities in mass spectrometry, highlighted by a menu of 41 novel assays in the area of endocrinology. Additionally, the Company s programs in biochemical genetics, oncology and therapeutic drug monitoring take advantage of its mass spectrometry capabilities at both its major North Carolina labs, the Center for Esoteric Testing and CMBP.

Continuing the Company s leadership in scientific innovation, on February 13, 2007, the Company announced a partnership with ARCA Discovery to commercialize a companion diagnostic for the first personalized cardiovascular therapy, Bucindolol, a genetically-targeted beta-blocker. The new test will identify patients more likely to have an adverse drug event, as well as patients more likely to have a positive response to the drug. Additionally, in January 2008, the Company announced a definitive agreement to acquire Tandem Labs, a leading bioanalytical and immunoanalytical clinical research testing laboratory supporting pharmaceutical and biotechnology companies with their discovery, preclinical and clinical drug development programs. Both events further advance the Company s leadership position in the laboratory and drug development industries, and solidify its position as the premier laboratory in the field of companion diagnostics.

Clients

The Company provides testing services to a broad range of health care providers. During the year ended December 31, 2007, no client or group of clients under the same contract accounted for more than nine percent of the Company s net sales. The primary client groups serviced by the Company include:

Independent Physicians and Physician Groups

Physicians requiring testing for their patients are one of the Company s primary sources of testing services. Fees for clinical laboratory testing services rendered for these physicians are billed either to the physician, to the patient or the patient s third-party payer such as an insurance company, Medicare or Medicaid. Billings are typically on a fee-for-service basis. If the billings are to the physician, they are based on a customer fee schedule and are subject to negotiation. Otherwise, the patient or third-party payer is billed at the laboratory s patient fee schedule, subject to third-party payer limitations and negotiation by physicians on behalf of their patients. Revenues received from Medicare and Medicaid billings are based on government-set fee schedules and reimbursement rules.

Hospitals

The Company provides hospitals with services ranging from routine and specialty testing to contract management services. Hospitals generally maintain an on-site laboratory to perform immediately needed testing of patients receiving care. However, they also refer less time sensitive procedures, less frequently needed procedures and highly specialized procedures to outside facilities, including independent clinical laboratories and larger medical centers. The Company typically charges hospitals for any such tests on a fee-for-service basis which is derived from the Company s customer fee schedule. Fees for management services are billed monthly at contractually agreed-upon rates.

Managed Care Organizations

The Company serves many MCOs. The various MCOs have certain different contracting philosophies. Some MCOs contract with a limited number of clinical laboratories and negotiate discounts to the fees charged by such laboratories. Other MCOs allow any willing provider to be contracted at specified discounted rates. The majority of the Company s managed care testing is negotiated on a fee-for-service basis. Testing is sometimes reimbursed on a capitated basis for MCOs. Under a capitated payment contract, the Company agrees to perform certain laboratory tests during a given month for which the MCO agrees to pay a flat monthly fee for each covered member. The tests covered under agreements of this type are negotiated for each contract, but usually include routine tests and exclude highly specialized tests. Many of the national and large regional MCOs prefer to use large independent clinical labs such as the Company because the MCOs can monitor service and performance on a national basis.

Other Institutions

The Company serves other institutions, including government agencies, large employers and other independent clinical laboratories that do not have the breadth of the Company s testing capabilities. The institutions typically pay on a negotiated fee-for-service basis.

Payers

Testing services are billed to private patients, Medicare, Medicaid, commercial clients, MCOs and other insurance companies. Tests ordered by a physician may be billed to different payers depending on the medical insurance benefits of a particular patient. Most testing services are billed to a party other than the physician or other authorized person who ordered the test. For the year ended December 31, 2007, accessions (based on the total volume of accessions) and average revenue per accession by payer are as follows:

	Accession Volume as a % of Total	Revenue per Accession
Private Patients	2.1%	$ 158.84
Medicare and Medicaid	17.1%	$ 40.66
Commercial Clients	31.9%	$ 31.60
Managed Care	48.9%	$ 35.74

A portion of the managed care fee-for-service revenues are collectible from patients in the form of deductibles, copayments and coinsurance.

Investments in Joint Venture Partnerships

In connection with the acquisition of Dynacare in 2002, the Company holds investments in three joint venture partnerships, located in Milwaukee, Wisconsin; Ontario, Canada; and Alberta, Canada. These businesses represent partnership agreements between Dynacare and other independent diagnostic laboratory investors. Under these agreements, all partners share in the profits and losses of the businesses in proportion to their respective ownership percentages. All partners are actively involved in the major business decisions made by each joint venture.

Each of the Canadian partnerships own licenses to conduct diagnostic testing services in their respective provinces. Substantially all of their revenues are received as reimbursement from the provincial governments health care programs. While the Canadian licenses guarantee the joint ventures the ability to conduct diagnostic testing in their respective provinces, they do not guarantee that the provincial governments will continue to reimburse diagnostic laboratory testing at current levels. If the provincial governments decide to limit or reduce their reimbursement of laboratory diagnostic services, it could have a negative impact on the profits and cash flows the Company derives from these investments as well as possibly impair the value assigned by the Company to the Canadian joint ventures.

Effective January 1, 2008, the Company acquired additional partnership units in its Ontario, Canada joint venture, bringing the Company s percentage interest owned up to 85.6%. Concurrent with this acquisition, the terms of the joint venture s partnership agreement were amended. Based upon the amended terms of this agreement, the Company began including the consolidated operating results, financial position and cash flows of the Ontario, Canada joint venture in the Company s consolidated financial statements on January 1, 2008. The amended joint venture s partnership agreement also enables the minority interest to put the remaining partnership units to the Company in defined future periods, at an initial amount equal to the consideration paid by the Company in 2008, and subject to adjustment based on market value formulas contained in the agreement.

Sales, Marketing and Client Service

The Company offers its services through a sales force focused on serving the specific needs of customers in different market segments. These market segments generally include Specialty Cancer, Hospitals and Primary Care. The Company s sales force is compensated through a combination of salaries, commissions and bonuses, at levels commensurate with each individual s qualifications, performance and responsibilities. Commissions are primarily based upon the individual s ability to generate and retain business for the Company from new and existing customers.

The Company believes that the clinical laboratory service business is shifting away from the traditional direct sales structure to one in which the purchasing decisions for laboratory services are increasingly being made by managed care organizations, insurance plans, employers and even by patients themselves. In view of these changes, the Company has adapted its sales and marketing structure to more appropriately address the opportunities presented by this shift.

The Company competes primarily on the basis of the quality of its testing, innovation of its services, convenience of its comprehensive test menu, and access points throughout the nation.

Information Systems

The Company has developed and implemented management information systems that support the operations of the company as well as strategically position the Company for long term growth in light of evolving market trends around the utilization of laboratory data by its customers.

The Company benefits from having a common laboratory system and a common billing system, which are both maintained in Burlington, North Carolina. With approximately 93% of the Company s revenue processed by these systems, this centralized IS platform provides tremendous operational efficiencies for the Company. It also represents a valuable data platform that allows the Company to provide consistent, structured, and standardized laboratory results to its customers. The Company believes that this standardized laboratory data will be even more important and valuable to its customers as they continue to develop and refine disease management tools and capabilities that provide improved care and reduced

costs.

The creation of new Regional Health Information Organizations (RHIOs) throughout the country and the continued evolution of federally funded programs such as the Office of the National Coordinator for Health Information Technology (ONCHIT) also speak to a broader trend around the utilization of health care data by new entities. The Company s data platform positions it well to participate in these initiatives and others as they evolve.

Billing

Billing for laboratory services is a complicated process involving many different payers such as doctors, patients, insurance companies, Medicare, Medicaid and employer groups, all of which have different billing requirements. In addition, billing process arrangements with third-party administrators and disputes regarding responsible parties further complicate the billing process.

The Company utilizes a centralized billing system in the collection of substantially all of its accounts receivable. This system generates bills to customers based on the payer type. Client billing is typically generated monthly, whereas patient and third-party billing are typically generated daily. Agings of accounts receivable are then monitored by billing personnel and re-bills and follow-up activities are conducted as necessary. Bad debt expense is recorded within selling, general and administrative expenses as a percentage of sales considered necessary to maintain the allowance for doubtful accounts at an appropriate level, based on the Company s experience with its accounts receivable. The Company writes off accounts against the allowance for doubtful accounts when they are deemed to be uncollectible. For client billing, accounts are written off when all reasonable collection efforts prove to be unsuccessful. Patient accounts are written off after the normal dunning cycle has occurred and the account has been transferred to a third-party collection agency. Third-party and managed care accounts are written off when they exceed the payer s timely filing limits.

A portion of the Company s bad debt expense is the result of non-credit related issues that slow the billing process, such as missing or incorrect billing information on requisitions. The Company generally performs the requested tests and returns the test results regardless of whether billing information is incorrect or incomplete. The Company subsequently attempts to obtain any missing information or rectify any incorrect billing information received from the health care provider. The Company believes that this experience is similar to that of its primary competitors. The Company continues to focus on a number of process initiatives aimed at reducing the impact of these non-credit related issues by:

- reducing the number of requisitions received that are missing billing information. This involves counting the number of clinical requisitions received with missing information by ordering client, as well as determining what specific information was not provided. The Company then identifies root causes of why the information was missing and takes steps to ensure that information is provided in the future. These steps include re-educating clients as to what information is needed in order for the Company to bill and collect for the test;

- installing personal computer based products in client offices and Company locations to help with the accuracy and completeness of billing information captured on the front-end; and

- developing and implementing enhanced eligibility checking to compare information to payer records before billing.

In addition to the non-credit issues, another component of the Company s bad debt expense is related to accounts receivable from patients. This portion of the Company s bad debt expense is from the patient s unwillingness or inability to pay. The Company also remains focused on process initiatives to reduce the negative impact of patient accounts receivable by:

- collecting payment at the time of service;

- increasing training for billing personnel to improve collections during phone calls; and

- reviewing bill design and frequency.

Quality

The Company has established a comprehensive quality assurance program for its laboratories and other facilities designed to help assure accurate and timely test results. In addition to the compulsory external inspections and proficiency programs required by CMS and other regulatory agencies, systems and procedures are in place to emphasize and monitor quality assurance. All of the Company s regional laboratories are subject to on-site evaluations, the College of American Pathologists (CAP) proficiency testing program, state surveys and the Company s own internal quality control programs.

Customer Interaction. Processes to continually improve the customers experience with the Company are essential. Use of technology in the Company s patient service centers will help reduce patient wait times by expediting patient registration and the information collection process.

Specimen Management. The use of logistics and specimen tracking technology allows the timely transportation, validation and storage of specimens. The Company is continually improving its ability to timely collect specimens from all locations, and its ability to ensure timely transportation and tracking of specimens from all locations.

Quality Control. The Company regularly performs quality control testing by running quality control samples with known values at the same time as patient samples are submitted for testing. Quality control sample test results for interfaced automated clinical tests are entered into the Company s computererized quality control database. This allows for real-time monitoring for any statistically and clinically significant analytical differences, and enables technologists and technicians to take immediate and appropriate corrective action prior to release of patient results.

Internal Proficiency Testing. The Company has an extensive voluntary proficiency testing program in which each laboratory receives samples to test. This quarterly internal proficiency program serves to test the Company s analytical and post analytical phases of laboratory testing service including order entry, accessioning systems, accuracy, precision of its testing protocols, technologist/technician performance, and quality assurance reporting checks. This program serves to supplement the external proficiency programs supplied by the laboratory accrediting agencies.

External Proficiency/Accreditation. The Company participates in numerous externally-administered, quality surveillance programs, including the CAP program. CAP is an independent non-governmental organization of board-certified pathologists which offers an accreditation program to which laboratories can voluntarily subscribe. CAP has been accredited by CMS to inspect clinical laboratories to determine adherence to the Clinical Laboratory Improvement Act of 1967 and the Clinical Laboratory Improvement Amendments of 1988 standards. A laboratory s receipt of accreditation by CAP satisfies the CMS requirement for participation in proficiency testing programs administered by an external source. The CAP program involves both on-site inspections of the laboratory and participation in CAP s proficiency testing program for all categories in which the laboratory is accredited. All of the Company s major laboratories are accredited by CAP.

Quality encompasses many other facets of the Company s service, such as turnaround time, client service, patient satisfaction, and billing. The Company s quality assessment (QA) program includes measures that compare its current performance against desired performance goals detailed in its quality plan. Using quality assessment techniques, the Company s laboratories employ a variety of programs to monitor critical aspects of service to its clients and patients.

The Company s forensic crime laboratory, located at Research Triangle Park, NC, is accredited by the American Society of Crime Laboratory Directors, Laboratory Accreditation Board (ASCLD/LAB) in the category of DNA testing. Under the Crime Laboratory Accreditation Program managed by the ASCLD/LAB, a crime laboratory undergoes a comprehensive and in-depth inspection to demonstrate that its management, operations, employees, procedures and instruments, physical plant, and security and personnel safety procedures meet stringent quality standards. The Company is one of 336 ASCLD accredited crime laboratories worldwide and is one of only 24 private crime laboratories holding the accreditation. Accreditation is granted for a period of five years provided that a laboratory continues to meet the standards during that period.

Employees

As of January 31, 2008, the Company had over 26,000 full-time equivalent employees. Subsidiaries of the Company have three collective bargaining agreements (CBA) which cover approximately 706 employees. In 2007, the Company successfully concluded the renewal of one CBA and in 2008 the Company will be negotiating the terms of a second CBA that expires in May. The Company s success is highly dependent on its ability to attract and retain qualified employees, and the Company believes that it has good overall relationships with its employees.

Regulation and Reimbursement

General

The clinical laboratory industry is subject to significant governmental regulation at the federal, state and local levels. As described below, these regulations concern licensure and operation of clinical laboratories, payment for laboratory services, health care fraud and abuse, security and confidentiality of health information, quality, and environmental and occupational safety.

Regulation of Clinical Laboratories

The Clinical Laboratory Improvement Amendments of 1988 (CLIA) extended federal oversight to virtually all clinical laboratories by requiring that they be certified by the federal government or by a federally-approved accreditation agency. CLIA requires that all clinical laboratories meet quality assurance, quality control and personnel standards. Laboratories also must undergo proficiency testing and are subject to inspections.

Standards for testing under CLIA are based on the complexity of the tests performed by the laboratory, with tests classified as either high complexity, moderate complexity, or waived. Laboratories performing high complexity testing are required to meet more stringent requirements than moderate complexity laboratories. Laboratories performing only waived tests, which are tests determined by the Food and Drug Administration to have a low potential for error and requiring little oversight, may apply for a certificate of waiver exempting them from most of the requirements of CLIA. All major and many smaller Company facilities hold CLIA certificates to perform high complexity testing. The Company s remaining smaller testing sites hold CLIA certificates to perform moderate complexity testing or a certificate of waiver. The sanctions for failure to comply with CLIA requirements include suspension, revocation or limitation of a laboratory s CLIA certificate, which is necessary to conduct business, cancellation or suspension of the laboratory s approval to receive Medicare and/or Medicaid reimbursement, as well as significant fines and/or criminal penalties. The loss or suspension of a CLIA certification, imposition of a fine or other penalties, or future changes in the CLIA law or regulations (or interpretation of the law or regulations) could have a material adverse effect on the Company.

On July 26, 2007, the Food and Drug Administration (FDA) issued *Draft Guidance for Industry, Clinical Laboratories, and FDA Staff: In Vitro Diagnostic Multivariate Index Assays* (the Draft Guidance). The Draft Guidance announces that devices deemed In Vitro Diagnostic Multivariate Index Assays (IVDMIAs) are Class II or Class III devices requiring, among other things, premarket notification clearance or premarket approval from FDA. This guidance would change the agency s historical practice regarding regulation of certain laboratory-developed tests. There are other regulatory and legislative proposals that would increase general FDA oversight of clinical laboratories and laboratory developed tests. The outcome and ultimate impact of such proposals on the business is difficult to predict at this time.

The Company is also subject to state and local laboratory regulation. CLIA provides that a state may adopt laboratory regulations different from or more stringent than those under federal law, and a number of states have implemented their own laboratory regulatory schemes. State laws may require that laboratory personnel meet certain qualifications, specify certain quality controls, or require maintenance of certain records.

The Company believes that it is in compliance with all applicable laboratory requirements, and the Company s laboratories have continuing programs to ensure that their operations meet all such regulatory

requirements, but no assurances can be given that the Company s laboratories will pass all future licensure or certification inspections.

Payment for Clinical Laboratory Services

In 2007, the Company derived approximately 18.3% of its net sales directly from the Medicare and Medicaid programs. In addition, the Company s other business depends significantly on continued participation in these programs and in other government healthcare programs, because clients often want a single laboratory to perform all of their testing services. In recent years, both governmental and private sector payers have made efforts to contain or reduce health care costs, including reducing reimbursement for clinical laboratory services.

Reimbursement under the Medicare program for clinical diagnostic laboratory services is subject to a clinical laboratory fee schedule that sets the maximum amount payable in each Medicare carrier s jurisdiction. This clinical laboratory fee schedule is updated annually. Laboratories bill the program directly for covered tests performed on behalf of Medicare beneficiaries. State Medicaid programs are prohibited from paying more than the Medicare fee schedule limit for clinical laboratory services furnished to Medicaid recipients.

Payment under the fee schedule has been limited from year to year by Congressional action, including imposition of national limitation amounts and freezes on the otherwise applicable annual Consumer Price Index (CPI) updates. For most diagnostic lab tests, the national limitation is now 74% of the national median of all local fee schedules established for each test. Under a provision of the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA), the cap is set at 100% of the median for tests performed after January 1, 2001 that the Secretary determines are new tests for which no limitation amount has previously been established.

Following a five year freeze on CPI updates to the clinical lab fee schedule, there was a 1.19% increase in the fee schedule in 2003. In late 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA) again imposed a freeze in the CPI update of the clinical lab fee schedule for 2004 through 2008.

Separate from clinical diagnostic laboratory services, which generally are reimbursed under the Medicare laboratory fee schedule, many pathology services are reimbursed under the Medicare physician fee schedule. The physician fee schedule assigns relative value units to each procedure or service, and a conversion factor is applied to calculate the reimbursement. The physician fee schedule is also subject to adjustment on an annual basis. The formula used to calculate the fee schedule conversion factor resulted in significant decreases in payment for most physician services since 2003. However, since that time Congress has intervened repeatedly to prevent these payment reductions, and the conversion factor has been increased or frozen for the subsequent year. Facing yet another expected decrease in 2008, Congress acted to freeze rates at the 2007 level through June 2008, at which point Congress will have to act again or the payment rates will decrease. Decreases are expected to continue in future years unless Congress acts to change the formula used to calculate the fee schedule or continues to mandate freezes or increases each year.

The MMA also included a provision requiring CMS to conduct a demonstration program on using competitive acquisition for certain clinical lab tests to determine whether competitive bidding can be used to provide lab services at reduced cost to Medicare. The first demonstration project is currently scheduled to begin on July 1, 2008 for the greater San Diego, California area. The Company has submitted the required bid information but certain local hospitals and laboratories have filed suit in Federal District Court in San Diego to prevent the existing program from going forward until CMS has complied with the Administrative Procedures Act and has addressed other deficiencies in the current design of the program. Payment reductions from widespread use of competitive acquisition, if implemented for clinical lab services, could have a significant effect on the clinical laboratory industry and the Company. In addition, some States have initiated efforts to establish competitive bidding processes for the provision of laboratory services under the State Medicaid program.

Because a significant portion of the Company s costs are relatively fixed, Medicare, Medicaid and other government program payment reductions could have a direct adverse affect on the Company s net earnings and cash flows, but the Company cannot predict whether changes that will result in such

reductions will be implemented.

Congressional action in 1997 required HHS to adopt uniform coverage, administration and payment policies for many of the most commonly performed lab tests using a negotiated rulemaking process. Consensus was reached by the negotiated rulemaking committee which, among other things, established uniform policies limiting Medicare coverage for certain tests to patients with specified medical conditions or diagnoses, replacing local Medicare coverage policies which varied around the country. Since the final rules generally became effective in 2002, the use of uniform policies has improved the Company s ability to obtain necessary billing information in some cases, but Medicare, Medicaid and private payer diagnosis code requirements continue to negatively impact the Company s ability to be paid for some of these tests it performs. Due to the range of payers and policies, the extent of this impact continues to be difficult to quantify.

Future changes in federal, state and local laws and regulations (or in the interpretation of current regulations) affecting government payment for clinical laboratory testing could have a material adverse effect on the Company. Based on currently available information, the Company is unable to predict what type of changes in legislation or regulations, if any, will occur.

Standard Electronic Transactions, Security and Confidentiality of Health Information

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) was designed to address issues related to the portability of health insurance. In an effort to improve the efficiency and effectiveness of the health care system by facilitating the electronic exchange of information in certain financial and administrative transactions, new regulations were promulgated to protect the privacy and security of certain information. These regulations apply to health plans, health care providers that conduct standard transactions electronically and health care clearinghouses (covered entities). Five such regulations have been finalized: (i) the Transactions and Code Sets Rule; (ii) the Privacy Rule; (iii) the Security Rule; (iv) the National Standard Employer Identifier Rule, which requires the use of a unique employer identifier in connection with certain electronic transactions; and (v) the National Provider Identifier Rule, which requires the use of a unique health care provider identifier in connection with certain electronic transactions.

The Company s HIPAA project plan has three phases: (i) assessment of current systems, applications, processes and procedure testing and validation for HIPAA compliance; (ii) remediation of affected systems, applications, processes and procedure testing and validation for HIPAA compliance; and (iii) testing and validation.

The Privacy Rule regulates the use and disclosure of protected health information (PHI) by covered entities. It also sets forth certain rights that an individual has with respect to his or her PHI maintained by a covered entity, such as the right to access or amend certain records containing PHI or to request restrictions on the use or disclosure of PHI. Additionally, it requires covered entities to implement certain administrative requirements, such as designating a privacy officer, drafting and implementing privacy policies and procedures, and training workforce members. The Company believes that it is in compliance with the HIPAA Privacy Rule in all material respects.

The Security Rule establishes requirements for safeguarding patient information that is electronically transmitted or electronically stored. Covered entities were required to be in compliance with the HIPAA Security Standard as of April 21, 2005. The rule establishes 42 implementation specifications, 20 of which are required, meaning they must be implemented as specified in the rule. 22 are addressable meaning covered entities must assess whether each specification is a reasonable and appropriate safeguard within its environment for protection of electronic protected health information and implement if reasonable and appropriate or document why implementation would not be reasonable and appropriate. Some of the Security Standards are technical in nature and are addressed through policies and procedures for using information systems. The Company believes that it is in compliance with the HIPAA Security Standards in all material respects.

In light of the CMS Guidance and on-going contingency period, the Company believes that it is in compliance in all material respects with the Transactions and Code Sets Rule. The Company also believes that it is in compliance with all material provisions of the Privacy Rule. In this regard, the Company has set up a hotline for the reporting of possible violations. The total cost associated with the requirements of

HIPAA is not expected to be material to the Company s operations or cash flows. There are, however, many unresolved issues in both of these areas and future interpretations of HIPAA could impose significant costs on the Company.

The administrative simplification provisions of HIPAA mandate the adoption of standard unique identifiers for health care providers. The intent of these provisions is to improve the efficiency and effectiveness of the electronic transmission of health information. CMS is currently issuing National Provider Identifier (NPI) numbers to healthcare providers. The National Provider Identication rule requires that all HIPAA-covered health care providers, whether they are individuals or organizations, must obtain a NPI for use to identify themselves in standard HIPAA transactions. NPI replaces the unique provider identification number (UPIN) as well as other provider numbers previously assigned by payers and other entities for the purpose of identifying providers in standard electronic transactions.

The Company is within the remediation/implementation phase of the HIPAA NPI requirements, and has applied for or will apply for and obtain NPIs on behalf of the Company, its subsidiaries and relevant subparts to meet the needs of its trading partners. The Company is also actively soliciting the NPIs of its ordering provider clients to the extent they are needed in transactions submitted by the Company, and is making the changes to Company systems that will be necessary for NPI utilization in transactions. The Company recognizes that successful implementation of the NPI requirements will require significant cooperation among trading partners. Beginning May 23, 2007, the NPI was required but covered entities were allowed to invoke contingency plans for a period of one year. The Company has established a contingency plan that will remain in effect until May 23, 2008. As covered health plans end their contingency plans or otherwise require use of NPI in standard transactions during the contingency period, the Company will comply with the NPI requirements of such covered health plans while maintaining its contingency plan with respect to other covered health plans until they require the use of NPI or until May 23, 2008, whichever occurs first. CMS has stated that it will require the NPI on Part B professional claims submitted to Medicare after March 1, 2008 or it will reject claims. The failure of the Company or third parties to meet the NPI requirements could have a material adverse impact on the Company s reimbursement and profitability.

In addition to the federal HIPAA regulations described above, there are a number of state laws regarding the confidentiality of medical information, some of which apply to clinical laboratories. These laws vary widely, and new laws in this area are pending, but they most commonly restrict the use and disclosure of medical and financial information. Penalties for violation of these laws include sanctions against a laboratory s state licensure, as well as civil and/or criminal penalties. Violations of the HIPAA provisions after the applicable compliance dates could result in civil and/or criminal penalties, including significant fines and up to 10 years in prison.

Fraud and Abuse Laws and Regulations

Existing federal laws governing federal health care programs, including Medicare and Medicaid, as well as similar state laws, impose a variety of broadly described fraud and abuse prohibitions on healthcare providers, including clinical laboratories. These laws are interpreted liberally and enforced aggressively by multiple government agencies, including the U.S. Department of Justice, HHS Office of the Inspector General (OIG), and various state agencies. Historically, the clinical laboratory industry has been the focus of major governmental enforcement initiatives. The federal government s enforcement efforts have been increasing over the past decade, in part as a result of the enactment of HIPAA, which included several provisions related to fraud and abuse enforcement, including the establishment of a program to coordinate federal, state and local law enforcement programs; a program to conduct greater numbers of investigations, audits and inspections relating to payment for health care items and services; and a federal anti-fraud and abuse account for enforcement efforts, funded through collection of penalties and fines for violations of the health care anti-fraud and abuse laws. The Deficit Reduction Act of 2005 also included new requirements directed at Medicaid fraud, including increased spending on enforcement and financial incentives for state Medicaid agencies to adopt false claims act provisions similar to the federal False Claims Act. The Act also established a new Medicaid Integrity Program, which parallels the existing federal Medicare Integrity Program.

The federal healthcare programs antikickback law (the Antikickback Law) prohibits knowingly providing anything of value in return for, or to induce, the referral of Medicare or Medicaid (or other federal healthcare program) business. Violations can result in imprisonment, fines, penalties, and/or

exclusion from participation in federal health care programs. HHS has published safe harbor regulations which specify certain arrangements that are protected from prosecution under the antikickback law if all conditions of the relevant safe harbor are met. Failure to fit within a safe harbor does not necessarily constitute a violation of the antikickback law; rather, the arrangement would be subject to scrutiny by regulators and prosecutors and would be evaluated on a case by case basis. Many states have their own Medicaid antikickback laws and several states also have antikickback laws that apply to all payers (i.e., not just government healthcare programs).

From time to time, the OIG issues alerts and other guidance on certain practices in the health care industry. Several examples of such guidance documents are described below. In October 1994, the OIG issued a Special Fraud Alert on arrangements for the provision of clinical laboratory services. The Fraud Alert set forth a number of practices allegedly engaged in by some clinical laboratories and health care providers that raise issues under the fraud and abuse laws, including the antikickback law. These practices include: (i) providing employees to furnish valuable services for physicians (other than collecting patient specimens for testing) that are typically the responsibility of the physicians staff; (ii) offering certain laboratory services to renal dialysis centers at prices below fair market value in return for referrals of other tests which are billed to Medicare at higher rates; (iii) providing free testing to physicians managed care patients in situations where the referring physicians benefit from such reduced laboratory utilization; (iv) providing free pick-up and disposal of bio-hazardous waste for physicians for items unrelated to a laboratory s testing services; (v) providing general-use facsimile machines or computers to physicians that are not exclusively used in connection with the laboratory services; and (vi) providing free testing for health care providers, their families and their employees (professional courtesy testing). The OIG emphasized in the Special Fraud Alert that when one purpose of an arrangement is to induce referrals of program-reimbursed laboratory testing, both the clinical laboratory and the health care provider (*e.g.,* physician) may be liable under the antikickback laws, and may be subject to criminal prosecution and exclusion from participation in the Medicare and Medicaid programs.

Another issue the OIG is concerned about involves the provision of discounts on laboratory services billed to customers in return for the referral of federal health care program business. In a 1999 Advisory Opinion, the OIG concluded that a proposed arrangement whereby a laboratory would offer physicians significant discounts on non-federal health care program laboratory tests might violate the antikickback statute. The OIG reasoned that the laboratory could be viewed as providing such discounts to the physician in exchange for referrals by the physician of business to be billed by the laboratory to Medicare at non-discounted rates. The OIG indicated that the arrangement would not qualify for protection under the discount safe harbor because Medicare and Medicaid would not get the benefit of the discount. Similarly, in 1999 correspondence, the OIG stated that if any direct or indirect link exists between a discount that a laboratory offers to a skilled nursing facility (SNF) for tests covered under the Medicare Prospective Payment System (PPS) and referrals to the laboratory of tests covered under Medicare Part B (*i.e.,* not covered under a fixed PPS system), then the antikickback statute would be implicated.

The OIG also has issued two separate guidance documents regarding joint venture arrangements that may be viewed as suspect under the antikickback law. These documents have relevance to clinical laboratories that are part of (or are considering establishing) joint ventures with potential referral sources. The first guidance document, which focused on investor referrals to such ventures, was issued in 1989, and the more recent one, concerning contractual joint ventures, was issued in April 2003. Some of the elements of joint ventures that the OIG identified as suspect include: arrangements in which the capital invested by the physicians is disproportionately small and the return on investment is disproportionately large when compared to a typical investment; specific selection of investors who are in a position to make referrals to the venture; and arrangements in which one of the parties to the joint venture expands into a line of business that is dependent on referrals from the other party (sometimes called shell joint ventures). In a 2004 advisory opinion, the OIG expressed concern about a proposed joint venture in which a laboratory company would assist physician groups in establishing off-site pathology laboratories. The OIG indicated that the physicians financial and business risk in the venture was minimal and that the physicians would contract out substantially all laboratory operations, committing very little in the way of financial, capital, or human resources. The OIG was unable to exclude the possibility that the arrangement was designed to permit the laboratory to pay the physician groups for their referrals, and therefore was unwilling to find that the arrangement fell within a safe harbor or had sufficient safeguards to protect against fraud or abuse.

Violations of other fraud and abuse laws also can result in exclusion from participation in federal health care programs, including Medicare and Medicaid. One basis for such exclusion is an individual or entity s submission of claims to Medicare or Medicaid that are substantially in excess of that individual or entity s usual charges for like items or services. On September 15, 2003, the OIG issued a notice of proposed rulemaking that, for the first time, would have defined the terms usual charges and substantially in excess for purposes of this exclusion authority. Specifically, the OIG proposed to define these terms in such a way that a laboratory charging Medicare or Medicaid for a given service more than 120 percent of its average payment from managed care plans and other payers would have been subject to exclusion, at the OIG s discretion. In some circumstances, this proposal may have required laboratories and other providers, including the Company, to either lower their charges to Medicare and Medicaid or increase charges to certain other payers to avoid the risk of exclusion. On June 18, 2007, however, the OIG withdrew the proposed rule, saying it preferred to continue eval> - - - 446

Exercise of options

97 362 (128) - - - 234

Stock-based compensation

- - 2,141 - - - 2,141

Earnings from continuing operations

- - - 18,648 - 1,384 20,032

Earnings from discontinued operations, net of income taxes

- - - 1,193 (1,359) - (166)

Currency translation adjustment

- - - - (121) (117) (238)

Change in fair value of interest rate swap, net of income taxes

- - - - (107) (55) (162)

Payment to non-controlling interests

- - - - - (115) (115)

Balance at September 29, 2012

65,978 182,916 16,147 120,349 795 16,913 337,120

	000s	Common shares $	Additional paid-in capital $	Retained earnings $	Accumulated other com-prehensive income $	Non-controlling interests $	Total $
Balance at January 1, 2011	65,500	180,661	12,336	95,212	2,833	14,085	305,127
Employee share purchase plan and	150	504	-	-	-	-	504

compensation grants							
Exercise of options	93	586	(101)	-	-	-	485
Stock-based compensation	-	-	1,536	-	-	-	1,536
Earnings from continuing operations	-	-	-	14,834	-	1,523	16,357
Loss from discontinued operations, net of income taxes	-	-	-	(1,986)	-	-	(1,986)
Currency translation adjustment	-	-	-	-	(650)	78	(572)
Change in fair value of interest rate swap, net of income taxes	-	-	-	-	194	98	292
Balance at October 1, 2011	65,743	181,751	13,771	108,060	2,377	15,784	321,743

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Consolidated Statements of Cash Flows
For the quarter and three quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars)

	Quarter ended		**Three quarters ended**	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
	$	$	**$**	$
Cash provided by (used in)				
Operating activities				
Earnings	**6,253**	3,510	**21,225**	14,371
Earnings (loss) from discontinued operations	**112**	(362)	**1,193**	(1,986)
Earnings from continuing operations	**6,141**	3,872	**20,032**	16,357
Items not affecting cash:				
Depreciation and amortization	**5,155**	4,497	**14,946**	13,354
Unrealized gain on foreign exchange	**(76)**	(991)	**(169)**	(22)
Deferred income taxes	**(639)**	1,114	**3,077**	5,835
Stock-based compensation	**713**	555	**2,041**	1,536
Loss (gain) on sale of property, plant and equipment	**-**	584	**-**	(3,240)
Unrealized loss (gain) on derivative instruments	**(3,075)**	646	**(1,178)**	(3,272)
Other	**508**	375	**1,217**	310
Changes in non-cash working capital, net of business acquired (note 11)	**7,462**	990	**(1,921)**	(31,903)
Net cash flows from operations - continuing operations	**16,189**	11,642	**38,045**	(1,045)
Net cash flows from operations - discontinued operations	**313**	(903)	**(3)**	(1,638)
	16,502	10,739	**38,042**	(2,683)
Investing activities				
Acquisitions of businesses, net of cash acquired (note 2)	**(11,644)**	(2,500)	**(29,174)**	(2,500)
Purchases of property, plant and equipment	**(5,709)**	(6,082)	**(17,623)**	(15,256)
	-	-	**-**	2,773

Proceeds from sale of property, plant and equipment				
Payment of contingent consideration	**(61)**	-	**(388)**	-
Purchases of intangible assets	**(56)**	-	**(81)**	(67)
Other	**122**	411	**(84)**	(30)
Net cash flows from investing activities - continuing operations	**(17,348)**	(8,171)	**(47,350)**	(15,080)
Net cash flows from investing activities - discontinued operations	**-**	(318)	**12,134**	(388)
	(17,348)	(8,489)	**(35,216)**	(15,468)
Financing activities				
Increase under line of credit facilities (note 7)	**56,959**	4,759	**46,434**	33,186
Repayment of line of credit facilities (note 7)	**(45,295)**	-	**(45,296)**	-
Borrowings under long-term debt (note 7)	**15,234**	1,875	**34,607**	1,912
Repayment of long-term debt (note 7)	**(24,136)**	(6,697)	**(34,959)**	(13,423)
Financing costs	**(1,315)**	-	**(2,490)**	(186)
Proceeds from the issuance of common shares	**257**	242	**680**	989
Other	**53**	(19)	**24**	802
Net cash flows from financing activities - continuing operations	**1,757**	160	**(1,000)**	23,280
Foreign exchange gain (loss) on cash held in a foreign currency	**29**	(457)	**(17)**	(246)
Increase in cash and cash equivalents in the period	**940**	1,953	**1,809**	4,883
Discontinued operations cash activity included above:				
Add: Balance included at beginning of period	**-**	212	**-**	308
Cash and cash equivalents - beginning of the period	**3,247**	5,361	**2,378**	2,335
Cash and cash equivalents - end of the period	**4,187**	7,526	**4,187**	7,526

(See accompanying notes to consolidated financial statements)

SunOpta Inc.
Notes to Consolidated Financial Statements
For the quarters ended September 29, 2012 and October 1, 2011
(Unaudited)
(Expressed in thousands of U.S. dollars, except per share amounts)

1. Description of business and significant accounting policies

SunOpta Inc. (the Company or SunOpta) was incorporated under the laws of Canada on November 13, 1973. The Company operates businesses focused on a healthy products portfolio that promotes sustainable well-being. The Company has two industry groups, the largest being SunOpta Foods, which consists of four operating segments that operate in the natural, organic and specialty foods sectors and utilizes a number of integrated business models to bring cost-effective and quality products to market. In addition to SunOpta Foods, the Company owned approximately 66.2% of Opta Minerals Inc. (Opta Minerals) as at September 29, 2012. Opta Minerals is a vertically integrated provider of custom process solutions and industrial minerals products for use primarily in the steel, foundry, loose abrasive cleaning, construction and marine/bridge cleaning industries. The Company also has an ownership position in Mascoma Corporation (Mascoma), an innovative biofuels company (see note 6).

Basis of presentation

The interim consolidated financial statements of the Company have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated under the Securities Exchange Act of 1934, as amended, and in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information. Accordingly, these condensed interim consolidated financial statements do not include all of the disclosures required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for fair presentation have been included and all such adjustments are of a normal, recurring nature. Operating results for the quarter and three quarters ended September 29, 2012 are not necessarily indicative of the results that may be expected for the full year ending December 29, 2012 or for any other period. The interim consolidated financial statements include the accounts of the Company and its subsidiaries, and have been prepared on a basis consistent with the annual consolidated financial statements for the year ended December 31, 2011 (except as described below under Comparative balances and Adoption of new accounting standards). For further information, see the consolidated financial statements, and notes thereto, included in the Company s Current Report on Form 8-K filed on June 25, 2012.

Comparative balances

As a result of the divestiture of the Company s interest in Purity Life Natural Health Products (Purity) on June 5, 2012 (see note 3), the operating results and cash flows of Purity for the quarter and three quarters ended October 1, 2011 have been reclassified to discontinued operations. In addition, the net assets of Purity have been reclassified and reported as held for sale on the consolidated balance sheet as at December 31, 2011.

As more fully described in note 13, segmented information for the quarter and three quarters ended October 1, 2011 has been restated to reflect the realignment of the Company s operating segments within SunOpta Foods implemented during the first quarter of 2012, and the divestiture of Purity (as noted above). The realignment of the Company s operating segments did not change the Company s previously reported consolidated results of operations, financial position or cash flows.

Adoption of new accounting standards

Effective January 1, 2012, the Company adopted on a prospective basis the provisions of the following new accounting standards:

- Amendments to fair value measurement and disclosure requirements.
- Guidance related to the presentation of net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements. The amendments did not change the components of other comprehensive income as reported in the Company s separate statement of comprehensive earnings.
- Guidance on the accounting for goodwill that permits a qualitative approach to determining the likelihood of a goodwill impairment charge.

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The adoption of these new standards did not have a significant impact on the interim consolidated financial statements.

2. Business acquisitions

WGI Heavy Metals, Incorporated

On August 29, 2012, Opta Minerals paid $14,098 in cash to acquire approximately 94% of the outstanding common shares of WGI Heavy Metals, Incorporated (WGI), pursuant to an offer by Opta Minerals to acquire all of the outstanding common shares of WGI for Cdn $0.60 cash per share. The fair value of the remaining outstanding common shares of WGI amounted to $870 based on the terms of the offer. The fair value of the remaining outstanding common shares has been included in accrued liabilities, as Opta Minerals had commenced a compulsory acquisition of the outstanding common shares of WGI not tendered to the offer. The compulsory acquisition is expected to be completed on or about November 8, 2012, following which Opta Minerals will own 100% of WGI. WGI s principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure water jet cutting machine replacement parts and components. This acquisition complements Opta Minerals existing product portfolio and expands product line offerings to new and existing customers.

The acquisition of WGI has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. The amounts recognized for the assets acquired and liabilities assumed are provisional due to the short duration since the acquisition date to obtain the information necessary to complete the valuation process for intangible assets and property, plant and equipment. The Company expects to finalize these amounts no later than one year from the acquisition date.

	Amounts Recognized as of Acquisition Date $
Cash and cash equivalents	2,454
Accounts receivable[(1)]	4,922
Inventories	7,404
Other current assets	111
Property, plant and equipment	4,991
Intangible assets[(2)]	630
Deferred income tax	290
Accounts payable and accrued liabilities	(5,056)
Bank indebtedness and long-term debt	(551)
Other long-term liabilities	(227)
Total consideration	14,968

(1) Includes trade accounts receivable with a fair value of $4,365. The gross contractual amount of trade accounts receivable was $5,097, of which $732 is expected to be uncollectible.

(2) Intangible assets principally consist of acquired customer and other relationships, which are being amortized over their estimated useful lives of approximately 15 years.

The acquired assets, assumed liabilities and results of operations of WGI have been included in the Opta Minerals operating segment since the date of acquisition. The revenues and losses of WGI attributable to SunOpta Inc. that are included in the consolidated statement of operations for the period from the acquisition date to September 29, 2012 were $2,286 and $105, respectively.

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Babco Industrial Corp.

On February 10, 2012, Opta Minerals acquired all of the outstanding common shares of Babco Industrial Corp. (Babco), located in Regina, Saskatchewan. Babco is an industrial processor of petroleum coke. This acquisition complements Opta Minerals existing product portfolio and provides for additional product line offerings to new and existing customers in the region.

This transaction has been accounted for as a business combination under the acquisition method of accounting. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, as well as the consideration transferred to effect the acquisition as of the acquisition date.

	Amounts Recognized as of Acquisition Date $
Net assets acquired	
Accounts receivable[1]	467
Inventories	372
Other current assets	20
Property, plant and equipment	4,909
Goodwill[2]	7,675
Intangible assets[3]	9,347
Accounts payable and accrued liabilities	(692)
Deferred income taxes	(2,808)
Long-term debt[4]	(1,145)
	18,145
Consideration	
Cash consideration	17,530
Contingent consideration[5]	615
	18,145

(1) The fair value of accounts receivable acquired is equal to the gross contractual amount receivable.

(2) Goodwill is calculated as the difference between the acquisition-date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded represents (i) synergies and economies of scale expected to result from combining the operations of Opta Minerals and Babco, (ii) the value of the going-concern element of Babco s existing business (that is, the higher rate of return on the assembled net assets versus if Opta Minerals had acquired all of the net assets separately), and (iii) the value of Babco s assembled workforce that does not qualify for separate recognition as an intangible asset.

(3)

Intangible assets consist of acquired customer relationships, which are being amortized over their estimated useful lives of approximately 15 years.

(4) In conjunction with the acquisition, Opta Minerals fully repaid Babco s existing banking facilities.

(5) Represents the fair value of contingent consideration payments of up to approximately $1,300 if Babco achieves certain earnings before interest, taxes, depreciation and amortization (EBITDA) targets over the next five years. The fair value of the contingent consideration was measured using a discounted cash flow analysis based on level 3 inputs, which included a forecasted EBITDA growth rate of 2.5% and a risk-adjusted discount rate of 18.0%.

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In addition to the recognition of the fair values of the assets acquired and liabilities assumed at the acquisition date, Opta Minerals determined that in connection with its subsequent amalgamation with Babco during the quarter ended June 30, 2012, it was more likely than not that the combined company would be able to realize a portion of Opta Minerals pre-existing non-capital loss carryforwards. As a result, Opta Minerals released $990 of a valuation allowance against its deferred tax assets, resulting in a corresponding deferred tax benefit (before non-controlling interest) recognized in the provision for income taxes for the three quarters ended September 29, 2012.

The acquired assets (including goodwill), assumed liabilities and results of operations of Babco have been included in the Opta Minerals operating segment since the date of acquisition. The revenues and earnings of Babco attributable to SunOpta Inc. that are included in the consolidated statement of operations for the period from the acquisition date to September 29, 2012 were $8,667 and $1,545, respectively.

Pro forma consolidated results of operations (unaudited)

The following table presents unaudited pro forma consolidated results of operations for the quarter and three quarters ended September 29, 2012 and October 1, 2011, as if the acquisitions of WGI and Babco had occurred as of January 2, 2011.

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
Pro forma revenues	284,632	269,955	843,509	817,635
Pro forma earnings attributable to SunOpta Inc.	4,836	3,609	18,235	13,635
Pro forma earnings per share				
Basic	0.07	0.06	0.28	0.21
Diluted	0.07	0.05	0.27	0.20

The pro forma consolidated results of operations were prepared using the acquisition method of accounting and are based on unaudited historical financial information of the Company, WGI and Babco. The pro forma information reflects primarily the following pro forma adjustments:

- incremental amortization expense related to the fair value of the identifiable intangible assets acquired;
- additional depreciation expense related to the fair value adjustment to property, plant and equipment acquired;
- additional interest costs associated with an increase in borrowings under Opta Minerals non-revolving term credit facility, which were used to finance the acquisitions;
- exclusion of acquisition-related transaction costs incurred by Opta Minerals from pro forma earnings for the quarter and three quarters ended September 29, 2012, and the inclusion of those costs in pro forma earnings for the quarter and three quarters ended October 1, 2011; and
- consequential tax effects of the preceding adjustments.

The pro forma information is not necessarily indicative of what the Company s consolidated results of operations actually would have been had the acquisitions of WGI and Babco been completed on January 2, 2011. In addition, the pro forma information does not purport to project the future results of operations of the Company.

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3. Divestitures

Purity Life Natural Health Products

On June 5, 2012, the Company completed the sale of Purity, its Canadian natural health products distribution business, for consideration of $13,443 (Cdn $14,000) in cash at closing, plus up to approximately $672 (Cdn $700) if Purity achieves certain earnings targets during the one-year period following the closing date. The contingent consideration will not be recognized by the Company until realized. The divestiture of Purity is consistent with the Company s strategy to focus on its core natural and organic foods sourcing and processing business. Purity was formerly part of the Company s International Foods Group operating segment.

The Company recognized the following gain on sale in discontinued operations:

Cash consideration	$	13,443
Transaction and related costs		(1,254)
Net proceeds		12,189
Net assets sold		12,939
Accumulated currency translation adjustment related to net assets sold		(1,359)
Pre-tax gain on sale		609
Recovery of income taxes[(1)]		67
Gain on sale of discontinued operations, net of income taxes	$	676

(1) The divestiture resulted in a pre-tax accounting loss on sale of $750 (before giving effect to the accumulated currency translation adjustment). The Company recognized a recovery of income taxes for the associated loss for Canadian tax purposes.

The operating results of Purity for the current and comparative periods are included within earnings (loss) from discontinued operations, net of income taxes, as follows:

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
Revenues	-	15,409	26,914	46,013
Earnings (loss) before income taxes	(20)	(64)	1,034	(1,378)
Recovery of (provision for) income taxes	5	14	(300)	309
Earnings (loss) from discontinued operations, net of income taxes	(15)	(50)	734	(1,069)

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Colorado Sun Oil Processing LLC

Colorado Sun Oil Processing LLC (CSOP) was organized in 2008 under the terms of a joint venture agreement with Colorado Mills, LLC (Colorado Mills) to construct and operate a vegetable oil refinery adjacent to Colorado Mills sunflower crush plant. On August 12, 2011, the U.S. Bankruptcy Court, District of Colorado, accepted an asset purchase agreement submitted by Colorado Mills for CSOP and rejected an asset purchase agreement submitted by the Company. Based on the bankruptcy court ruling, the Company disposed of its interest in the CSOP joint venture, which was previously consolidated as a variable interest entity as part of the Grains and Foods Group, and recognized a gain on sale of discontinued operations of $71 in the quarter ended October 1, 2011. In addition, the operating results of CSOP for the current and comparative periods, which include legal fees and interest costs incurred in connection with arbitration proceedings related to the joint venture agreement (see note 12), are included within earnings (loss) from discontinued operations, net of income taxes, as follows:

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
Revenues	-	204	-	538
Earnings (loss) before income taxes	208	(764)	(356)	(1,974)
Recovery of (provision for) income taxes	(81)	283	139	732
Loss allocated to non-controlling interests	-	98	-	254
Earnings (loss) from discontinued operations, net of income taxes	127	(383)	(217)	(988)

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4. Derivative financial instruments and fair value measurements

The following table presents for each of the fair value hierarchies, the assets and liabilities that are measured at fair value on a recurring basis as of September 29, 2012 and December 31, 2011:

	September 29, 2012			
	Fair value asset (liability)	Level 1	Level 2	Level 3
	$	$	$	$
(a) Commodity futures and forward contracts[1]				
Unrealized short-term derivative gain	5,382	-	5,382	-
Unrealized long-term derivative gain	262	-	262	-
Unrealized short-term derivative loss	(3,540)	(891)	(2,649)	-
Unrealized long-term derivative loss	(10)	-	(10)	-
(b) Inventories carried at market[2]	18,625	-	18,625	-
(c) Interest rate swaps[3]	(497)	-	(497)	-
(d) Forward foreign currency contracts[4]	304	-	304	-
(e) Contingent consideration[5]	(4,487)	-	-	(4,487)

	December 31, 2011			
	Fair value asset (liability)	Level 1	Level 2	Level 3
	$	$	$	$
(a) Commodity futures and forward contracts[1]				
Unrealized short-term derivative gain	2,125	34	2,091	-
Unrealized long-term derivative gain	271	-	271	-
Unrealized short-term derivative loss	(1,410)	-	(1,410)	-
Unrealized long-term derivative loss	(70)	-	(70)	-
(b) Inventories carried at market[2]	12,685	-	12,685	-
(c) Interest rate swaps[3]	(256)	-	(256)	-
(d) Forward foreign currency contracts[4]	(149)	-	(149)	-
(e) Contingent consideration[5]	(4,456)	-	-	(4,456)

(1) Unrealized short-term derivative gain is included in prepaid expenses and other current assets, unrealized long-term derivative gain is included in other assets, unrealized short-term derivative loss is included in other current liabilities and unrealized long-term derivative loss is included in long-term liabilities on the consolidated balance sheets.

(2) Inventories carried at market are included in inventories on the consolidated balance sheets.

(3) The interest rate swaps are included in long-term liabilities on the consolidated balance sheets.
(4) The forward foreign currency contracts are included in accounts receivable on the consolidated balance sheets.
(5) Contingent consideration obligations are included in long-term liabilities (including the current portion thereof) on the consolidated balance sheets.

(a) Commodity futures and forward contracts

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

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These exchange-traded commodity futures and forward commodity purchase and sale contracts are used as part of the Company s risk management strategy, and represent economic hedges to limit risk related to fluctuations in the price of certain commodity grains. These derivative instruments are not designated as hedging instruments. For the quarter and three quarters ended September 29, 2012, gains of $3,074 and $1,178, respectively, were recorded in cost of goods sold on the consolidated statement of operations related to changes in the fair value of these derivatives, compared with a loss of $36 and a gain of $3,272 in the corresponding periods of 2011.

At September 29, 2012, the notional amounts of open commodity futures and forward purchase and sale contracts were as follows (in thousands of bushels):

	Number of bushels purchase (sale)	
	Corn	Soybeans
Forward commodity purchase contracts	1,515	698
Forward commodity sale contracts	(807)	(662)
Commodity futures contracts	(1,292)	(673)

In addition, as at September 29, 2012, the Company also had open forward contracts to sell 132 lots of cocoa.

(b) Inventories carried at market

Grains inventory carried at fair value is determined using quoted market prices from the Chicago Board of Trade (CBoT). Estimated fair market values for grains inventory quantities at period end are valued using the quoted price on the CBoT adjusted for differences in local markets, and broker or dealer quotes. These assets are placed in level 2 of the fair value hierarchy, as there are observable quoted prices for similar assets in active markets. Gains and losses on commodity grains inventory are included in cost of sales on the consolidated statements of operations. As at September 29, 2012, the Company had 592,399 bushels of commodity corn and 644,928 bushels of commodity soybeans in inventories carried at market.

(c) Interest rate swaps

Opta Minerals utilizes interest rate swaps to minimize its exposure to interest rate risk. In February 2012, Opta Minerals entered into a five-year interest rate swap with a notional value of Cdn $19,000 ($19,324) to pay a fixed rate of 1.85%, plus a margin of 2.0% to 3.5% based on certain financial ratios of Opta Minerals, and receive a variable rate based on various reference rates including prime, bankers acceptances or LIBOR, plus the same margin. In August 2012, the notional value of the interest rate swap increased to Cdn $34,000 ($34,581). The net notional value decreases in accordance with the quarterly principal repayments on the non-revolving term credit facility.

At each period end, the Company calculates the mark-to-market fair value of the interest rate swaps using a valuation technique using quoted observable prices for similar instruments as the primary input. Based on this valuation, the previously recorded fair value is adjusted to the current mark-to-market position. The mark-to-market gain or loss is placed in level 2 of the fair value hierarchy. As the interest rate swaps are designated as a cash flow hedge for accounting purposes, gains and losses on changes in the fair value of these derivative instruments are included on the consolidated statements of comprehensive earnings.

(d) Foreign forward currency contracts

As part of its risk management strategy, the Company enters into forward foreign exchange contracts to reduce its exposure to fluctuations in foreign currency exchange rates. For any open forward foreign exchange contracts at period end, the contract rate is compared to the forward rate, and a gain or loss is recorded. These contracts are placed in level 2 of the fair value hierarchy, as the inputs used in making the fair value determination are derived from and are corroborated by observable market data. While these forward foreign exchange contracts typically represent economic hedges that are not designated as hedging instruments, certain of these contracts may be designated as hedges. As at September 29, 2012, the Company had open forward foreign exchange contracts with a notional value of €10,129 and $7,403. For the quarter and three quarters ended September 29, 2012, the Company recognized an unrealized loss of $16 and an unrealized gain of $304, respectively, related to changes in the fair value of these derivatives, which was included in foreign exchange loss on the consolidated statements of operations, compared with an unrealized loss of $359 and an unrealized loss of $554 in corresponding periods of 2011.

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(e) Contingent consideration

The fair value measurement of contingent consideration arising from business acquisitions is determined using unobservable (level 3) inputs. These inputs include: (i) the estimated amount and timing of the projected cash flows on which the contingency is based; and (ii) the risk-adjusted discount rate used to present value those cash flows. For the three quarters ended September 29, 2012, the change in the fair value of the contingent consideration liability reflected the addition of the acquisition-date fair value of the contingent consideration arising from the acquisition of Babco of $617 (see note 2) and the payment of $388 to the former owners of Edner of Nevada, Inc. The balance of the change in the fair value of the contingent consideration liability related to (i) changes in the probability of achievement of the factors on which the contingencies are based, (ii) the accretion of interest expense, and (iii) changes in foreign currency exchange rates, which were not material for the quarter and three quarters ended September 29, 2012.

5. Inventories

	September 29, 2012	December 31, 2011
	$	$
Raw materials and work-in-process	138,183	147,051
Finished goods	66,416	70,358
Company-owned grain	24,935	17,351
Inventory reserves	(4,978)	(6,305)
	224,556	228,455

6. Investments

Mascoma Corporation

As at September 29, 2012, the Company held an 18.65% equity ownership position in Mascoma. Mascoma is a privately-held renewable fuels company headquartered in the U.S. that has developed innovative technology for the low-cost conversion of abundant biomass. On August 31, 2010, the Company sold 100% of its ownership interest in SunOpta Bioprocess Inc. to Mascoma in exchange for its equity ownership position in Mascoma. The Company is accounting for its investment in Mascoma using the cost method, as the Company does not have the ability to exercise significant influence over the operating and financial policies of Mascoma.

Although Mascoma has a history of recurring operating losses and negative cash flows, the Company considers the value of its investment to be predicated on the future prospects for Mascoma s products and technologies. Mascoma s ability to continue as a going concern is dependent on a number of factors, including its ability to raise additional capital to fund its operational, capital expenditure and debt service requirements, as well as to support its product-development activities. Each reporting period, the Company evaluates whether events or changes in circumstances have occurred that may have a significant adverse effect on its ability to recover the carrying value of its investment. The Company considers the pricing of recent arms-length private offerings of Mascoma s equity securities, as well as other available information relating to Mascoma to assess the commercial viability and future earnings potential of its products and technologies, as well as its ability to secure additional funding as required. On the basis of its overall assessment, the Company determined that the carrying value of its investment in Mascoma was recoverable as at September 29, 2012.

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7. Bank indebtedness and long-term debt

	September 29, 2012 $	December 31, 2011 $
Bank indebtedness		
Canadian line of credit facility[1]	-	26
U.S. line of credit facility[1]	38,025	51,617
Opta Minerals revolving term credit facility[2]	7,057	-
Opta Minerals Canadian line of credit facility[2]	-	7,765
European credit facilities[3]	65,353	-
TOC line of credit facilities[3]	-	50,310
Other	802	-
	111,237	109,718
Long-term debt		
Non-revolving real estate term facility[1]	-	12,133
Non-revolving machinery and equipment term facility[1]	-	11,078
Opta Minerals non-revolving term credit facility[2]	52,219	-
Opta Minerals term loan facility[2]	-	6,392
Opta Minerals revolving acquisition facility[2]	-	12,420
Promissory notes	-	8,744
Other	1,541	1,497
	53,760	52,264
Less: current portion	5,924	35,198
	47,836	17,066

(1) Syndicated credit facilities

The syndicated credit facilities support the core North American food operations of the Company.

On July 27, 2012, the Company entered into an amended and restated credit agreement with a syndicate of lenders. The amended agreement provides secured revolving credit facilities of Cdn $10,000 (or the equivalent U.S. dollar amount) and $165,000, as well as an additional $50,000 in availability upon the exercise of an uncommitted accordion feature. These facilities mature on July 27, 2016, with the outstanding principal amount repayable in full on the maturity date. The facilities replaced the Company s previous line of credit facilities of Cdn $10,000 and $115,000, and refinanced non-revolving term facilities totalling approximately $21,000, which were due to mature on October 30, 2012.

Interest on borrowings under the facilities accrues based on various reference rates including LIBOR, plus an applicable margin of 1.75% to 2.50%, which is set quarterly based on average borrowing availability. As at September 29, 2012, the weighted-average interest rate on the facilities was 2.46%.

The facilities are collateralized by substantially all of the assets of the Company and its subsidiaries, excluding Opta Minerals and The Organic Corporation (TOC).

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(2) Opta Minerals credit facilities

These credit facilities are specific to the operations of Opta Minerals.

On July 24, 2012, Opta Minerals amended its credit agreement dated May 18, 2012, to provide for a Cdn $20,000 revolving term credit facility (reducing to Cdn $15,000 on January 1, 2013) and a Cdn $52,500 non-revolving term credit facility. The revolving term credit facility matures on August 14, 2013, with the outstanding principal amount repayable in full on the maturity date. The first tranche of the non-revolving term credit facility, in the amount of Cdn $37,500, was used by Opta Minerals to refinance borrowings under its existing term loan and revolving acquisition facilities. The principal is repayable in equal quarterly installments of approximately Cdn $938. The second tranche of Cdn $15,000 was primarily used to fund the acquisition of WGI (see note 2), with the principal being repayable in equal quarterly installments of Cdn $375. Opta Minerals may be required to make additional repayments on the non- revolving term credit facility if certain financial ratios are met. The non-revolving term credit facility matures on May 18, 2017, with the remaining outstanding principal amount repayable in full on the maturity date.

Interest on the borrowings under these facilities accrue at the borrower s option based on various reference rates including LIBOR, plus an applicable margin of 2.00% to 3.50% based on certain financial ratios of Opta Minerals. As described in note 4, Opta Minerals utilizes interest rate swaps to hedge the interest payments on a portion of the borrowings under the non-revolving term credit facility. As at September 29, 2012, the weighted-average interest rate on the amended credit facilities was 5.80%, after taking into account the related interest rate hedging activities.

The credit facilities are collateralized by a first priority security interest on substantially all of the assets of Opta Minerals.

(3) European credit facilities

The European credit facilities support the global sourcing, supply and processing capabilities of the Company s International Foods Group.

On September 25, 2012, TOC and certain of its subsidiaries entered into a credit facilities agreement with two lenders, which provides for a €45,000 revolving credit facility covering working capital needs and a €3,000 pre-settlement facility covering currency hedging requirements. The revolving credit facility is secured by the working capital of TOC and certain of its subsidiaries. A portion of the revolving credit facility was used to repay an existing €35,000 line of credit facility of TOC. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date, and the credit limit may be extended or adjusted upon approval of the lenders.

Interest costs under the facilities accrue based on either a loan margin of 1.75% or an overdraft margin of 1.85% plus the cost of funds as set by each of the lenders on a periodic basis. The initial applicable cost of funds was set by the lenders at 0.115%.

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8. Stock-based compensation

For the three quarters ended September 29, 2012, the Company granted 1,375,000 options to employees that vest ratably on each of the first through fifth anniversary of the grant date and expire on the tenth anniversary of the grant date. These options had a weighted-average grant-date fair value of $3.41 per option. The following table summarizes the weighted-average assumptions used in the Black-Scholes option pricing model to determine the fair value of the options granted:

Exercise price	$	5.56
Dividend yield		0%
Expected volatility		65.8%
Risk-free interest rate		1.2%
Expected life of options (in years)		6.5

9. Other expense (income), net

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
(a) Severance and other rationalization costs	-	-	1,295	427
(b) Acquisition-related transaction costs	139	-	540	-
(c) Loss (gain) on sale of assets	51	110	51	(2,938)
(d) Legal settlements	-	-	-	(500)
Other	74	(103)	120	124
	264	7	2,006	(2,887)

(a) Severance and other rationalization costs

For the three quarters ended September 29, 2012, the Company recorded employee severance and other costs in connection with the rationalization of a number of operations and functions in an effort to streamline operations. The Company incurred severance costs of $500 in total as a result of a reduction in its salaried workforce of approximately 6%. In addition, for the quarter ended June 30, 2012, the Company accrued $795 of severance payable to a former executive officer over a period of 15 months.

For the three quarters ended October 1, 2011, severance costs were related to employee terminations in the former Fruit Group, as well as the International Foods Group and Corporate Services.

(b) Acquisition-related transaction costs

Represents transaction costs incurred by Opta Minerals in connection with the acquisitions of WGI and Babco (see note 2).

(c) Gain on sale of assets

In the second quarter of 2011, the Company completed the sale of land, buildings and processing equipment located in Mexico for proceeds of $5,650. The gain on sale, after deducting the carrying value of the assets sold and related transaction costs, was $2,938.

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(d) Legal settlement

In the second quarter of 2011, the Company recorded a recovery of $500 in connection with the settlement of a class action lawsuit with a former employee. In fiscal 2009, the Company had accrued $1,200 related to the tentative settlement of this matter.

10. Earnings per share

Earnings (loss) per share were calculated as follows:

	Quarter ended		Three quarters ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Earnings from continuing operations attributable to SunOpta Inc.	$ 5,692	$ 3,728	$ 18,648	$ 14,834
Earnings (loss) from discontinued operations, net of income taxes	112	(362)	1,193	(1,986)
Earnings attributable to SunOpta Inc.	$ 5,804	$ 3,366	$ 19,841	$ 12,848
Basic weighted-average number of shares outstanding	65,949,415	65,599,998	65,871,213	65,606,481
Dilutive potential of the following:				
Employee/director stock options	571,131	603,756	525,840	771,796
Warrants	171,829	148,543	143,054	270,130
Diluted weighted-average number of shares outstanding	66,692,375	66,352,297	66,540,107	66,648,407
Earnings (loss) per share - basic:				
- from continuing operations	$ 0.09	$ 0.06	$ 0.28	$ 0.23
	-	(0.01)	0.02	(0.03)

- from discontinued operations				
	$ 0.09	$ 0.05	$ 0.30	$ 0.20
Earnings (loss) per share - diluted:				
- from continuing operations	$ 0.09	$ 0.06	$ 0.28	$ 0.22
- from discontinued operations	-	(0.01)	0.02	(0.03)
	$ 0.09	$ 0.05	$ 0.30	$ 0.19

For the quarter ended September 29, 2012, options to purchase 2,048,700 (October 1, 2011 - 1,334,700) common shares have been excluded from the calculation of diluted earnings per share due to their anti-dilutive effect. For the three quarters ended September 29, 2012, options to purchase 2,065,700 (October 1, 2011 1,061,600) common shares have been excluded from the calculation of diluted earnings per share due to their anti-dilutive effect.

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11. Supplemental cash flow information

	Quarter ended		Three quarters ended	
	September 29, 2012 $	October 1, 2011 $	September 29, 2012 $	October 1, 2011 $
Changes in non-cash working capital:				
Accounts receivable	(3,319)	1,821	(21,223)	(13,751)
Inventories	6,623	859	11,831	(3,323)
Income tax recoverable	1,682	(2,014)	3,179	(1,299)
Prepaid expenses and other current assets	(57)	87	2,837	8,629
Accounts payable and accrued liabilities	3,619	379	(1,191)	(21,237)
Customer and other deposits	(1,086)	(142)	2,646	(922)
	7,462	990	(1,921)	(31,903)

As at September 29, 2012, cash and cash equivalents included $2,092 (December 31, 2011 - $698) that was specific to Opta Minerals and cannot be utilized by the Company for general corporate purposes.

12. Commitments and contingencies

Colorado Sun Oil Processors, LLC dispute

Colorado Mills and SunOpta Grains and Foods Inc. (formally Sunrich LLC, herein Grains and Foods), a wholly owned subsidiary of the Company, organized a joint venture through CSOP. The purpose of the joint venture was to construct and operate a vegetable oil refinery adjacent to Colorado Mills sunflower seed crush plant located in Lamar, Colorado. During the relationship, disputes arose between the parties concerning management of the joint venture, record-keeping practices, certain unauthorized expenses incurred on behalf of the joint venture by Colorado Mills, procurement of crude oil by Sunrich from Colorado Mills for processing at the joint venture refinery, and the contract price of crude oil offered for sale under an output term of the joint venture agreement.

The parties initiated a dispute resolution process as set forth in the joint venture agreement, which Colorado Mills aborted prematurely through the initiation of suit in Prowers County District Court, Colorado on March 16, 2010. Subsequent to the filing of that suit, Colorado Mills acted with an outside creditor of the joint venture to involuntarily place the joint venture into bankruptcy. In August 2011, as part of the bankruptcy proceeding initiated in June 2010 in the U.S. Bankruptcy Court, District of Colorado, Colorado Mills purchased substantially all of the assets of the joint venture.

A separate arbitration proceeding occurred between Grains and Foods and Colorado Mills to resolve direct claims each party asserted against the other. The case was arbitrated during the week of August 8, 2011 and proposed findings were filed on September 13, 2011. On January 4, 2012 the arbitrator entered an award denying Grains and Foods claims and awarding Colorado Mills $4,816 for its breach of contract claim and $430 for accrued interest. The

Company subsequently filed a motion to vacate the arbitration award on March 30, 2012 in Prowers County District Court. Colorado Mills filed a response on April 20, 2012. The Company filed a reply on April 27, 2012. The Prowers County District Court denied the Company s motion and entered judgment on the arbitration award on July 6, 2012 in the amount of $4,816. On July 13, 2012, the Company bonded the judgment in the amount of $6,875, or approximately 125% of the judgment amount, to stay execution of the judgment pending the Company s filing of an appeal to the Colorado Court of Appeals. Although management believes the claims asserted by Colorado Mills are baseless, that the arbitrator committed prejudicial error, and that vacatur of the award is warranted, management cannot predict whether the prospect of an unfavorable outcome in this matter is probable. As of December 31, 2011, the Company accrued the full value of the award, pending the outcome of post-arbitration judicial proceedings.

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Other claims

Various additional claims and potential claims arising in the normal course of business are pending against the Company. It is the opinion of management that the amount of potential liability, if any, to the Company is not determinable. Management believes the final determination of these claims or potential claims will not materially affect the financial position or results of the Company.

13. Segmented information

In the first quarter of 2012, the Company implemented changes to its organizational structure to align the operations of SunOpta Foods according to the type of customers and markets served, rather than by product groupings. Consequently, the Company has realigned its reportable operating segments to reflect the resulting changes in management reporting and accountability to the Company s Chief Executive Officer. With this realignment, SunOpta Foods now consists of the following four operating segments: Grains and Foods Group, Ingredients Group, Consumer Products Group and International Foods Group. This new structure is more closely aligned with the Company s integrated business models that specialize in the sourcing, processing and packaging of natural, organic and specialty food products.

As a result of this realignment, the former Fruit Group was eliminated and the new Consumer Products Group was created to focus on non-grains based consumer packaged goods and is comprised of the Frozen Foods and Healthy Snacks operations which were part of the former Fruit Group, and the Food Solutions operations which were formerly part of the International Foods Group. The Fruit Ingredient operation of the former Fruit Group was merged with the existing Ingredients Group. The Grains and Foods Group remained unchanged.

Effective with the realignment, the Company operates in two industries divided into six operating segments as follows:

(a) ***SunOpta Foods*** sources, processes, packages and markets a wide range of natural, organic and specialty food products and ingredients with a focus on soy, corn, sunflower, fruit, fiber and other natural and organic food products. There are four operating segments within SunOpta Foods:

i. ***Grains and Foods Group*** is focused on vertically integrated sourcing, processing, packaging and marketing of grains, grain-based ingredients and packaged products;

ii. ***Ingredients Group*** is focused primarily on insoluble oat and soy fiber products, and specialty fruit ingredients, and works closely with its customers to identify product formulation, cost and productivity opportunities aimed at transforming raw materials into value-added food ingredient solutions;

iii. ***Consumer Products Group*** provides natural and organic consumer packaged food products to major global food manufacturers, distributors and supermarket chains with a variety of branded and private label non-grains based products; and

iv. ***International Foods Group*** includes European and North American based operations that source and supply raw material ingredients and trade organic commodities.

(b) ***Opta Minerals*** processes, distributes and recycles silica-free loose abrasives, roofing granules, industrial minerals and specialty sands for the foundry, steel, and bridge and ship-cleaning industries.

(c) ***Corporate Services*** provide a variety of management, financial, information technology, treasury and administration services to the operating segments from the head office in Brampton, Ontario, and information technology and shared services from its office in Edina, Minnesota.

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The following segmented information for the quarter and three quarters ended September 29, 2012 and October 1, 2011 is provided on the basis of the Company s new operating segments alignment and the divestiture of Purity (see note 3):

				Quarter ended September 29, 2012
	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consolidated $
External revenues by market:				
U.S.	201,878	20,003	-	221,881
Canada	6,294	7,999	-	14,293
Europe and other	38,187	4,978	-	43,165
Total revenues from external customers	246,359	32,980	-	279,339
Segment operating income (loss)	10,835	3,280	(1,424)	12,691
Other expense, net				264
Interest expense, net				2,339
Provision for income taxes				3,947
Earnings from continuing operations				6,141

					Quarter ended September 29, 2012
	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $
External revenues by market:					
U.S.	123,661	18,268	41,310	18,639	201,878
Canada	2,997	1,149	195	1,953	6,294
Europe and other	13,259	856	131	23,941	38,187
Total revenues from external customers	139,917	20,273	41,636	44,533	246,359
Segment operating income (loss)	8,780	878	(544)	1,721	10,835

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	SunOpta Foods $	Opta Minerals $	Corporate Services $	Quarter ended October 1, 2011 Consolidated $
External revenues by market:				
U.S.	171,864	16,360	-	188,224
Canada	9,331	3,940	-	13,271
Europe and other	51,714	3,802	-	55,516
Total revenues from external customers	232,909	24,102	-	257,011
Segment operating income (loss)	8,563	1,606	(2,806)	7,363
Other expense, net				7
Interest expense, net				2,033
Provision for income taxes				1,451
Earnings from continuing operations				3,872

	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	Quarter ended October 1, 2011 SunOpta Foods $
External revenues by market:					
U.S.	95,960	19,524	40,873	15,507	171,864
Canada	3,559	1,723	1,064	2,985	9,331
Europe and other	22,077	719	129	28,789	51,714
Total revenues from external customers	121,596	21,966	42,066	47,281	232,909
Segment operating income	4,394	2,065	205	1,899	8,563

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	SunOpta Foods $	Opta Minerals $	Corporate Services $	Three quarters ended September 29, 2012 Consolidated $
External revenues by market:				
U.S.	585,642	56,637	-	642,279
Canada	24,393	22,764	-	47,157
Europe and other	118,414	13,125	-	131,539
Total revenues from external customers	728,449	92,526	-	820,975
Segment operating income (loss)	36,423	8,178	(4,781)	39,820
Other expense, net				2,006
Interest expense, net				7,480
Provision for income taxes				10,302
Earnings from continuing operations				20,032

	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	Three quarters ended September 29, 2012 SunOpta Foods $
External revenues by market:					
U.S.	346,507	55,804	133,246	50,085	585,642
Canada	12,238	4,049	1,311	6,795	24,393
Europe and other	38,351	2,555	1,322	76,186	118,414
Total revenues from external customers	397,096	62,408	135,879	133,066	728,449
Segment operating income (loss)	27,662	2,946	(549)	6,364	36,423

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				Three quarters ended October 1, 2011
	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consolidated $
External revenues by market:				
U.S.	534,600	47,613	-	582,213
Canada	24,613	11,348	-	35,961
Europe and other	147,841	11,534	-	159,375
Total revenues from external customers	707,054	70,495	-	777,549
Segment operating income (loss)	29,835	6,216	(7,169)	28,882
Other income, net				(2,887)
Interest expense, net				6,537
Provision for income taxes				8,875
Earnings from continuing operations				16,357

					Three quarters ended October 1, 2011
	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $
External revenues by market:					
U.S.	296,168	63,207	122,605	52,620	534,600
Canada	10,140	5,768	2,482	6,223	24,613
Europe and other	55,663	2,627	670	88,881	147,841
Total revenues from external customers	361,971	71,602	125,757	147,724	707,054
Segment operating income (loss)	15,962	6,692	(151)	7,332	29,835

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

Forward-Looking Financial Information

The following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the interim consolidated financial statements, and notes thereto, for the quarter ended September 29, 2012 contained under Item 1 of this Quarterly Report on Form 10-Q (Form 10-Q) and in conjunction with the annual consolidated financial statements, and notes thereto, contained in the Current Report on Form 8-K that we filed on June 25, 2012.

Certain statements contained in this MD&A may constitute forward-looking statements as defined under securities laws. Forward-looking statements may relate to our future outlook and anticipated events or results and may include statements regarding our future financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives. In some cases, forward-looking statements can be identified by terms such as anticipate , estimate , intend , project , potential , continue , believe , expect should , might , plan , will , may , predict , or other similar expressions concerning matters that are not historical the extent any forward-looking statements contain future-oriented financial information or financial outlooks, such information is being provided to enable a reader to assess our financial condition, material changes in our financial condition, our results of operations, and our liquidity and capital resources. Readers are cautioned that this information may not be appropriate for any other purpose, including investment decisions.

Forward-looking statements contained in this MD&A are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. While we consider these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Forward-looking statements are also subject to certain factors, including risks and uncertainties that could cause actual results to differ materially from what we currently expect. These factors are more fully described under Item 1A of Part II of this Form 10-Q and under Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (2011 Form 10-K).

Forward-looking statements contained in this commentary are based on our current estimates, expectations and projections, which we believe are reasonable as of the current date. You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date. Other than as required under securities laws, we do not undertake to update any forward-looking information at any particular time.

Unless otherwise indicated herein, the discussion and analysis contained in this MD&A includes information available to November 7, 2012. All dollar amounts in this MD&A are expressed in thousands of U.S. dollars, except per share amounts, unless otherwise noted.

Commodity Prices

Commodity prices for corn and soybeans have risen significantly over the course of this year as a consequence of supply shortfalls due to crop failures following the worst drought conditions experienced in North America in many years. Although the overall 2012 crop is expected to be of fair to average yield and quality, we anticipate that we will be able to maintain adequate supply for our value-added consumer packaged and ingredients businesses, as we source primarily from northern growing regions that were not as severely impacted by the extreme heat and lack of rain experienced in the southern regions of the U.S. In addition, through our global sourcing platform we expect to minimize any shortfalls in supply for our lower-margin commodity grain and feed sales. With respect to pricing, our contractual relationships with customers for consumer packaged and ingredients products, as well as commodity grain and feed sales, typically allow us to increase our prices to recover increased costs of supply. As a result, we do not anticipate that weather-related supply shortfalls and commodity price inflation will have a material negative impact to our results of operations for the fourth quarter of 2012 through 2013.

Segment Realignment and Rationalization Efforts

In February 2012, we announced that a process to streamline the operations and organizational structure of SunOpta Foods had been undertaken in order to drive efficiencies and better align product innovation and commercial activities. During the first quarter of 2012, operating segments within SunOpta Foods were re-aligned according to the type of customers and markets served, rather than by product groupings. As a result, the former Fruit Group was eliminated and a new Consumer Products Group was created to focus on non-grains based consumer packaged goods. The Consumer Products Group is comprised of the Frozen Foods and Healthy Snacks operations which were part of the former Fruit Group, and the Food Solutions operations which were formerly part of the International Foods Group. The Fruit Ingredient operation of the former Fruit Group was merged with the existing Ingredients Group. Following this realignment and the divestiture of Purity Life Natural Health Products (Purity) (as described below under Business Developments), the International Foods Group comprises solely our international sourcing and supply operations (Tradin Organic). The Grains and Foods Group remained unchanged. With this realignment, SunOpta Foods now consists of four operating segments: Grains and Foods Group, Ingredients Group, Consumer Products Group and International Foods Group. The segmented operations information provided in this MD&A for the current and comparative periods reflects these new operating segments. In addition, on June 25, 2012, we filed a Current Report on Form 8-K in order to update the historical financial statements and MD&A for all periods presented in the 2011 Form 10-K to reflect the realignment of the operating segments within SunOpta Foods implemented during the first quarter of 2012.

In hand with these efforts, we also announced the rationalization of a number of operations and functions which resulted in a reduction of approximately 6% of our salaried workforce. Once fully implemented, and after approximately $500 in severance charges, this rationalization is expected to reduce annual costs by approximately $3,000 before tax. In addition, we have recently taken steps towards the closure of the Chelmsford, Massachusetts office of the Ingredients Group which would involve the relocation of certain back office functions to our U.S. corporate office located in Edina, Minnesota. We expect that this office closure will result in annualized savings of approximately $1,200 once fully implemented. The costs associated with the closure and relocation are expected to be incurred during the fourth quarter of 2012 and first quarter of 2013; however, these costs are not expected to be material.

Business Developments

WGI Heavy Minerals, Incorporated

On August 29, 2012, Opta Minerals Inc. (Opta Minerals) paid $14,098 in cash to acquire approximately 94% of the outstanding common shares of WGI Heavy Metals, Incorporated (WGI), pursuant to an offer by Opta Minerals to acquire all of the outstanding common shares of WGI for Cdn $0.60 cash per share. Opta Minerals commenced a compulsory acquisition of the outstanding common shares of WGI not tendered to the offer, which is expected to be completed on or about November 8, 2012, following which Opta Minerals will own 100% of WGI. WGI s principal business is the processing and sale of industrial abrasive minerals, and the sourcing, assembly and sale of ultra-high pressure water jet cutting machine replacement parts and components. This acquisition complements Opta Minerals existing product portfolio and expands product line offerings to new and existing customers.

Purity Life Natural Health Products

On June 5, 2012, we completed the sale of Purity, our Canadian natural health products distribution business, for consideration of $13,443 (Cdn $14,000) in cash at closing, plus up to approximately $672 (Cdn $700) if Purity achieves certain earnings targets during the one-year period following the closing date. We will not recognize the contingent consideration until realized. The divestiture of Purity is consistent with our strategy to focus on our core natural and organic foods sourcing and processing business. The operating results of Purity for the quarter and three quarters ended September 29, 2012 and October 1, 2011 have been reclassified to discontinued operations. Purity was formerly part of the International Foods Group.

Babco Industrial Corp.

In February 2012, Opta Minerals acquired all of the outstanding common shares of Babco Industrial Corp. (Babco) located in Regina, Saskatchewan for cash at closing of $17,530 plus contingent consideration of up to $1,300 based on the achievement of certain earnings targets over the next five years. Babco is an industrial processor of petroleum coke. This acquisition complements Opta Minerals existing product portfolio and provides for additional product line offerings to new and existing customers in the region.

Inland RC, LLC

In November 2011, Opta Minerals acquired the members interest in Inland RC, LLC, (Inland) a manufacturer of pre-cast refractory shapes, injection lances and electric furnace deltas for cash consideration of $658 plus contingent consideration based on the achievement of certain future targets. Inland s business is complementary with current Opta Minerals product offerings and has capacity for growth and significant synergy opportunities.

Lorton s Fresh Squeezed Juices, Inc.

In August 2011, we completed the acquisition of the assets and business of Lorton s Fresh Squeezed Juices, Inc. (Lorton s) for cash consideration and amounts payable for additional working capital of $2,602, plus potential additional consideration pursuant to an earn-out based on pre-determined earnings targets over a four-year period. Lorton s is a vertically integrated producer of a variety of citrus based products in both industrial and packaged formats. This acquisition expanded our vertically integrated operations into the extracting, processing and packaging of citrus-based ingredients through consumer packaged products, and provides increased capacity for future growth and expansion. Lorton s operations are included in the Consumer Products Group.

Colorado Sun Oil Processing LLC

In August 2011, we disposed of our interest in the Colorado Sun Oil Processing LLC (CSOP) joint venture, pursuant to bankruptcy proceedings. As a result, the operating results of CSOP (including legal fees and interest costs incurred in connection with arbitration proceedings underway in respect of the related joint venture agreement see note 12 to the interim consolidated financial statements) for the quarter and three quarters ended September 29, 2012 and October 1, 2011 have been included in discontinued operations. CSOP was part of the Grains and Foods Group.

Consolidated Results of Operations

For the quarter ended	September 29, 2012 $	October 1, 2011 $	Change $	Change %
Revenue				
SunOpta Foods	246,359	232,909	13,450	5.8%
Opta Minerals	32,980	24,102	8,878	36.8%
Total Revenue	279,339	257,011	22,328	8.7%
Gross Profit				
SunOpta Foods	26,205	24,797	1,408	5.7%
Opta Minerals	6,976	5,224	1,752	33.5%
Total Gross Profit	33,181	30,021	3,160	10.5%
Segment Operating Income (Loss)[(1)]				
SunOpta Foods	10,835	8,563	2,272	26.5%
Opta Minerals	3,280	1,606	1,674	104.2%
Corporate Services	(1,424)	(2,806)	1,382	49.3%
Total Segment Operating Income	12,691	7,363	5,328	72.4%
Other expense , net	264	7	257	3671.4%
Earnings from continuing operations before the following	12,427	7,356	5,071	68.9%
Interest expense, net	2,339	2,033	306	15.1%
Provision for income taxes	3,947	1,451	2,496	172.0%
Earnings from continuing operations	6,141	3,872	2,269	58.6%
Earnings attributable to non-controlling interests	449	144	305	211.8%
Earnings (loss) from discontinued operations, net of taxes	112	(433)	545	n/m
Gain on sale of discontinued operations, net of taxes	-	71	(71)	n/m
Earnings attributable to SunOpta Inc.	5,804	3,366	2,438	72.4%

(1) When assessing the financial performance of our operating segments, we use an internal measure of operating income that excludes other income/expense items determined in accordance with U.S. generally accepted accounting principles (GAAP). This measure is the basis on which management, including the Chief Executive Officer, assesses the underlying performance of our operating segments. We believe that disclosing this non-GAAP measure assists investors in comparing financial performance across reporting periods on a consistent basis by excluding items that are not indicative of our core operating performance. However, the non-GAAP measure of operating income should not be considered in isolation or as a substitute for performance measures calculated in accordance with U.S. GAAP. The following table presents a reconciliation of segment operating income (loss) to earnings (loss) from continuing operations before the following , which we consider to be the most directly comparable U.S. GAAP financial measure.

For the quarter ended	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consol-idated $
September 29, 2012								
Segment operating income (loss)	8,780	878	(544)	1,721	10,835	3,280	(1,424)	12,691
Other income (expense), net	6	-	(46)	-	(40)	(208)	(16)	(264)
Earnings (loss) from continuing operations before the following	8,786	878	(590)	1,721	10,795	3,072	(1,440)	12,427
October 1, 2011								
Segment operating income (loss)	4,394	2,065	205	1,899	8,563	1,606	(2,806)	7,363
Other income (expense), net	202	-	(109)	-	93	-	(100)	(7)
Earnings (loss) from continuing operations before the following	4,596	2,065	96	1,899	8,656	1,606	(2,906)	7,356

We believe that investors understanding of our financial performance is enhanced by disclosing the specific items that we exclude from segment operating income. However, any measure of operating income excluding any or all of these items is not, and should not be viewed as, a substitute for operating income prepared under U.S. GAAP. These items are presented solely to allow investors to more fully understand how we assess financial performance.

Revenues for the quarter ended September 29, 2012 increased by 8.7% to $279,339 from $257,011 for the quarter ended October 1, 2011. Revenues in SunOpta Foods increased by 5.8% to $246,359 and revenues in Opta Minerals increased by 36.8% to $32,980. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 6% on a consolidated basis. Within SunOpta Foods, higher sales volumes of value-added aseptic and other consumer packaged goods contributed to the increase in revenues, as well as strong demand and higher pricing for corn and organic feed products due to the

effects of the North American drought. Those factors were partially offset by lower revenues in our European organic ingredients operation due to economic uncertainty, as well as declines in volumes and pricing in the fruit snacks category at our Healthy Snacks operation due to increased competition from re-sealable pouch formats. At Opta Minerals, the increase in revenues reflected higher volumes of industrial minerals and abrasive products, as well as the incremental revenues of Babco and WGI, which were acquired in 2012.

Gross profit increased $3,160, or 10.5%, to $33,181 for the quarter ended September 29, 2012, compared with $30,021 for the quarter ended October 1, 2011. As a percentage of revenues, gross profit for the quarter ended September 29, 2012 was 11.9% compared to 11.7% for the quarter ended October 1, 2011, an increase of 0.2% . The increase in gross profit percentage reflected the strong growth in higher-margin aseptic and consumer packaged goods categories and reduced losses on export sales of sunflower kernel, as well as the positive impact of product rationalization efforts at our Frozen Foods operation. In addition, we generated stronger margins on sales of corn and organic feedstuffs as a result of higher pricing and favorable costing related to inventory carried over from 2011. Negatively impacting gross profit percentage for the quarter ended September 29, 2012 were reduced efficiencies in our Fiber and Fruit Ingredient operations due to lower production volumes, unfavorable product mix and higher production costs at our Healthy Snacks operation, and operating losses at our juice extraction and packaging operation. In addition, we incurred pre-production costs of $598 in the third quarter of 2012, related to our new pouch filling operation located in a facility on the U.S. east coast. The commissioning of this facility was completed in September 2012.

Total segment operating income for the quarter ended September 29, 2012 increased by $5,328, or 72.4%, to $12,691, compared with $7,363 for the quarter ended October 1, 2011. As a percentage of revenue, segment operating income was 4.5% for the quarter ended September 29, 2012, compared with 2.9% for the quarter ended October 1, 2011. The increase in segment operating income at SunOpta Foods reflected the strong performance of the aseptic and grains-based businesses, including sunflower, and gross margin and cost structure improvements at our Frozen Foods operation, partially offset by declines in our Ingredient and Healthy Snacks operations. The increase in segment operating income at Opta Minerals primarily reflected the incremental contribution from Babco and WGI. Also contributing to the increase in segment operating income were lower employee compensation-related costs, as a result of rationalization efforts undertaken in the first quarter of 2012 to streamline operations and improve efficiencies within SunOpta Foods, and the favorable impact of foreign exchange movements for the Canadian dollar relative to the U.S. dollar.

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

Other expense for the quarter ended September 29, 2012 of $264 included transaction costs incurred by Opta Minerals in connection with the acquisition of WGI.

The increase in interest expense of $306 to $2,339 for the quarter ended September 29, 2012, compared with $2,033 for the quarter ended October 1, 2011, reflected an increase in long-term debt at Opta Minerals in connection with the WGI and Babco acquisitions, partially offset by the repayment of borrowings under our syndicated credit facilities with cash generated from operations.

The provision for income tax for the quarter ended September 29, 2012 was $3,947, or 39.1% of earnings before taxes, compared with $1,451, or 27.3% of earnings before taxes, for the quarter ended October 1, 2011. The increase in the effective tax rate is primarily a result of increased earnings in higher tax jurisdictions in the third quarter of 2012, and the net effect of certain tax credits that were realized in the third quarter of 2011. The annual effective income tax rate for 2012 is expected to be between 37% and 39%, excluding discrete adjustments.

Earnings from continuing operations for the quarter ended September 29, 2012 were $6,141, as compared to $3,872 for the quarter ended October 1, 2011, an increase of $2,269 or 58.6% . Diluted earnings per share from continuing operations were $0.09 for the quarter ended September 29, 2012, compared with $0.06 for the quarter ended October 1, 2011.

Earnings attributable to non-controlling interests for the quarter ended September 29, 2012 were $449, compared with earnings of $144 for the quarter ended October 1, 2011. The $305 increase in earnings attributable to non-controlling interests reflected an increase in net earnings at Opta Minerals, including the incremental contribution from Babco.

Earnings from discontinued operations, net of taxes, of $112 for the quarter ended September 29, 2012 reflected $333 received in final settlement of the CSOP estate at the completion of bankruptcy proceedings, partially offset by legal fees and interest costs in connection with the ongoing arbitration proceedings related to the joint venture agreement. Discontinued operations for the quarter ended October 1, 2011 reflected losses from the operations of Purity and CSOP of $433 in the aggregate, partially offset by a gain recognized on the sale of CSOP of $71.

On a consolidated basis, we realized earnings of $5,804 (diluted earnings per share of $0.09) for the quarter ended September 29, 2012, compared with earnings of $3,366 (diluted earnings per share of $0.05) for the quarter ended October 1, 2011.

Segmented Operations Information
SunOpta Foods

For the quarter ended	September 29, 2012	October 1, 2011	Change	% Change
Revenues	$ 246,359	$ 232,909	$ 13,450	5.8%
Gross Margin	26,205	24,797	1,408	5.7%
Gross Margin %	10.6%	10.6%		0.0%
Operating Income	$ 10,835	$ 8,563	$ 2,272	26.5%
Operating Income %	4.4%	3.7%		0.7%

SunOpta Foods contributed $246,359 or 88.2% of consolidated revenue for the quarter ended September 29, 2012 compared to $232,909 or 90.6% of consolidated revenues for the quarter ended October 1, 2011, an increase of $13,450. Revenues in SunOpta Foods increased 5.8% compared to the quarter ended October 1, 2011. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 5% in SunOpta Foods, driven by strong growth in integrated packaged food product categories and corn and organic feedstuff volumes, offset by decreased volumes of fiber and fruit ingredients, as well as fruit snacks. The table below explains the increase in revenue by group for SunOpta Foods:

SunOpta Foods Revenue Changes	
Revenues for the quarter ended October 1, 2011	$232,909
Increase in the Grains and Foods Group	18,321
Decrease in the Ingredients Group	(1,693)
Decrease in the Consumer Products Group	(430)
Decrease in the International Foods Group	(2,748)
Revenues for the quarter ended September 29, 2012	**$246,359**

Gross margin in SunOpta Foods increased by $1,408 for the quarter ended September 29, 2012 to $26,205, or 10.6% of revenues, compared to $24,797, or 10.6% of revenues for the quarter ended October 1, 2011. The table below explains the increase in gross margin by group for SunOpta Foods:

SunOpta Foods Gross Margin Changes	
Gross Margin for the quarter ended October 1, 2011	$24,797
Increase in the Grains and Foods Group	4,555
Decrease in the Ingredients Group	(1,223)
Decrease in the Consumer Products Group	(1,199)
Decrease in the International Foods Group	(725)
Gross Margin for the quarter ended September 29, 2012	**$26,205**

Operating income in SunOpta Foods increased by $2,272 for the quarter ended September 29, 2012 to $10,835 or 4.4% of revenues, compared to $8,563 or 3.7% of revenues for the quarter ended October 1, 2011. The table below explains the increase in operating income for SunOpta Foods:

SunOpta Foods Operating Income Changes	
Operating Income for the quarter ended October 1, 2011	$8,563
Increase in gross margin, as noted above	1,408
Decrease in SG&A costs	923
Increase in foreign exchange loss	(59)
Operating Income for the quarter ended September 29, 2012	**$10,835**

Further details on revenue, gross margin and operating income variances within SunOpta Foods are provided in the segmented operations information that follows.

Grains and Foods Group

For the quarter ended	**September 29, 2012**	**October 1, 2011**	**Change**	**% Change**
Revenues	$ 139,917	$ 121,596	$ 18,321	15.1%
Gross Margin	14,680	10,125	4,555	45.0%
Gross Margin %	10.5%	8.3%		2.2%
Operating Income	$ 8,780	$ 4,394	$ 4,386	99.8%
Operating Income %	6.3%	3.6%		2.7%

The Grains and Foods Group contributed $139,917 in revenues for the quarter ended September 29, 2012, compared to $121,596 for the quarter ended October 1, 2011, an $18,321 or 15.1% increase. The table below explains the increase in revenue:

Grains and Foods Group Revenue Changes	
Revenues for the quarter ended October 1, 2011	$121,596
Increased volume and improved pricing on organic grains and commodity corn, as well as improved pricing on commodity soy, partially offset by lower volume of commodity soy	13,386
Increased volume and higher pricing of aseptically packaged beverages	4,759
Improved pricing on sunflower kernel products	1,551
Transfer of dairy blended food ingredient business from Ingredients Group	1,389
Lower volume of grain based food ingredients, partially offset by improved pricing	(2,357)
Lower volume of in-shell sunflower products due to continued softness in international markets, partially offset by increased bird food and other by-product streams	(407)
Revenues for the quarter ended September 29, 2012	**$139,917**

Gross margin in the Grains and Foods Group increased by $4,555 to $14,680 for the quarter ended September 29, 2012 compared to $10,125 for the quarter ended October 1, 2011, and the gross margin percentage increased by 2.2% to 10.5% . The increase in gross margin as a percentage of revenue was primarily due to higher volume and improved pricing on organic grains and commodity soy and corn, production efficiencies at our aseptic processing and packaging facilities, improved pricing on sunflower planting seeds and in-shell sunflower products, and lower export sunflower kernel sales that occurred at a loss in the third quarter of 2011. The table below explains the increase in gross margin:

Grains and Foods Group Gross Margin Changes	
Gross Margin for the quarter ended October 1, 2011	$10,125
Higher volume and improved pricing on organic grains and commodity corn, partially offset by the higher cost of commodity soy	2,514
Higher volumes and improved pricing of aseptically packaged beverages, as well as production efficiencies from increased volumes	1,404
Improved margins in the sunflower planting seed program and higher pricing for in- shell sunflower, partially offset by decreased plant efficiencies from lower sunflower volume	575
Lower volume of export sunflower kernel products that were sold at a loss in the prior year, partially offset by lower pricing and higher by-product costs	216
Lower volume and reduced pricing on grain based food ingredients, partially offset by improved margins on specialty oils that were sold at a loss in the prior year	(154)
Gross Margin for the quarter ended September 29, 2012	**$14,680**

Operating income in the Grains and Foods Group increased by $4,386 or 99.8% to $8,780 for the quarter ended September 29, 2012, compared to $4,394 for the quarter ended October 1, 2011. The table below explains the increase in operating income:

Grains and Foods Group Operating Income Changes	
Operating Income for the quarter ended October 1, 2011	$4,394
Increase in gross margin, as explained above	4,556
Decreased professional fees, utilities and insurance, offset by increased compensation costs	78
Decrease in foreign exchange gains	(130)
Increase in corporate cost allocations	(118)
Operating Income for the quarter ended September 29, 2012	**$8,780**

Ingredients Group

For the quarter ended	September 29, 2012	October 1, 2011	Change	% Change
Revenues	$ 20,273	$ 21,966	$ (1,693)	-7.7%
Gross Margin	3,223	4,446	(1,223)	-27.5%
Gross Margin %	15.9%	20.2%		-4.3%
Operating Income	$ 878	$ 2,065	$ (1,187)	-57.5%
Operating Income %	4.3%	9.4%		-5.1%

The Ingredients Group contributed $20,273 in revenues for the quarter ended September 29, 2012, compared to $21,966 for the quarter ended October 1, 2011, a $1,693 or 7.7% decrease. The table below explains the decrease in revenue:

Ingredients Group Revenue Changes	
Revenues for the quarter ended October 1, 2011	$21,966
Transfer of non-dairy blended food ingredient business to the Grains and Foods Group	(1,389)
Decrease in customer demand for oat and soy fiber ingredients, as well as fruit ingredients to the industrial channel, partially offset by increased customer demand for fruit ingredients to the food service channel	(1,058)
Improved pricing for industrial and food service fruit ingredients products	654
Increase in customer demand for starches and brans, partially offset by lower pricing for other blended food ingredients	100
Revenues for the quarter ended September 29, 2012	**$20,273**

Gross margin in the Ingredients Group decreased by $1,223 to $3,223 for the quarter ended September 29, 2012 compared to $4,446 for the quarter ended October 1, 2011, and the gross margin percentage decreased by 4.3% to 15.9% . Higher raw material input costs, including organic sugar as well as oat and soy hulls, and decreased plant efficiencies from low production volumes were the main causes of the decrease in gross margin rate. The table below explains the decrease in gross margin:

Ingredients Group Gross Margin Changes	
Gross Margin for the quarter ended October 1, 2011	$4,446
Lower demand for oat and soy fiber, combined with an increase in raw material and other input costs including oat and soy hulls	(783)
Decreased demand for industrial fruit ingredients and decreased efficiencies from lower production, combined with increased input costs including organic sugar	(440)
Gross Margin for the quarter ended September 29, 2012	**$3,223**

Operating income in the Ingredients Group decreased by $1,187, or 57.5%, to $878 for the quarter ended September 29, 2012, compared to $2,065 for the quarter ended October 1, 2011. The table below explains the decrease in operating income:

Ingredients Group Operating Income Changes	
Operating Income for the quarter ended October 1, 2011	$2,065
Decrease in gross margin, as explained above	(1,223)
Increased spending on general office costs, as well as consulting costs related to product development and market research	(79)
Decrease in corporate cost allocations	70
Decrease in compensation costs, primarily due to headcount rationalization that occurred in the first quarter of 2012	45
Operating Income for the quarter ended September 29, 2012	**$878**

Consumer Products Group

For the quarter ended	**September 29, 2012**	**October 1, 2011**	**Change**	**% Change**
Revenues	$ 41,636	$ 42,066	$ (430)	-1.0%
Gross Margin	2,798	3,997	(1,199)	-30.0%
Gross Margin %	6.7%	9.5%		-2.8%
Operating (loss) income	$ (544)	$ 205	$ (749)	-365.4%
Operating Income %	-1.3%	0.5%		-1.8%

The Consumer Products Group contributed $41,636 in revenues for the quarter ended September 29, 2012, compared to $42,066 for the quarter ended October 1, 2011, a $430 or 1.0% decrease. The table below explains the decrease in revenue:

Consumer Products Group Revenue Changes	
Revenues for the quarter ended October 1, 2011	$42,066
Decreased volume in our Frozen Foods operation as we wind down all industrial and food service product lines, partially offset by higher volumes on retail offerings	(3,492)
Reduced sales volume of healthy fruit snacks, offset partially by increased sales of nutrition bars	(1,024)
Increased sales from the launch of our flexible pouch filling lines on the U.S. west coast in the fourth quarter of 2011 as well as on the U.S. east coast in the third quarter of 2012	4,086
Revenues for the quarter ended September 29, 2012	**$41,636**

Gross margin in the Consumer Products Group decreased by $1,199 to $2,798 for the quarter ended September 29, 2012 compared to $3,997 for the quarter ended October 1, 2011, and the gross margin percentage decreased by 2.8% to 6.7% . The decrease in gross margin as a percentage of revenue is due to pre-production costs related to our U.S. east coast expansion project and higher production costs at our Healthy Snacks operation. The table below explains the decrease in gross margin:

Consumer Products Group Gross Margin Changes	
Gross Margin for the quarter ended October 1, 2011	$3,997
Higher production and raw material costs at our Healthy Snacks operations	(1,746)
Facility start-up costs related to the expansion of consumer packaged processing capabilities on the U.S. east coast, transition costs and plant inefficiencies at Lorton s, partially offset by improved margins on other consumer product offerings including flexible pouch	(516)
Higher margins realized on retail format frozen food sales and decreased storage costs as a result of lower inventory levels	1,063
Gross Margin for the quarter ended September 29, 2012	**$2,798**

Operating income in the Consumer Products Group decreased by $749, or 365.4%, to a loss of $544 for the quarter ended September 29, 2012, compared to income of $205 for the quarter ended October 1, 2011. The table below explains the decrease in operating income:

Consumer Products Group Operating Income Changes	
Operating Income for the quarter ended October 1, 2011	$205
Decrease in gross margin, as explained above	(1,199)
Increase in corporate cost allocations	(145)
SG&A savings due to reduced headcount and lower short-term incentive accruals	551
Lower professional fees, travel and office expenses	44
Operating Loss for the quarter ended September 29, 2012	**($544)**

International Foods Group

For the quarter ended	September 29, 2012	October 1, 2011	Change	% Change
Revenues	$ 44,533	$ 47,281	$ (2,748)	-5.8%
Gross Margin	5,504	6,229	(725)	-11.6%
Gross Margin %	12.4%	13.2%		-0.8%
Operating Income	$ 1,721	$ 1,899	$ (178)	-9.4%
Operating Income %	3.9%	4.0%		-0.1%

The International Foods Group contributed $44,533 in revenues for the quarter ended September 29, 2012, compared to $47,281 for the quarter ended October 1, 2011, a $2,748 or 5.8% decrease. The table below explains the decrease in revenue:

International Foods Group Revenue Changes	
Revenues for the quarter ended October 1, 2011	$47,281
Unfavorable impact on revenues due to the weaker euro relative to the U.S. dollar	(5,638)
Higher volumes of organic commodities, driven by improved sales in North America, offset by weaker sales in Europe	1,712
Increased commodity prices for organic commodities such as sweeteners, nuts and fruits	1,178
Revenues for the quarter ended September 29, 2012	**$44,533**

Gross margins in the International Foods Group decreased by $725 to $5,504 for the quarter ended September 29, 2012 compared to $6,229 for the quarter ended October 1, 2011, and the gross margin percentage decreased by 0.8% to 12.4% . The decrease in margin rate was due primarily to sales mix as well as unfavorable margins realized on coffee. The table below explains the decrease in gross margin:

International Foods Group Gross Margin Changes	
Gross Margin for the quarter ended October 1, 2011	$6,229
Unfavorable impact on gross margins due to weaker euro relative to the U.S. dollar	(717)
Lower margins realized on coffee due to declining market prices which drove down margins on existing inventory on hand, partially offset by higher sales volumes of other organic commodities	(8)
Gross Margin for the quarter ended September 29, 2012	**$5,504**

Operating income in the International Foods Group decreased by $178, or 9.4%, to $1,721 for the quarter ended September 29, 2012, compared to $1,899 for the quarter ended October 1, 2011. The table below explains the decrease in operating income:

International Foods Group Operating Income Changes	
Operating Income for the quarter ended October 1, 2011	$1,899
Decrease in gross margin, as explained above	(725)
Increase in corporate allocations	(105)
Favorable impact on euro borne SG&A spending due to the weaker euro relative to the U.S. dollar	411
Decrease in short-term incentive costs, partially offset by increased compensation due to higher headcount	176
Foreign exchange gains on forward foreign exchange contracts	65
Operating Income for the quarter ended September 29, 2012	**$1,721**

Opta Minerals

For the quarter ended	**September 29, 2012**	**October 1, 2011**	**Change**	**% Change**
Revenues	$ 32,980	$ 24,102	$ 8,878	36.8%
Gross Margin	6,976	5,224	1,752	33.5%
Gross Margin %	21.2%	21.7%		-0.5%
Operating Income	$ 3,280	$ 1,606	$ 1,674	104.2%
Operating Income %	9.9%	6.7%		3.2%

Opta Minerals contributed $32,980 in revenues for the quarter ended September 29, 2012, compared to $24,102 for the quarter ended October 1, 2011, an $8,878 or a 36.8% increase. The table below explains the increase in revenue:

Opta Minerals Revenue Changes	
Revenues for the quarter ended October 1, 2011	$24,102
Incremental revenue due to the acquisitions of WGI on August 29, 2012, Babco on February 10, 2012 and Inland on November 10, 2011	5,964
Increased volumes of mill and foundry products as a result of increased demand for magnesium, chromite and lime blends	1,865
Increased volumes of abrasive and other industrial mineral products and services	1,049
Revenues for the quarter ended September 29, 2012	**$32,980**

Gross margin for Opta Minerals increased by $1,752 to $6,976 for the quarter ended September 29, 2012 compared to $5,224 for the quarter ended October 1, 2011, and the gross margin percentage decreased by 0.5% to 21.2% . The decrease in gross margin as a percentage of revenue was due primarily to product mix. The table below explains the increase in gross margin:

Opta Minerals Gross Margin Changes	
Gross Margin for the quarter ended October 1, 2011	$5,224
Incremental gross margin due to the acquisitions of WGI, Babco and Inland	1,592
Margin impact on higher sales volume of abrasive and other industrial mineral products combined with lower plant costs	475
Impact of unfavorable product mix on mill and foundry products, as volume increases were offset by higher sales of lower margin chromite and magnesium products	(315)
Gross Margin for the quarter ended September 29, 2012	**$6,976**

Operating income for Opta Minerals increased by $1,674, or 104.2%, to $3,280 for the quarter ended September 29, 2012, compared to $1,606 for the quarter ended October 1, 2011. The table below explains the increase in operating income:

Opta Minerals Operating Income Changes	
Operating Income for the quarter ended October 1, 2011	$1,606
Increase in gross margin, as explained above	1,752
Decrease in foreign exchange losses	464
Decrease in other SG&A, including stock compensation expense	104
Incremental SG&A due to the acquisitions of WGI, Babco and Inland	(646)
Operating Income for the quarter ended September 29, 2012	**$3,280**

Corporate Services

For the quarter ended	**September 29, 2012**	**October 1, 2011**	**Change**	**% Change**
Operating Loss	$ (1,424)	$ (2,806)	$ 1,382	49.3%

Operating loss at Corporate Services decreased by $1,382 to $1,424 for the quarter ended September 29, 2012, from a loss of $2,806 for the quarter ended October 1, 2011. The table below explains the decrease in operating loss:

Corporate Services Operating Income Changes	
Operating Loss for the quarter ended October 1, 2011	($2,806)
Increase in foreign exchange gains	748
Lower compensation costs in part due to headcount rationalizations that occurred in the first quarter of 2012 and decreased benefits, partially offset by increased stock compensation and other general office costs	327
Increase in corporate management fees that are allocated to SunOpta operating groups	307
Operating Loss for the quarter ended September 29, 2012	**($1,424)**

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

Consolidated Results of Operations

For the three quarters ended	September 29, 2012 $	October 1, 2011 $	Change $	Change %
Revenues				
SunOpta Foods	728,449	707,054	21,395	3.0%
Opta Minerals	92,526	70,495	22,031	31.3%
Total revenues	820,975	777,549	43,426	5.6%
Gross profit				
SunOpta Foods	84,681	78,800	5,881	7.5%
Opta Minerals	20,074	15,833	4,241	26.8%
Total gross profit	104,755	94,633	10,122	10.7%
Segment operating income (loss)[(1)]				
SunOpta Foods	36,423	29,835	6,588	22.1%
Opta Minerals	8,178	6,216	1,962	31.6%
Corporate Services	(4,781)	(7,169)	2,388	33.3%
Total segment operating income	39,820	28,882	10,938	37.9%
Other expense (income), net	2,006	(2,887)	4,893	169.5%
Earnings from continuing operations before the following	37,814	31,769	6,045	19.0%
Interest expense, net	7,480	6,537	943	14.4%
Provision for income taxes	10,302	8,875	1,427	16.1%
Earnings from continuing operations	20,032	16,357	3,675	22.5%
Earnings attributable to non-controlling interests	1,384	1,523	(139)	-9.1%
Loss from discontinued operations, net of taxes	517	(2,057)	2,574	125.1%
Gain on sale of discontinued operations, net of taxes	676	71	605	n/m
Earnings attributable to SunOpta Inc.	19,841	12,848	6,993	54.4%

(1) The following table presents a reconciliation of segment operating income (loss) to earnings (loss) from continuing operations before the following , which we consider to be the most directly comparable U.S. GAAP financial measure (refer to page 30, note (1) regarding the use of non-GAAP measures).

For the three quarters ended	Grains and Foods Group $	Ingredients Group $	Consumer Products Group $	International Foods Group $	SunOpta Foods $	Opta Minerals $	Corporate Services $	Consol-idated $
September 29, 2012								
Segment operating income (loss)	27,662	2,946	(549)	6,364	36,423	8,178	(4,781)	39,820
Other income (expense),	28	(224)	(159)	-	(355)	(647)	(1,004)	(2,006)

net								
Earnings (loss) from continuing operations before the following	27,690	2,722	(708)	6,364	36,068	7,531	(5,785)	37,814
October 1, 2011								
Segment operating income (loss)	15,962	6,692	(151)	7,332	29,835	6,216	(7,169)	28,882
Other income (expense), net	234	(59)	3,540	-	3,715	-	(828)	2,887
Earnings (loss) from continuing operations before the following	16,196	6,633	3,389	7,332	33,550	6,216	(7,997)	31,769

Revenues for the three quarters ended September 29, 2012 increased by 5.6% to $820,975 from $777,549 for the three quarters ended October 1, 2011. Revenues in SunOpta Foods increased by 3.0% to $728,449 and revenues in Opta Minerals increased by 31.3% to $92,526. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 5% on a consolidated basis. Contributing to the increase in revenues within SunOpta Foods were higher sales volumes of value-added aseptic and other consumer packaged goods, and strong demand and higher pricing for corn and organic feed products due to the effects of the North American drought, as well as increased sales of sunflower planting seeds into international markets. Those factors were partially offset by lower revenues in our European organic ingredients operation due to economic uncertainty, as well as lower volumes and pricing for fiber and fruit ingredient products. At Opta Minerals, the increase in revenues reflected higher volumes of industrial minerals and abrasive products, as well as the incremental revenues of Babco and WGI, which were acquired in 2012.

Gross profit increased $10,122, or 10.7%, to $104,755 for the three quarters ended September 29, 2012, compared with $94,633 for the three quarters ended October 1, 2011. As a percentage of revenues, gross profit for the three quarters ended September 29, 2012 was 12.8% compared to 12.2% for the three quarters ended October 1, 2011, an increase of 0.6% . The increase in gross profit percentage reflected the strong growth in higher-margin aseptic and consumer packaged goods categories and reduced losses on export sales of sunflower kernels, as well as the positive impact of product rationalization efforts at our Frozen Foods operation. In addition, we generated stronger margins on sales of corn and organic feedstuffs as a result of higher pricing and favorable costing relating to inventory carried over from 2011. Negatively impacting gross profit percentage for the three quarters ended September 29, 2012 were reduced efficiencies in our Fiber and Fruit Ingredient operations due to lower production volumes, unfavorable product mix and higher production costs at our Healthy Snacks operation, and operating losses at our juice extraction and packaging operation. In addition, we incurred pre-production costs of $1,065 in the first three quarters of 2012, related to the new pouch filling operation on the U.S. east coast that was fully commissioned in September 2012.

Total segment operating income for the three quarters ended September 29, 2012 increased by $10,938, or 37.9%, to $39,820, compared with $28,882 for the three quarters ended October 1, 2011. As a percentage of revenue, segment operating income was 4.9% for the three quarters ended September 29, 2012, compared with 3.7% for the three quarters ended October 1, 2011. The increase in segment operating income at SunOpta Foods reflected the strong performance of the aseptic and grains-based businesses including sunflower, and gross margin and cost structure improvements at our Frozen Foods operation, partially offset by declines in our Ingredient and Healthy Snacks operations. The increase in segment operating income at Opta Minerals primarily reflected the incremental contribution from Babco and WGI, partially offset by a $945 bad debt provision recorded in the second quarter of 2012, related to the bankruptcy filing of a large steel products customer. Also contributing to the increase in segment operating income were lower employee compensation-related costs, as a result of rationalization efforts undertaken in the first quarter of 2012 to streamline operations and improve efficiencies within SunOpta Foods, and the favorable impact of foreign exchange movements for the Canadian dollar and euro relative to the U.S. dollar.

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

Other expense for the three quarters ended September 29, 2012 of $2,006 included accrued severance of $795 payable to a former executive officer and other employee severances of $500 related to our rationalization efforts, as well as transaction costs incurred by Opta Minerals in connection with the acquisitions of WGI and Babco. Other income for the three quarters ended October 1, 2011 included a gain on sale of frozen food assets located in Mexico.

The increase in interest expense of $943 to $7,480 for the three quarters ended September 29, 2012, compared with $6,537 for the three quarters ended October 1, 2011, reflected an increase in long-term debt at Opta Minerals in connection with the WGI and Babco acquisitions, partially offset by the repayment of borrowings under our syndicated credit facilities with cash generated from operations.

The provision for income tax for the three quarters ended September 29, 2012 was $10,302, or 34.0% of earnings before taxes, compared with $8,875, or 35.2% of earnings before taxes, for the three quarters ended October 1, 2011. The reduction in the effective tax rate reflected the impacts of changes in enacted tax rates and the realizability of deferred tax assets recognized in the three quarters ended September 29, 2012. The annual effective income tax rate for 2012 is expected to be between 37% and 39%, excluding discrete adjustments.

Earnings from continuing operations for the three quarters ended September 29, 2012 were $20,032, as compared to $16,357 for the three quarters ended October 1, 2011, an increase of $3,675 or 22.5% . Diluted earnings per share from continuing operations were $0.28 for the three quarters ended September 29, 2012, compared with $0.22 for the three quarters ended October 1, 2011.

Earnings attributable to non-controlling interests for the three quarters ended September 29, 2012 were $1,384, compared with earnings of $1,523 for the three quarters ended October 1, 2011. The $139 decrease reflected lower net earnings in the speciality coffee operation of a less-than-wholly-owned subsidiary, partially offset by an increase in net earnings at Opta Minerals, including the incremental contribution from Babco.

Earnings from discontinued operations, net of taxes, of $517 for the three quarters ended September 29, 2012 reflected the results of operations of Purity, as well as proceeds of $333 received on final settlement of the CSOP bankruptcy proceedings, partially offset by costs incurred relating to the CSOP arbitration proceedings. In addition, we recognized a gain on sale of Purity of $676 in the second quarter of 2012. Discontinued operations for the three quarters ended October 1, 2011 reflected losses from the operations of Purity and CSOP, partially offset by a gain on sale of CSOP of $71.

On a consolidated basis, we realized earnings of $19,841 (diluted earnings per share of $0.30) for the three quarters ended September 29, 2012, compared with earnings of $12,848 (diluted earnings per share of $0.19) for the three quarters ended October 1, 2011.

Segmented Operations Information

SunOpta Foods

For the three quarters ended	**September 29, 2012**	**October 1, 2011**	**Change**	**% Change**
Revenues	$ 728,449	$ 707,054	$ 21,395	3.0%
Gross margin	84,681	78,800	5,881	7.5%
Gross margin %	11.6%	11.1%		0.5%
Operating income	$ 36,423	$ 29,835	$ 6,588	22.1%
Operating income %	5.0%	4.2%		0.8%

SunOpta Foods contributed $728,449 or 88.7% of consolidated revenue for the three quarters ended September 29, 2012, compared with $707,054 or 90.9% of consolidated revenues for the three quarters ended October 1, 2011, an increase of $21,395. Revenues in SunOpta Foods increased 3.0% compared to the three quarters ended October 1, 2011. Excluding the impact of changes including foreign exchange rates, commodity-related pricing, acquisitions and rationalized product lines, revenues increased approximately 5% in SunOpta Foods, driven by strong growth in integrated packaged food product categories, offset by decreased volumes of fiber and fruit ingredients, and lower demand in Europe. The table below explains the increase in revenue by group for SunOpta Foods:

SunOpta Foods Revenue Changes	
Revenues for the three quarters ended October 1, 2011	$707,054
Increase in the Grains and Foods Group	35,125
Decrease in the Ingredients Group	(9,194)
Increase in the Consumer Products Group	10,122
Decrease in the International Foods Group	(14,658)
Revenues for the three quarters ended September 29, 2012	**$728,449**

Gross margin in SunOpta Foods increased by $5,881 for the three quarters ended September 29, 2012 to $84,681, or 11.6% of revenues, compared with $78,800, or 11.1% of revenues for the three quarters ended October 1, 2011. The table below explains the increase in gross margin by group for SunOpta Foods:

SunOpta Foods Gross Margin Changes	
Gross margin for the three quarters ended October 1, 2011	$78,800
Increase in the Grains and Foods Group	12,369
Decrease in the Ingredients Group	(3,915)
Decrease in the Consumer Products Group	(497)
Decrease in the International Foods Group	(2,076)
Gross margin for the three quarters ended September 29, 2012	**$84,681**

Operating income in SunOpta Foods increased by $6,588 for the three quarters ended September 29, 2012 to $36,423 or 5.0% of revenues, compared with $29,835 or 4.2% of revenues for the three quarters ended October 1, 2011. The table below explains the increase in operating income for SunOpta Foods:

SunOpta Foods Operating Income Changes	
Operating income for the three quarters ended October 1, 2011	$29,835
Increase in gross margin, as explained above	5,881
Decrease in SG&A costs	462
Decrease in foreign exchange loss	245
Operating income for the three quarters ended September 29, 2012	**$36,423**

Further details on revenue, gross margin and operating income variances within SunOpta Foods are provided in the segmented operations information that follows.

Grains and Foods Group

For the three quarters ended	September 29, 2012	October 1, 2011	Change	% Change
Revenues	$ 397,096	$ 361,971	$ 35,125	9.7%
Gross margin	45,424	33,055	12,369	37.4%
Gross margin %	11.4%	9.1%		2.3%
Operating income	$ 27,662	$ 15,962	$ 11,700	73.3%
Operating income %	7.0%	4.4%		2.6%

The Grains and Foods Group contributed $397,096 in revenues for the three quarters ended September 29, 2012, compared to $361,971 for the three quarters ended October 1, 2011, a $35,125 or 9.7% increase. The table below explains the increase in revenue:

Grains and Foods Group Revenue Changes	
Revenues for the three quarters ended October 1, 2011	$361,971
Increased volume and improved pricing for organic grains, higher volume of commodity corn and improved pricing on commodity soy, partially offset by lower volume of commodity soy and lower pricing on commodity corn	17,786
Increased volume and higher pricing on aseptically packaged beverages	16,762
Improved pricing on sunflower kernel products	3,908
Transfer of dairy blended food ingredient business from Ingredients Group	3,686
Increased pricing of sunflower planting seeds sold into international market, partially offset by lower volume	2,499
Lower volume of grain based food ingredients, partially offset by improved pricing	(5,881)
Lower volume of in-shell sunflower products due to softness in international markets, partially offset by improved in-shell pricing and higher bird feed volume	(3,635)
Revenues for the three quarters ended September 29, 2012	**$397,096**

Gross margin in the Grains and Foods Group increased by $12,369 to $45,424 for the three quarters ended September 29, 2012 compared to $33,055 for the three quarters ended October 1, 2011, and the gross margin percentage increased by 2.3% to 11.4% . The increase in gross margin as a percentage of revenue was primarily due to increased production efficiencies at our aseptic processing and packaging facilities, improved margins on specialty oil contracts that negatively impacted margins in the first three quarters of 2011, increased pricing of organic grains, commodity corn and soy, as well as reduced export sunflower kernel sales that occurred at negative margins in the first three quarters of 2011, and improved pricing from the sunflower planting seed program. The table below explains the increase in gross margin:

Grains and Foods Group Gross Margin Changes	
Gross margin for the three quarters ended October 1, 2011	$33,055
Higher volume of organic grains and commodity corn, combined with improved pricing on organic grains and commodity soy, partially offset by higher cost of commodity soy	4,070
Higher volume and improved pricing on aseptically packaged beverages combined with plant efficiencies due to increased volumes	3,695
Lower volume of export sunflower kernel products that were sold at a loss in the prior year, partially offset by lower by-product contribution due to lower pricing and higher costs	2,413
Improved margins in the sunflower planting seed program and higher pricing for in- shell sunflower, partially offset by decreased plant efficiencies from lower sunflower volumes	1,531
Improved pricing on food ingredients, combined with lower volumes of specialty oils that were sold at a loss in the prior year, partially offset by lower food ingredient volumes	660
Gross margin for the three quarters ended September 29, 2012	**$45,424**

Operating income in the Grains and Foods Group increased by $11,700, or 73.3%, to $27,662 for the three quarters ended September 29, 2012, compared to $15,962 for the three quarters ended October 1, 2011. The table below explains the increase in operating income:

Grains and Foods Group Operating Income Changes	
Operating income for the three quarters ended October 1, 2011	$15,962
Increase in gross margin, as explained above	12,371
Decrease in spending on professional fees, utilities, insurance and general office spending	233
Decrease in foreign exchange gains	(550)
Increase in corporate cost allocations	(354)
Operating income for the three quarters ended September 29, 2012	**$27,662**

Looking forward, we believe the Grains and Foods business is well positioned in growing natural and organic food categories. We expect the aseptic processing and packaging expansion at our U.S. west coast facility to continue to enhance our capacity to manufacture aseptic soy and alternative beverages. We also intend to focus our efforts on growing our identity preserved, non-genetically modified ("non-GMO") and organic grains business, expanding revenues from natural and organic grains based ingredients and continuing to focus on value-added ingredient and packaged product offerings. We intend to pursue internal growth and acquisition opportunities that are aligned with the Group s core vertically integrated grain business model. Additionally, the international expansion of our sales base via strategic relationships for procurement of product is expected to drive incremental sales volume. Our long-term target for the Grains and Foods Group is to achieve a segment operating margin of 6% to 8% which assumes we are able to secure a consistent quantity and quality of grains and sunflower stocks, improve product mix, and control costs. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above.

Increased supply pressure in the commodity-based markets in which we operate, increased competition, volume decreases or loss of customers, unexpected delays in our expansion plans, or our inability to secure quality inputs or achieve our product mix or cost reduction goals, along with the other factors described above under Forward-Looking Statements , could adversely impact our ability to meet these forward-looking expectations.

Ingredients Group

For the three quarters ended	September 29, 2012	October 1, 2011	Change	% Change
Revenues	$ 62,408	$ 71,602	$ (9,194)	-12.8%
Gross margin	10,364	14,279	(3,915)	-27.4%
Gross margin %	16.6%	19.9%		-3.3%
Operating income	$ 2,946	$ 6,692	$ (3,746)	-56.0%
Operating income %	4.7%	9.3%		-4.6%

The Ingredients Group contributed $62,408 in revenues for the three quarters ended September 29, 2012, compared to $71,602 for the three quarters ended October 1, 2011, a $9,194 or 12.8% decrease. The table below explains the decrease in revenue:

Ingredients Group Revenue Changes	
Revenues for the three quarters ended October 1, 2011	$71,602
Decrease in customer demand for oat and soy fiber ingredients, as well as fruit ingredient products to the food service and industrial channels	(6,850)
Transfer of non-dairy blended food ingredient business to the Grains and Foods Group	(3,686)
Decrease in fiber volumes due to a loss of a significant customer in the first quarter of 2011	(1,133)
Increase in customer demand for starches and other blended food ingredients	1,330
Improved pricing for industrial and food service fruit ingredients, partially offset by reduced fiber pricing due to competitive pressures	1,145
Revenues for the three quarters ended September 29, 2012	**$62,408**

The Ingredients Group gross margin decreased by $3,915 to $10,364 for the three quarters ended September 29, 2012 compared to $14,279 for the three quarters ended October 1, 2011, and the gross margin percentage decreased by 3.3% to 16.6% . Higher raw material input costs, pricing pressure and plant inefficiencies in the fiber market were the main drivers behind the decrease in the gross margin rate. Partially offsetting these margin rate decreases were improved efficiencies on higher production of fiber, starches and other blended food ingredients, as certain facilities were idled in the prior year. The table below explains the decrease in gross margin:

Ingredients Group Gross Margin Changes	
Gross margin for the three quarters ended October 1, 2011	$14,279
Lower volume and pricing of fiber and fruit ingredient offerings and reduced efficiencies resulting from lower production volume, combined with an increase in input costs including organic sugar and oat and soy hulls	(3,782)
Loss of a significant customer in the first quarter of 2011 and reduced fiber pricing	(672)
Increased customer demand for starches and improved efficiencies on higher production of starches and other blended food ingredients, partially offset by lower pricing on other blended food ingredients	539
Gross margin for the three quarters ended September 29, 2012	**$10,364**

Operating income in the Ingredients Group decreased by $3,746, or 56.0%, to $2,946 for the three quarters ended September 29, 2012, compared to $6,692 for the three quarters ended October 1, 2011. The table below explains the decrease in operating income:

Ingredients Group Operating Income Changes	
Operating income for the three quarters ended October 1, 2011	$6,692
Decrease in gross margin, as explained above	(3,915)
Increase in research and development costs related to new product offerings, consulting spending to explore sales opportunities in international markets, and the impact of recovering a previously written-off bad debt in the prior year	(321)
Decrease in compensation costs, primarily due to headcount rationalization that occurred in the first quarter of 2012	280
Decrease in corporate cost allocations	210
Operating income for the three quarters ended September 29, 2012	**$2,946**

Looking forward, we intend to concentrate on growing the Ingredients Group s fruit, fiber and specialty ingredients portfolio and customer base through product and process innovation and diversification. We are focused on replacing the volume lost early in 2011 as a result of a significant customer changing to an alternative fiber product. We intend to continue to introduce alternative fiber offerings of our own and have recently introduced both rice and cellulose fiber. We also expect our new aseptic fruit ingredient line at our Southgate, California facility to increase capacity, expand our packaging capabilities, and drive incremental volumes and cost savings. The focus of the Ingredients Group continues to revolve around a culture of innovation and continuous improvement, to further increase capacity utilization, reduce costs, and sustain margins. Our long-term target for the Ingredients Group is to realize segment operating margins of 12% to 15%. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. An unexpected increase in input costs, increased competition, loss of key customers, an inability to introduce new products to the market, or implement our strategies and goals relating to pricing, capacity utilization or cost reductions, along with the other factors described above under Forward-Looking Statements , could adversely impact our ability to meet these forward-looking expectations.

Consumer Products Group

For the three quarters ended	September 29, 2012	October 1, 2011	Change	% Change
Revenues	$ 135,879	$ 125,757	$ 10,122	8.0%
Gross margin	10,948	11,445	(497)	-4.3%
Gross margin %	8.1%	9.1%		-1.0%
Operating loss	$ (549)	$ (151)	$ (398)	-263.6%
Operating loss %	-0.4%	-0.1%		-0.3%

The Consumer Products Group contributed $135,879 in revenues for the three quarters ended September 29, 2012, compared to $125,757 for the three quarters ended October 1, 2011, a $10,122 or 8.0% increase. The table below explains the increase in revenue:

Consumer Products Group Revenue Changes	
Revenues for the three quarters ended October 1, 2011	$125,757
Increased sales from the launch of our flexible pouch filling lines on the U.S. west coast in the fourth quarter of 2011, partially offset by decreased brokerage revenues	10,742
Higher sales of Healthy Snacks led by increased demand for nutrition bar offerings	5,790
Incremental revenue due to the acquisition of Lorton s on August 8, 2011	2,928
Decreased volume as we wind down all industrial and food service product lines in our Frozen Foods operation, partially offset by higher volumes on retail offerings	(9,338)
Revenues for the three quarters ended September 29, 2012	**$135,879**

Gross margin in the Consumer Products Group decreased by $497 to $10,948 for the three quarters ended September 29, 2012 compared to $11,445 for the three quarters ended October 1, 2011, and the gross margin percentage decreased by 1.0% to 8.1% . The decrease in gross margin as a percentage of revenue was due to negative contributions from Lorton s, preproduction costs related to our U.S. east coast expansion project and higher production costs at our Healthy Snacks operation. The table below explains the decrease in gross margin:

Consumer Products Group Gross Margin Changes	
Gross margin for the three quarters ended October 1, 2011	$11,445
Higher production and raw material costs at our Healthy Snacks operation	(2,079)
Incremental gross margin loss at Lorton s due to plant inefficiencies, transition costs and a product withdrawal	(1,920)
Facility start-up costs related to the expansion of consumer packaged processing capabilities on the U.S. east coast	(1,065)
Higher volume and margin realized on retail format frozen food sales and decreased storage costs as a result of lower inventory levels	3,805
Increased margin due to sales of flexible pouch offerings on the U.S. west coast, offset partially by margin declines in other consumer packaged categories	762
Gross margin for the three quarters ended September 29, 2012	**$10,948**

Operating loss in the Consumer Products Group increased by $398, or 263.6%, to a loss of $549 for the three quarters ended September 29, 2012, compared to a loss of $151 for the three quarters ended October 1, 2011. The table below explains the increase in operating loss:

Consumer Products Group Operating Loss Changes	
Operating loss for the three quarters ended October 1, 2011	($151)
Incremental SG&A expenses from the acquisition of Lorton s	(553)
Decrease in gross margin, as explained above	(497)
Increase in corporate cost allocations	(436)
SG&A savings primarily due to reduced headcount at our Frozen Foods operation and lower short-term incentive accruals	734
Lower professional fees, travel and other office expenses	354
Operating loss for the three quarters ended September 29, 2012	**($549)**

Looking forward, we expect improvements in margins and operating income from the Consumer Products Group through the growth of our Food Solutions and Healthy Snacks operations, and from a streamlined and focused Frozen Foods operation. We remain customer focused and continue to explore new ways to bring value-added product offerings and processes to market. We intend to continue to expand our operating platform into the processing and manufacturing of products in order to enhance value to our customer base. Recently, these efforts have included the installation of two flexible re-sealable pouch filling lines on the U.S. west coast, which commenced operations during 2011, and the installation of two more flexible pouch filling lines on the U.S. east coast, which commenced operations in September 2012. We intend to continue to expand these capabilities. Continued new product development and innovation in our Healthy Snacks operation combined with increasing demand for portable nutritious fruit offerings are expected to drive growth in this business. Long term we are targeting 8% to 10% operating margins from the Consumer Products Group. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. Unexpected declines in volumes, shifts in consumer preferences, inefficiencies in our manufacturing processes, lack of consumer product acceptance, or our inability to successfully implement the particular goals and strategies indicated above, along with the other factors described above under Forward-Looking Statements , could have an adverse impact on these forward-looking expectations.

International Foods Group

For the three quarters ended	September 29, 2012	October 1, 2011	Change	% Change
Revenues	$ 133,066	$ 147,724	$ (14,658)	-9.9%
Gross margin	17,945	20,021	(2,076)	-10.4%
Gross margin %	13.5%	13.6%		-0.1%
Operating income	$ 6,364	$ 7,332	$ (968)	-13.2%
Operating income %	4.8%	5.0%		-0.2%

The International Foods Group contributed $133,066 in revenues for the three quarters ended September 29, 2012, compared to $147,724 for the three quarters ended October 1, 2011, a $14,658 or 9.9% decrease. The table below explains the decrease in revenue:

International Foods Group Revenue Changes	
Revenues for the three quarters ended October 1, 2011	$147,724
Unfavorable impact on revenues due to the weaker euro relative to the U.S. dollar	(13,183)
Lower volumes of organic commodities including coffee, cocoa, fruits, seeds, sesame and feed ingredients, primarily due to a weaker European economy	(7,007)
Increased commodity prices for organic commodities including sweeteners, seeds, nuts and fruits	5,532
Revenues for the three quarters ended September 29, 2012	**$133,066**

Gross margin in the International Foods Group decreased by $2,076 to $17,945 for the three quarters ended September 29, 2012 compared to $20,021 for the three quarters ended October 1, 2011. Gross margin as a percentage of revenues was lower by 0.1% due to unfavorable margins realized on coffee, partially offset by improved margins on sweeteners. The table below explains the decrease in gross margin:

International Foods Gross Margin Changes	
Gross margin for the three quarters ended October 1, 2011	$20,021
Unfavorable impact on gross margin due to the weaker euro relative to the U.S. dollar	(1,778)
Lower margins realized on coffee due to declining market prices combined with reduced sales volumes of other organic ingredients, partially offset by favorable margins on sweeteners due to a carryover of inventory from 2011 at favorable prices	(298)
Gross margin for the three quarters ended September 29, 2012	**$17,945**

Operating income in the International Foods Group decreased by $968, or 13.2%, to $6,364 for the three quarters ended September 29, 2012, compared to $7,332 for the three quarters ended October 1, 2011. The table below explains the decrease in operating income:

International Foods Group Operating Income Changes	
Operating income for the three quarters ended October 1, 2011	$7,332
Decrease in gross margin, as explained above	(2,076)
Higher compensation costs due primarily to increased headcount, partially offset by lower short-term incentive costs	(358)
Increase in corporate allocations	(323)
Favorable impact on euro borne SG&A spending due to the weaker euro relative to the U.S. dollar	1,013
Foreign exchange gains on forward foreign exchange contracts	776
Operating income for the three quarters ended September 29, 2012	**$6,364**

Looking forward, the International Foods Group is focused on leveraging its sourcing, supply, processing and distribution expertise to grow its portfolio of organic ingredients. Long-term group operating margins are targeted at 5% to 6% of revenues, which are expected to be achieved through a combination of sourcing, pricing and product development strategies. We also intend to leverage the Group s sourcing and supply capabilities and forward and backward integrate where opportunities exist, expanding our processing expertise and increasing our value-added capabilities. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. Unfavorable fluctuations in foreign exchange, reduced demand for natural and organic ingredients, increased competition, delayed synergies, as well as our inability to realize our particular strategic expansion goals, along with the other factors described above under Forward-Looking Statements , could have an adverse impact on these forward-looking expectations.

Opta Minerals

For the three quarters ended	**September 29, 2012**	**October 1, 2011**	**Change**	**% Change**
Revenues	$ 92,526	$ 70,495	$ 22,031	31.3%
Gross margin	20,074	15,833	4,241	26.8%
Gross margin %	21.7%	22.5%		-0.8%
Operating income	$ 8,178	$ 6,216	$ 1,962	31.6%
Operating income %	8.8%	8.8%		0.0%

Opta Minerals contributed $92,526 in revenues for the three quarters ended September 29, 2012, compared to $70,495 for the three quarters ended October 1, 2011, a $22,031 or 31.3% increase. The table below explains the increase in revenue:

Opta Minerals Revenue Changes	
Revenues for the three quarters ended October 1, 2011	$70,495
Incremental revenue due to the acquisition of WGI on August 29, 2012, Babco on February 10, 2012 and Inland on November 10, 2011	12,367
Increased volumes of mill and foundry products as a result of increased demand for magnesium, chromite and lime blends	9,070
Increased volumes of abrasive and other industrial mineral products and services	594

Revenues for the three quarters ended September 29, 2012	**$92,526**

Gross margin for Opta Minerals increased by $4,241 to $20,074 for the three quarters ended September 29, 2012 compared to $15,833 for the three quarters ended October 1, 2011, and the gross margin percentage decreased by 0.8% to 21.7% . The decrease in gross margin as a percentage of revenue is largely driven by changes in product mix. The table below explains the increase in gross margin:

Opta Minerals Gross Margin Changes	
Gross margin for the three quarters ended October 1, 2011	$15,833
Incremental gross margin due to the acquisitions of WGI, Babco and Inland	3,540
Margin impact on higher sales volume of abrasive and other industrial mineral products combined with lower plant costs	671
Impact of increased volumes of mill and foundry products	30
Gross margin for the three quarters ended September 29, 2012	**$20,074**

Operating income for Opta Minerals increased by $1,962, or 31.6%, to $8,178 for the three quarters ended September 29, 2012, compared to $6,216 for the three quarters ended October 1, 2011. The table below explains the increase in operating income:

Opta Minerals Operating Income Changes	
Operating income for the three quarters ended October 1, 2011	$6,216
Increase in gross margin, as explained above	4,241
Increased bad debt expense due mainly to the bankruptcy of a steel products customer	(979)
Incremental SG&A due to the acquisitions of WGI, Babco and Inland	(962)
Decrease in foreign exchange gains	(367)
Decrease in other SG&A	29
Operating income for the three quarters ended September 29, 2012	**$8,178**

Opta Minerals continues to develop and introduce new products into the marketplace, and is focused on leveraging the global platform that has been put in place both to drive these new products and to improve efficiencies. Opta Minerals continues to expand in core North American and European markets through a combination of internal growth and successfully integrating strategic acquisitions. We own 66.2% of Opta Minerals and segment operating income is presented prior to non-controlling interest expense. The statements in this paragraph are forward-looking statements. See Forward-Looking Statements above. An extended period of softness in the steel and foundry industries, slowdowns in the economy, or delays in bringing new products and operations completely online, along with the other factors described above under Forward-Looking Statements, could have an adverse impact on these forward-looking expectations.

Corporate Services

For the three quarters ended	September 29, 2012	October 1, 2011	Change	% Change
Operating loss	$ (4,781)	$ (7,169)	$ 2,388	33.3%

Operating loss at SunOpta Corporate Services decreased by $2,388 to $4,781 for the three quarters ended September 29, 2012, from a loss of $7,169 for the three quarters ended October 1, 2011. The table below explains the decrease in operating loss:

Corporate Services Operating Loss Changes	
Operating loss for the three quarters ended October 1, 2011	($7,169)
Increase in foreign exchange gains	1,932
Increase in corporate management fees that are allocated to SunOpta operating groups	912
Decrease in SG&A costs due to the strengthened Canadian dollar causing Canadian borne expenses to be less costly when translated into U.S. dollars	241
Lower net general office spending on insurance, utilities, consulting and recruitment fees, partially offset by increased spending on information technology and professional fees	56
Increased stock based compensation and short-term incentive accruals, partially offset by headcount rationalizations that occurred in the first quarter of 2012	(753)
Operating loss for the three quarters ended September 29, 2012	**($4,781)**

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

Liquidity and Capital Resources

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

- Existing cash and cash equivalents;
- Available operating lines of credit;
- Cash flows generated from operating activities;
- Cash flows generated from the exercise, if any, of stock options or warrants during the year;
- Additional long-term financing; and
- Sale of non-core divisions, or assets.

On July 27, 2012, we entered into an amended and restated credit agreement with a syndicate of lenders. The amended agreement provides secured revolving credit facilities of Cdn $10,000 and $165,000, as well as an additional $50,000 in availability upon the exercise of an uncommitted accordion feature. These facilities mature on July 27, 2016, with the outstanding principal amount repayable in full on the maturity date. These facilities replaced our previous line of credit facilities of Cdn $10,000 and $115,000, and refinanced non-revolving term facilities totalling approximately $21,000, which were due to mature on October 30, 2012. These facilities support our core North American food operations.

On July 24, 2012, Opta Minerals amended and restated its credit agreement to include a Cdn $20,000 revolving term credit facility until December 31, 2012 (reducing to Cdn $15,000 on January 1, 2013) and a Cdn $52,500 non-revolving term credit facility. The first tranche of the non-revolving term credit facility is for an amount of Cdn $37,500, which was used by Opta Minerals to refinance its existing borrowings, with the principal repayable in equal quarterly installments of approximately Cdn $938. The second tranche is for an amount of Cdn $15,000 and was primarily used to fund the acquisition of WGI, with the principal repayable in equal quarterly installments of Cdn $375. The revolving term credit facility matures on August 14, 2013, with the outstanding principal amount repayable in full on the maturity date, and the non-revolving term credit facility matures on May 18, 2017, with the remaining outstanding principal amount repayable in full on the maturity date. These facilities are specific to the operations of Opta Minerals.

On September 25, 2012, The Organic Corporation (TOC) and certain of its subsidiaries entered into a credit facilities agreement with two lenders, which provides for a €45,000 revolving credit facility covering working capital needs and a €3,000 pre-settlement facility covering currency hedging requirements. A portion of the revolving credit facility was used to repay an existing €35,000 line of credit facility of TOC. The revolving credit facility and pre-settlement facility are due on demand with no set maturity date, and the credit limit can be extended or adjusted based on the needs of the business and upon approval of the lenders. These facilities support the global sourcing, supply and processing capabilities of our International Foods Group.

In order to finance significant acquisitions that may arise in the future, we may need additional sources of cash that we could attempt to obtain through a combination of additional bank or subordinated financing, a private or public offering, or the issuance of common stock as consideration in an acquisition. There can be no assurance that these types of financing would be available or, if so, on terms that are acceptable to us.

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

Cash Flows

Cash flows for the quarter ended September 29, 2012

Net cash and cash equivalents increased $940 in the third quarter of 2012 to $4,187 as at September 29, 2012, compared with $3,247 at June 30, 2012, which reflected the following sources of cash:

- cash provided by continuing operating activities of $16,189; and
- long-term debt borrowings of $15,234, mainly in connection with the acquisition of WGI.

Mostly offset by the following sources of cash:

- net repayments of borrowings of $12,472, mainly under our syndicated credit facilities;
- cash consideration paid to acquire WGI of $11,644, net of cash acquired; and
- capital expenditures of $5,709, related to the expansion of our aseptic capacity and other manufacturing capabilities.

Cash provided by operating activities from continuing operations was $16,189 in the third quarter of 2012, compared with $11,642 in the third quarter of 2011, an increase of $4,547, reflecting the strong performance of the aseptic and grains-based businesses, including sunflower, and gross margin improvements at our Frozen Foods operation.

Cash used in investing activities of continuing operations was $17,348 in the third quarter of 2012, compared with $8,171 in the third quarter of 2011, an increase of $9,177, reflecting net cash paid to acquire WGI of $11,644 in the

third quarter of 2012, compared with cash paid to acquire Lorton s of $2,500 in the third quarter of 2011.

Cash provided by financing activities of continuing operations was $1,757 in the third quarter of 2012, compared with $160 in the third quarter of 2011, an increase of $1,597, reflecting a $15,234 increase in long-term debt mainly related to the WGI acquisition, partially offset by net repayments of other borrowings of $12,472, mainly under our syndicated credit facilities, and financing fees paid of $1,315 related to the amendments to our various credit facilities.

Cash flows for the three quarters ended September 29, 2012

Net cash and cash equivalents increased $1,809 in the first three quarters of 2012 to $4,187 as at September 29, 2012, compared with $2,378 at December 31, 2011, which reflected the following sources of cash:

- cash provided by continuing operating activities of $38,045;
- long-term debt borrowings of $34,607, mainly in connection with the acquisitions of WGI and Babco; and
- net proceeds from the sale of Purity of $12,189.

Mostly offset by the following uses of cash:

- net repayments of borrowings of $33,821, mainly under our syndicated credit facilities;
- net cash consideration paid to acquire WGI and Babco of $29,174 in the aggregate; and
- capital expenditures of $17,623, related to the expansion of our aseptic capacity and other manufacturing capabilities.

Cash provided by operating activities from continuing operations was $38,045 in the first three quarters of 2012, compared with cash used of $1,045 in the first three quarters of 2011, an increase of $39,090, reflecting the strong performance of the aseptic and grains-based businesses, including sunflower, and gross margin improvements at our Frozen Foods operation, as well as increases related to the timing of purchases of crop inventories and lower purchases of grain commodities including sunflower and soybeans in the first three quarters of 2012, due to a decision to carry over inventory from the 2011 crop year, and contract less acres in 2012, in order to realize the benefit from rising commodity prices. In addition, this increase reflected reduced purchases of fruit-based commodities due to product rationalization efforts at the Frozen Foods operation.

Cash used in investing activities of continuing operations was $47,350 in the first three quarters of 2012, compared with $15,080 in the first three quarters of 2011, an increase of $32,270, reflecting net cash paid to acquire WGI and Babco of $29,174 in the aggregate and an increase in capital expenditures of $2,367 in the first three quarters of 2012, compared with cash paid to acquire Lorton s of $2,500 and proceeds of $2,773 from the sale of the Mexican frozen food assets in the first three quarters of 2011. Cash provided by investing activities of discontinued operations of $12,134 in the first three quarters of 2012, primarily reflected the net proceeds from the sale of Purity of $12,189.

Cash used in financing activities of continuing operations was $1,000 in the first three quarters of 2012, compared with cash provided by financing activities of $23,280 in the first three quarters of 2011, a decrease of $24,280, primarily due to net repayments of borrowings of $33,821 in the first three quarters of 2012, mainly under our syndicated credit facilities, and financing fees paid of $2,490 related to the amendments to our various credit facilities, partially offset by a $34,607 increase in long-term debt mainly related to the WGI and Babco acquisitions, compared with net borrowings of $21,675 in the first three quarters of 2011, mainly to fund inventory purchases.

Off-Balance Sheet Arrangements

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

Contractual Obligations

With the exception of amendments to the credit facilities described above under Liquidity and Capital Resources , there have been no material changes outside the normal course of business in our contractual obligations since December 31, 2011.

Adoption of New Accounting Standards

Information regarding the adoption of new accounting standards is contained in note 1 to the interim consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative disclosures about market risk, see Part II, Item 7A, Quantitative and Qualitative Disclosures about Market Risk , of the 2011 Form 10-K. There have been no material changes to our exposures to market risks since December 31, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures (as such term is defined under Rule 13a-15(e) promulgated under the Exchange Act) as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 29, 2012.

Changes in Internal Control Over Financial Reporting

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated whether any change in our internal control over financial reporting (as such term is defined under Rule 13a-15(f) promulgated under the Exchange Act) occurred during the quarter ended September 29, 2012. Based on that evaluation, management concluded that there were no changes in our internal control over financial reporting during the quarter ended September 29, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Colorado Sun Oil Processors, LLC dispute

Colorado Mills, LLC (Colorado Mills) and SunOpta Grains and Foods Inc. (formally Sunrich LLC, herein Grains and Foods), a wholly owned subsidiary of the Company, organized a joint venture through Colorado Sun Oil Processors, LLC. The purpose of the joint venture was to construct and operate a vegetable oil refinery adjacent to Colorado Mills sunflower seed crush plant located in Lamar, Colorado. During the relationship, disputes arose between the parties concerning management of the joint venture, record-keeping practices, certain unauthorized expenses incurred on behalf of the joint venture by Colorado Mills, procurement of crude oil by Sunrich from Colorado Mills for processing at the joint venture refinery, and the contract price of crude oil offered for sale under an output term of the joint venture agreement.

The parties initiated a dispute resolution process as set forth in the joint venture agreement, which Colorado Mills aborted prematurely through the initiation of suit in Prowers County District Court, Colorado on March 16, 2010. Subsequent to the filing of that suit, Colorado Mills acted with an outside creditor of the joint venture to involuntarily place the joint venture into bankruptcy. In August 2011, as part of the bankruptcy proceeding initiated in June 2010 in the U.S. Bankruptcy Court, District of Colorado, Colorado Mills purchased substantially all of the assets of the joint venture.

A separate arbitration proceeding occurred between Grains and Foods and Colorado Mills to resolve direct claims each party asserted against the other. The case was arbitrated during the week of August 8, 2011 and proposed findings were filed on September 13, 2011. On January 4, 2012 the arbitrator entered an award denying Grains and Foods claims and awarding Colorado Mills $4,816 for its breach of contract claim and $430 for accrued interest. The Company subsequently filed a motion to vacate the arbitration award on March 30, 2012 in Powers County District Court. Colorado Mills filed a response on April 20, 2012. The Company filed a reply on April 27, 2012. The Powers County District Court denied the Company s motion and entered judgment on the arbitration award on July 6, 2012 in the amount of $4,816. On July 13, 2012, the Company bonded the judgment in the amount of $6,875, or approximately 125% of the judgment amount, to stay execution of the judgment pending the Company s filing of an appeal to the Colorado Court of Appeals. Although management believes the claims asserted by Colorado Mills are baseless, that the arbitrator committed prejudicial error, and that vacatur of the award is warranted, management cannot predict whether the prospect of an unfavorable outcome in this matter is probable.

From time to time, we are involved in litigation incident to the ordinary conduct of our business. For a discussion of other legal proceedings, see note 12 to the interim consolidated financial statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

Certain risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2011. Other than as described below, there have been no material changes to the previously-reported risk factors as of the date of this quarterly report. All of such previously reported risk factors continue to apply to our business and should be carefully reviewed in connection with an evaluation of our Company. The following disclosures are in addition to or provide updates to the previously-reported risk factors.

Our business may be materially and adversely affected by our ability to renew our syndicated credit facilities when they become due on July 27, 2016

Our syndicated credit facilities mature on July 27, 2016. We may not be able to renew these facilities to the same level, or on as favorable terms as in previous years. A reduced facility may impact our ability to finance our business, requiring us to scale back our operations and our use of working capital. Alternatively, obtaining credit on less favorable terms would have a direct impact on our profitability and operating flexibility.

Our business could be materially and adversely affected if we are unable to meet the covenants of our credit facilities

Although we are currently in compliance with the financial covenants under our credit agreements and we believe that we are well positioned to comply with the financial covenants under our credit agreements in the future, compliance with these financial covenants will depend on the success of our business, our operating results, and our ability to achieve our financial forecasts. Various risks uncertainties and events beyond our control could affect our ability to comply with the financial covenants and terms of the credit agreements. Failure to comply with our financial covenants and other terms could result in an event of default and the acceleration of amounts owing under the credit agreements, unless we were able to negotiate a waiver. The lenders could condition any such waiver on an amendment to the credit agreements on terms that may be unfavorable to us. If we are unable to negotiate a covenant waiver or replace or refinance our credit agreements on favorable terms or at all, our business will be adversely impacted.

A substantial portion of our assets and certain of our executive officers and directors are located outside of the U.S.; it may be difficult to effect service of process and enforce legal judgments upon us and certain of our executive officers and directors

A substantial portion of our assets and certain of our executive officers and directors are located outside of the U.S. As a result, it may be difficult to effect service of process within the U.S. and enforce judgment of a U.S. court obtained against us or our executive officers and directors. Particularly, our stockholders may not be able to:

- effect service of process within the U.S. on us or certain of our executive officers and directors;
- enforce judgments obtained in U.S. courts against us or certain of our executive officers and directors based upon the civil liability provisions of the U.S. federal securities laws;
- enforce, in a court outside of the U.S., judgements of U.S. courts based on the civil liability provisions of the U.S. federal securities laws; or
- bring an original action in a court outside of the U.S. to enforce liabilities against us or any of our executive officers and directors based upon the U.S. federal securities laws.

Item 6. Exhibits

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

SIGNATURES

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

SUNOPTA INC.

Date: November 7, 2012

/s/ Robert McKeracher
Robert McKeracher
Vice President and Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
10.1	Letter Agreement, dated June 30, 2012, by and between SunOpta, Inc. and Hendrik (Rik) Jacobs (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8- K filed on July 6, 2012).
10.2	Seventh Amended and Restated Credit Agreement, dated as of July 27, 2012, among SunOpta, Inc. and SunOpta Foods Inc., as Borrowers, and Each of the Financial Institutions and Other Entities from Time to Time Parties Thereto, as Lenders, and Certain Affiliates of the Borrowers, as Obligors, and Bank of Montreal, as Agent (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on August 1, 2012).
10.3	Multipurpose Facilities Agreement, dated as of September 25, 2012, among The Organic Corporation B.V., Tradin Organic Agriculture B.V., SunOpta Foods Europe B.V., Tradin Organics USA Inc. and Trabocca B.V., as Borrowers, and ING Bank N.V. and ABN AMRO Bank N.V., as Lenders (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on October 1, 2012).
31.1	Certification by Steven Bromley, Chief Executive Officer, pursuant to Rule 13a 14(a) under the Securities Exchange Act of 1934, as amended.
31.2	Certification by Robert McKeracher, Vice President and Chief Financial Officer, pursuant to Rule 13a 14(a) under the Securities Exchange Act of 1934, as amended.
32	Certifications by Steven Bromley, Chief Executive Officer, and Robert McKeracher, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.